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Alternative financing models and student loans in higher education

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1. Introduction

Education plays a central role in social, economic and individual development processes. It is considered essential not only for welfare and progress in general, but also for pillars of today's societies such as sustainable development, cohesion and inclusion, among others. Despite its essential nature, there remains a lack of consensus as to how higher education should be financed (Long, 2019). Differences exist in practice from country to country. For example, in most European countries, higher education is largely free – while in certain advanced countries such as the US or the UK, students are obliged to pay substantial fees to attend universities.

In OECD member states, most of the funding for educational institutions, from primary to tertiary level, comes from public sources, with significant private funding also being involved at tertiary level. However, the distribution of funding sources varies greatly between countries. Across the OECD in 2019, an average of 83% of all funding for educational institutions came from public sources, while 16% from private sources. Notably, in Finland, Iceland, Luxembourg, Norway, and Sweden, private sources contribute less than 5% of educational expenditure. In contrast, in Australia, Chile, Colombia, the United Kingdom and the United States, private sources account for around one-third of educational expenditure (OECD/UIS/Eurostat, 2022).

At tertiary level, due to the high returns of tertiary education for private individuals, some countries require these individuals to bear a greater financial burden through tuition fees. Public financial support mechanisms are sometimes in place to mitigate these costs, but such situations are not universal. Across the OECD countries, the proportion of private expenditure on education after public-to-private transfers is significantly higher at tertiary level compared with lower levels of education. On average, after transfers, 31% of total expenditure on tertiary institutions in 2019 came from the private sector (OECD/UIS/Eurostat, 2022).

The level of private funding relates closely to the tuition fees charged by tertiary institutions. In countries with low or negligible tuition fees such as Finland, Iceland, Luxembourg and Norway, the share of private funding, including subsidised private payments such as tuition fee loans, is less than 10%. In contrast, in countries where higher tuition fees are charged, such as Australia, Chile, Colombia, Japan, Korea, the United Kingdom and the United States, more than 60% of funding for tertiary institutions comes from private sources. On average across the OECD, 72% of all private expenditure on tertiary institutions comes from individual households. However, in Denmark, Finland and Sweden, almost all private funding comes from other private entities, primarily businesses spending money on research and development.

Policymakers repeatedly stress the importance of equality, inclusion and equal access to high-quality education. As a result, government spending on education has increased steadily over the last decade; however, the COVID-19 pandemic has had a dramatic impact on public finances across the EU and beyond, and the prospects for maintaining such increased spending have deteriorated. In addition to the COVID-19 crisis, the availability of resources has been affected by increased prices, especially following the Russian invasion of Ukraine; the green transition and digital transformation; and many other factors. Nevertheless, to achieve their respective educational goals, further investments in education are needed by both developing and developed countries around the world. The challenge of financing education is not only one of mobilising resources; it is also about improving the effectiveness of current levels of funding (World Bank, 2021).

Thus, there is an increasing need for additional funding and investment sources, as well as demand for alternative models of financial instruments. Such instruments are considered significant tools for bridging the educational gap in terms of equal access to education. Nowadays, these financial instruments take the form of loans, guarantees and equity instruments, and as such are complementary to more traditional ones such as scholarships or grants. These changes from traditional to modern models of financing have occurred in response to demand for alternative models, as well as developments in society and the economy.

Within the EU, relevant institutions in the realm of education have created specifically targeted programmes to improve competitiveness, creating knowledge-based EU economy through increased education funding. One of the most important ongoing instruments is the InvestEU programme, which aims to promote sustainable investment and job creation. The Skills and Education Portfolio Guarantee Product[1] aims to enhance access to finance for learners, enterprises providing training to their employees, and organisations active in the skills, education and training sectors.

This report aims to provide an analysis of alternative financing models from the student perspective, by reviewing the literature on the interests and deliberations of students and providers. The desk research carried out for this report is not limited to higher education, but also explores relevant literature that analyses alternative financing models within the domains of teaching and learning, adult and vocational education, and others.

The report is structured as follows: to set the scene, we briefly summarise the concepts that underpin traditional student funding, the main providers, and their main motivations. Alternative funding models are then analysed in the section that follows, which focuses on students' motivations for choosing the respective models as a way to fund their progress through education. The next section of the report explores the motivations for businesses to provide funding to students and adult learners. The report concludes by summarising its main findings and providing recommendations.

