PROGRAM EVALUATION STUDIES

Intercountry Evaluation of Educational Credit Institutions

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The student loan movement in Latin America is growing steadily in size and influence. It is developing and enlarging sources of financing for education credit and is helping to create acceptance for the idea that students should undertake greater financial responsibility for their own education. In 1964 there were only four national education credit institutions in Latin America and the Caribbean. By 1973 there were 17 such institutions in 15 countries, and plans for two more underway. Education credit institutions have played a substantial role in promoting a variety of supports for students in post-secondary education. Education credit institutions are most effective if they not only administer a wide range of programs but also are involved in manpower planning, vocational and academic guidance, research on the impact of manpower training, job placement, and creation of imaginative proposals for further expanding educational opportunities and financing. Education credit institutions appear to be making a general impact on manpower development by: (1) making it possible for students to finish their training within a shorter period of time; and