[1]More information available at: https://pact-for-skills.ec.europa.eu/stakeholders-and-business/funding-opportunities/skills-and-education-guarentee-pilot_en and https://www.eif.org/what_we_do/guarantees/skills-and-education-guarantee-pilot/index.htm

2. Bridging the gap: supporting traditional student funding through alternative financing models

It should be acknowledged that the state plays a central role in shaping the way in which higher education is funded, creating the framework and mechanisms through which resources are garnered and the way in which they are allocated to higher education institutions and students (Department of Education-Ireland, 2016). As such, a country' government is also a central actor in its national education system. Governments lay down both institutional and legislative frameworks for education, and take a special, public interest in education – particularly with respect to public educational institutions. Such traditional student funding mechanisms highlight the importance of government and public support in the funding of education. However, this role is increasingly challenged in the light of limited and decreasing funds.

In OECD countries, most national students entering tertiary education enrol in a programme at Bachelor's or equivalent level (OECD, 2022). At this level, public institutions do not charge tuition fees to national students in Denmark, Estonia (only for programmes taught in Estonian), Finland, Norway, Sweden and Türkiye. In a similar number of countries, tuition fees are low or moderate, with an average cost to students of under USD 3,000. In the rest of the OECD, tuition fees are high or very high, ranging from around USD 4,000 to over USD 8,000 per year (OECD, 2022). These costs are highest in England (United Kingdom), where they exceed USD 12,000, which is considered even more expensive than in the US. Meanwhile, over the last decade, tuition fees for Master's programmes at public institutions have been found to be 25-50% higher than those for Bachelor's programmes in France, Israel, Spain and the US (Master's and doctoral programmes combined), while in the French Community of Belgium, as well as in Hungary and Lithuania, they are found to be over 95% higher.

Due to these rising costs, students are seeking financial support through traditional means such as scholarships, grants, loans and so on. Scholarships and grants are probably the most common and widespread forms of financial support for students. These do not require repayment during or after the completion of a student's education, and are usually awarded by universities ('higher education institutions' or HEIs), governmental institutions, private organisations or foundations, international organisations and others. Various criteria may be used to determine such awards, including merit, needs, certain demographic criteria, and so on (Salmi & D'Addio, 2020; Bilecen, 2020).

However, grants and scholarships are sometimes not enough to cover tuition fees, living expenses and a lack of earnings during study. Consequently, significant rises in student indebtedness have been recorded. Among those OECD countries with high tuition fees – namely, in the Australia, England (United Kingdom) and New Zealand – at least 70% of students are in debt at the time of graduation, due to the need to take out loans. However, the average amount of debt at graduation varies significantly, from USD 19,800 in Australia and USD 26,200 in New Zealand, to over USD 58.500 in England (United Kingdom) (OECD, 2022).

In general the primary forms of public support for students are grants and publicly subsidised loans. Grants are typically awarded on the basis of financial need, academic merit, or to students pursuing specific fields such as STEM (ESF, 2022). Unlike scholarships and grants, which do not require repayment, student loans are borrowed funds that must be paid back over time, usually with added interest. These loans are commonly provided by governments and private entities. Just like any other loan, specific conditions and requirements are laid down by the lenders. Alternatively, loans may be offered by non-profit organisations, private banks and other financial institutions. It is worth noting,

however, that private loans often come with higher interest rates and less favourable conditions compared with publicly subsidised loans.

One alternative to student loan debt is **work college**, which relevant contemporary literature identifies in the US (Hartlep & Dean, 2017). This term is used to describe colleges that integrate work as an obligatory component in the student's learning experience.

Another US-specific practice is **education savings accounts** (also known as "529 accounts"). These assist students in paying their education costs by allowing money to be accumulated in the account tax-free, including tax-free withdrawals made for the purposes of education (Education Week, 2023). In particular, 529 plans – known legally as "qualified tuition plans" – are sponsored by states, state agencies or educational institutions. Such plans are authorised by Section 529 of the Internal Revenue Code (Investor.gov, n.d.). Similar practices exist in several European countries (Cedefop, 2009):

- Education Savings Accounts in Sweden (*Utvecklingskonton*),
- Junior Individual Savings Account (ISA) in the UK[2],
- Education Savings Plans in Germany (*Bildungsspaern*),
- Education Investments Plans in France (*Plan d'Epargne pour la Formation des Jeunes* [PEFJ]).[3]

In the US, 529 accounts are created to address various issues relating to educational expenses, including college tuition, fees, books and other supplies. They can, in some cases, also include lower levels of education, referred to in the US education system as K-12. Usually, 529 accounts are managed by the state government of the educational institutions, although in a smaller number of cases they are managed by private financial institutions. Such schemes are called 529 savings plans, of which there are two types: prepaid tuition plans, and education savings plans. These offer benefits including tax advantages, tax–free growth on investments (within the 529 accounts), in-state tax benefits, and various investment options. [4]

International experience shows that the financing gap identified above is bridged using a combination of different funding sources, such as (Department of Education-Ireland, 2016):

- Direct state grants and indirect state funding;
- Students and/or their families;
- Other private sources including from employers and philanthropy.

In addition, research shows there has been a decrease in direct government funding and an increase in the demand for alternative mechanisms under which students will, to some extent, contribute to the funding of their own education (HEA, 2015). These alternative funding models, which are gaining a lot of attention, provide added value on top of the traditionally available student funding mechanisms, and are thus considered a tool that can be used to increase access to higher education. Some of the alternative financing models identified are as follows:

- income–share agreements (ISAs);
- crowdfunding;
- tuition reimbursement programmes;
- microloans and peer-to-peer (P2P) lending;
- employer-sponsored education; and
- income-driven repayments plans.

[2] More information available at: https://www.gov.uk/junior-individual-savings-accounts#:~:text=Your%20child%20can%20have%20one,money%20until%20they%20turn%2018.

[3] More at: https://www.sogebel.ht/en/personal/plan-epargne-jeunes-pej/

[4] More information available at: https://www.sec.gov/about/reports-publications/investor-publications/introduction-529-plans#:~:text=What%20is%20a%20529%20plan,of%20the%20Internal%20Revenue%20Code.

Financing based on the income level – income-share agreements (ISAs) and income-driven repayment plans (IDRs)

Income-share agreements (ISAs) are financial instruments for the private financing of higher education. Using an ISA, an investor or other organisation provides a student with financing for higher education in exchange for a percentage of the student's future income for a defined period of time after the student finishes education. Unlike a loan, with an ISA there is no principal balance to repay: depending on the level of success they achieve after school, the student may ultimately pay more or less than the amount financed (Palacios et al., 2014). In addition, in the event of unemployment, no payment may be due, since there is no income that can be shared, and student will only be required to make payments if and when their income rises above a minimum income threshold (Career Karma, 2021). Universities may enter into partnerships with private companies to offer this alternative instrument to students (Student Voices, 2017; New America, 2013).

ISAs are often considered less financially risky for a borrower compared with traditional student loans, and this has been one of the key added values of this funding model (Mumford, 2022). It has been shown that participation in an ISA increases the likelihood of a student's college graduation by 3 percentage points (Mumford, 2022). ISAs can also be provided by vocational and skills-based training programmes, such as increasingly popular data science programmes and coding academies. These schemes are much shorter than the ISAs for four-year college programmes – and, in the case of shorter programmes, labour market outcomes are visible almost immediately, which is considered a significant benefit (Ritter & Webber, 2019). In relation to the application of ISAs in the EU, the European Investment Fund (EIF) and StudentFinance have entered into a guarantee agreement to facilitate funding for students in Spain who are seeking to invest in their education and enhance their skills. This agreement entails a portfolio of up to EUR 4 million in ISAs. This financial support is made possible through the European Fund for Strategic Investments Skills & Education Guarantee Pilot, an initiative launched in 2020 to promote investments in education, training and skills development. The aim of this partnership is to enhance student access to quality education and training opportunities, while fostering overall skills development in Spain (EC Europa, 2022).

Income-driven repayment plans (IDRs) are designed as loans whose monthly repayments are based on an individual's income and family size. This instrument enables tailor-made plans that make the student's loan repayments more manageable. This model is common in the US, and the current US administration proposed a reform of IDRs at the beginning of 2023 in order to increase student debt relief (US Department of Education, 2023). Based on the desk research carried out for this report, to the authors' best knowledge, no such schemes exist in European countries. However, such a measure could be assessed further as a tool for potential student debt relief, if needed.

ISAs vs. IDRs

Both IDRs and ISAs calculate payments on the basis of a student's income, but they differ significantly in the way they work. With an IDR, there is still an underlying loan with interest. If a student's payments do not cover the accruing interest, their balance will grow over time. If they meet the requirements to have the rest of the loan forgiven, they will still need to pay taxes on the amount forgiven, thus leading to a potentially large one-time tax payment. ISAs, on the other hand, do not involve an original loan balance or interest. Instead, the student makes payments as a percentage of their income until the term ends. Once the term is complete, the agreement ends, regardless of whether or not the original balance has been fully repaid. ISAs are based entirely on an individual's specific situation, making them more straightforward and flexible in comparison to more traditional loans such as IDRs (Defynance, 2021).

"Platform lending" – crowdfunding, microloans and peer-to-peer lending

Crowdfunding platforms have been used as a tool to raise funds for various projects and activities such as start-ups, innovations, and so on. Meanwhile, students have used them to raise funds from both individuals and organisations, in order to fund their education (Horta, Meoli & Vismara, 2022). In higher education, such platforms are used in two ways: by HEIs, and by students themselves.

- HEIs use crowdfunding to raise funds for teaching, research and other activities. Authors discuss the use of crowdfunding by universities; in the case of the UK, predominantly by less prestigious, teaching-oriented institutions, and by universities whose student bodies largely come from a lower socio-economic background.

- As individuals, students use crowdfunding to raise funds for their own education. In addition to offering access to wider sources of funding (besides traditional funds), crowdfunding may also offer funding for various educational purposes, beyond tuition fees. These may include students' research projects, funds for study visits and study abroad programmes.[5] The motivations behind students' use of such platforms predominantly lies in their independence from the institutional lenders or scholarship providers, as well as autonomy regarding the student's individual educational path.

Like other social platforms, crowdfunding platforms offers both institutions and individuals (in this case students) with a certain level of visibility, enabling them to network with peers and among other community members, as well as providing an additional online presence. In this way, they can showcase their work, educational endeavours and accomplishments.

Microloans and P2P lending also operate on the basis of specific platforms that offer small loans at lower interest rates compared with more traditional student loans (Berentsen & Markheim, 2020). These platforms are not limited to education, but cater to other areas of potential investments (Basha, Elgammal & Abuzayed,2021). When used for the purposes of education, such tools have been found to support financial inclusion and to bridge the rural-urban divide in case of the US (Maskara, Kuvvet, & Chen, 2021). Several potential motivations lie behind students' decisions to use such mechanisms to fund their education. This model of funding is usually flexible and (like crowdfunding) is very friendly in terms of open access. The procedures involved in this form of lending are very different from those used by traditional lenders, and loans are considered to be easier, more quickly approved, and customised according to a student's needs and situation. As is the case with crowdfunding platforms, such loans also offer the possibility to fund other types of educational activities besides tuition fees, as is mostly the case with traditional loans.

Employee benefits programmes

One option to receive financial support with tuition fees that can be used by numerous students is tuition assistance provided by employers. Employers of various sizes and in various industries extend educational aid benefits to their members of staff, with the aim of encouraging college enrolment and graduation. Such employers encompass a wide range, from small, family-owned businesses to large, publicly traded corporations. In recent times, companies such as Starbucks (Rooney, 2015) and Chipotle (Durando, 2015) have garnered significant media coverage due to their initiatives to develop and provide educational assistance benefits to their employees. The most common types of these programmes are tuition reimbursement programmes, employer tuition assistance programmes, and employer-sponsored education. These will be explained further in the paragraphs that follow.

[5] Platforms such as Kickstarter, Impactguru, CrowdSpace, Indiegogo and many more.

Tuition reimbursement programmes and employer tuition assistance programmes

Tuition reimbursement programmes may be offered by employers as part of employee benefits, specifically to fully reimburse (or cover a certain percentage of) an employee's tuition fees if they enrol into higher education while working for the employer. Such tuition fees could apply to a full degree or to shorter-term micro-credential courses in specific topics.

Employer tuition assistance programmes are a similar type of instrument, also based on the direct payment or reimbursement of tuition fees (Vandivier, 2020). Such programmes aim to promote a culture of lifelong learning within the organisation. As such, they can be implemented by various types of organisations to target different categories of students and professionals (adults, vocational training, IVET etc.). Several factors can influence an individual's decision to take part in a programme under which their employer provides some form of assistance with the educational process. These include, but are not limited to: greater networking opportunities; acquiring new skills and knowledge to advance one's career within the organisation; personal growth; and others.

Employer-sponsored education is an alternative financing model offered as a specific benefit within an employee's compensation package. This works on the basis either of the direct payment of tuition fees, or some form of partnership with an educational institution. Such programmes are considered to reduce the financial burden of education on employees, but also to improve the knowledge and skills of both the employee and the organisation as a whole (Gilpin & Kofoed, 2020).

It is not only important and necessary to further develop the models currently available for alternative education financing, but also to search for potential new ones. The alternative models reviewed above bridge an existing gap that has mostly been created by models that fail to meet the profile of the demand side. However, it is important for students to assess with great caution all of the factors associated with different models of funding, including interest rates, terms and potential repayment plans. Carrying out a cost–benefit analysis of all potential risks and gains will ensure that the final decision is financially reasonable and that the potential repayments and other risks associated with specific models are minimised.

3. Student perceptions of alternative financing models

3.1. Income share agreements (ISAs)

When exploring the factors explaining students' decision to participate in the Purdue ISA programme "Back a Boiler", Mumford (2018) found that the parents of ISA participants were less likely to have graduated from college, and also tended to have lower incomes than parents of those students that did not participate in the ISA programme. The results showed that ISA participants had lower expectations regarding starting salary compared with non-participants. In addition, ISA participants proved less likely to move to a larger city where salaries are higher. This appears to indicate that ISAs are appealing to students from less privileged socio-economic backgrounds.

Peek et al. (2016) conducted a study aimed at gaining insights into the perspectives of young adults who are hesitant to take on loans when making decisions about financial aid. The study revealed that participants showed an interest in ISAs. While some viewed the flexibility and fixed-payment terms of ISAs as advantageous, others had reservations about the total number of payments required, compared with traditional loans. Holt (2016) organised focus groups to explore consumer preferences regarding ISAs versus private student loans, also involving students' parents in the study. Participants who were concerned about protecting themselves from the potential risks of being unable to make payments due to circumstances such as unemployment, underemployment or financial difficulties showed a greater inclination towards ISAs. Conversely, those individuals who were concerned that they would potentially pay more under an ISA compared with a conventional loan if they earned a high income(upside risk), exhibited scepticism towards ISAs. Interestingly, due to their awareness of all of the potential risks involved in taking out a loan, parents expressed greater apprehension than students with regard to the potential downsides of investing in higher education.

Soler (2020) found that the decision to opt for an ISA is influenced by two factors: the belief among ISA takers that loans carry a greater risk than ISAs; and the demographic characteristics of being single, dependent, and in the age range 25-29. In addition, students who choose to take ISAs anticipate higher future income but tend to have poorer academic performance compared with those who do not take ISAs. This suggests that the issue of adverse selection could pose a challenge when implementing ISAs on a large scale. This means that in a scenario where students possess more knowledge about their future career paths than investors do, only students with specific attributes would choose ISAs. For example, students who are confident of landing high-paying jobs might opt for conventional loans. Meanwhile, students who intend to pursue careers with lower income potential – often associated with majors that offer lower expected returns in the job market – might be more inclined to select ISAs. Following on from this, students perceive that ISAs contribute to their persistence in education, allowing them to remain enrolled in their preferred institution and field of study. These findings have implications for the development and evaluation of ISA programmes – both within the US, where state-level and federal legislation has been introduced and ISA initiatives are expanding, as well as in other countries that are considering reforms to higher education financing. However, in the realm of policy formulation, US academics have expressed a pressing need to enhance our understanding of how to regulate ISAs. This is considered to be crucial because, since despite the increasing prevalence of ISA programmes, there is a current lack of dedicated regulation [in the US] at federal or state-level to safeguard the interests of ISA recipients and uphold industry standards. In addition, given the potential of ISAs to aid under-served and non-traditional students by providing financing opportunities irrespective of their income or background, it is essential to conduct more in-depth research into how ISAs affect college access for a diverse student population.

3.2. Crowdfunding

In the context of higher education, crowdfunding can be seen as a diversification of private funding for institutions, complementing the direct (tuition fees) and indirect (traditional fundraising) sources that are planned and driven by the university (Teixeira & Koryakina, 2013). Based on data reported by the crowdfunding platform GoFundMe, crowdfunding is also increasingly being used by college students to help them cover their tuition fees and other college expenses. GoFundMe fundraisers for tuition money are up more than 50% compared with last year, and both college and trade school fundraising are up 30% (Market Watch, 2023).

However, the issue of crowdfunding is not as simple as it might appear. One of its downsides is that there is no guarantee students will find enough donors to support their campaign, and will again end up needing to seek other sources of funding. In addition, crowdfunding also requires a lot of time and effort in order to make it ultimately successful. Furthermore, any money raised via a crowdfunding campaign will be taxed and needs to be reported – which again can affect students' financial neediness.

3.3. Microloans and peer-to-peer lending

In the current era of information networks, many P2P lending platforms have emerged, and an upsurge in P2P lending among college students has gradually emerged (Jia et al. 2023). From a student's point of view, P2P loans offer several advantages. Among these are: (i) accessibility: P2P lending platforms provide an alternative source of funding for students who may not qualify for traditional bank loans due to a limited credit history or lack of collateral; (ii) many platforms do not require repayment to begin immediately, but only after graduating; (iii) applying for P2P loans involves a fast and easy application process compared with traditional loans (P2Pmarket data, 2019). However, this means of financing is not available in all countries, or there may be a cap on the maximum amount of the loan.

An additional potential issue with P2P lending is that most college students usually have insufficient knowledge or legal awareness, or do not pay enough attention to the operating mechanism of the online loan platform. According to research conducted by Jia et al. (2023) on a sample of 262 students from Tongling University, 79.46 % of college students have only a basic understanding of online loans while 7.28 % of college students are very familiar with them; meanwhile, 77% understand online loans on campus, while 13.26% of college students know nothing about online loans or do not care. The study also found that many college students do not have a good understanding of consumption, and do not understand the risks involved in taking online loans. Instead, they follow the trend by choosing online loans to fund advanced consumption that is far beyond their ability to repay, and end up in a vicious circle of borrowing again to repay the loan.

3.4. Employer-sponsored education

In their study 'Impact of Employer-Sponsored Educational Assistance Benefits on Community College Student Outcomes', Tran & Smith (2017) found that employer-sponsored educational assistance positively impacted the retention and attainment outcomes of community college students, but that only a small portion of those students who were eligible for these benefits were actually making use of them. This low uptake is mainly due to a lack of knowledge that these types of financial support even existed, but the most significant barrier may be that traditional education models do not suit the needs of today's employers or employees. One of the issues perceived by students is that tuition reimbursement is primarily marketed towards employees pursuing a Bachelor's or Master's degree. But these programmes are time-intensive pursuits that may not be realistic for full-time workers, especially if they require in-person attendance. Furthermore, the

reimbursement model often means that students need to pay the costly tuition bills upfront (Emeritus, 2021).

Research shows that tuition reimbursement programmes decrease turnover among employees (Manchester, 2012; Benson, Finegold & Mohrman, 2017), and is considered a very popular option for employees pursuing higher degrees while working (Manchester, 2008). Key motivations behind employees' uptake of such programmes are career advancement and professional growth, as well as general networking opportunities in the field. Very importantly, students or adults retain their jobs while studying. Such models can be used for adult and vocational education, including initial vocation education and training (IVET), since they enable the workforce to enhance their skills and knowledge.

3.5. Income-driven repayment plans (IDRs)

Despite extensive financial support from the US government and the efforts made to promote IDR by student loan service providers and the Education Department, the adoption of such programmes remains low. Even when borrowers are informed about their eligibility for these plans, uptake remains minimal. Research conducted by Mueller and Yannelis (2022) indicates that borrowers find the application process for IDR overwhelming due to its complexity and the effort required to complete, sign and submit the application.

The findings of this study demonstrate that a simple reduction in the complexity of the application process for IDRs, such as prefilled application forms, could have a significant impact on uptake. Enrolment in IDR among borrowers who received pre-populated applications increased by 34 percentage points compared with their counterparts who did not receive such assistance. However, a significant number of borrowers say that, given their financial circumstances, income-driven payments are still unaffordable. According to a recent survey by Pew (2022), nearly half of borrowers previously or currently enrolled in IDR plans reported that their monthly payment were too high. This may be because the formula used to calculate payments does not account for the range of expenses that borrowers may incur, or because borrowers' incomes are not the same from month to month.

Lastly, it should be noted that the literature on student finance is still dominated by student loans and students' perceptions regarding this model. In particular, it discusses several common factors that affect choices with regard to student loans. According to the literature, two factors are found to be the most important. The first factor is a student's level of financial literacy, which significantly influences their attitude towards borrowing, and their willingness to take on a loan. The second is the design of the student loan product itself. This should consider and accommodate perceptions of affordability from the student's perspective. In other words, the terms and conditions of the loan should be structured in such a way that students find them manageable and reasonable, given their financial capabilities and future repayment prospects. By addressing these factors, policymakers and institutions can create more effective and student-friendly loan programmes that empower students to make sound financial decisions when pursuing their education (USAID, 2014). Matus-Grossman and Gooden (2002) also recommend the use of outreach campaigns to raise students' awareness of financial aid services and to change perceptions regarding different financial models. In a qualitative study of student perceptions by Xue and Chao (2015), respondents identified four main reasons for their debt aversion: parental influence, fear of economic burden, underestimation of the benefits of a college education, and a lack of information about the student loan system.

Students' perceptions are very often shaped by local culture and norms. This can be seen in a study by Zolkeplee, Hamad and Ogunbado (2018), who found that in the case of Malaysia, anxiety, parental influence, media awareness and religiosity highly influenced

student perceptions of the educational loan process and repayments. Interestingly, in relation to student perceptions, another study found that students were willing to pay a 4% premium on the financed amount just to avoid the contract being labelled as “debt”. To put in another way, students are less likely choose any college financing programme that is labelled as a “debt” or “loan” (Caetano, Patrinos and Palacios, 2019).

4. Conclusions

This report provides an overview of alternative student financing models, which it identifies as a tool for bridging the gap between traditional models and the rising demand for a more tailor-made approach provided by alternative models. The report also summarises students’ experiences of and motivations in taking up alternative models such as ISAs, crowdfunding, tuition reimbursement programmes, microloans and peer-to-peer lending, employer-sponsored assistance programmes and IDRs. Lastly, the report outlines both the motivations and the challenges that arise on the part of businesses when it comes to financing education through these alternative models. Overall, this research points to the increasing need for a greater number of more targeted and alternative financing models, aimed at addressing the needs of different student populations and households affected by the COVID-19, rising prices, unemployment and other factors, in the context of a constantly changing economic and social environment.

As a response to this changing economic and social setting, numerous alternative models have emerged. Relevant contemporary literature provides insights into various aspects of several alternative models. These include student motivations, the risks undertaken, and the motivations on the part of businesses for becoming part of education funding. Most of the models analysed are associated with lower risk, with easier procedures being required to access the funds, a generally more customised approach, and the availability of funds for different types of educational activities and experiences. In addition, a number of alternative models are employer-led. This means that, in addition to the possibility for a student to work while they learn, such models add other aspects to the process of learning while working, such as career advancement, personal growth, networking opportunities and more. Furthermore, these models are not strictly associated with higher education, but can also be used to fund adult and vocational education and training. Several methods used in the US are presented in the report. These include income-driven repayment plans (IDRs) and tax-free education accounts, which have already found their way into the fiscal policies of certain European countries such as the UK, France, Germany and Sweden.

Key motivations for businesses to support the funding of education include acquisition of matching skills, ensuring the loyalty and retention of employees, increased job satisfaction, and networking within and outside of the business (Mestry & Verster, 2014; Giacomin, Jones & Salvay, 2019; Euler, 2018; Lewin, 2020; Steer & Smith, 2015; Kholiavko et. al., 2021). However, the central role played by the state in education funding needs to be both strengthened and supported through the development of alternative models of education funding. From a student’s perspective, it is important to assess with great caution all factors such as the interest rates, terms and potential repayment plans associated with different models of funding. Carrying out a cost–benefit analysis of all potential risks and gains will ensure that the final decision is financially reasonable, and that the potential repayments and other risks associated with specific models are minimised.

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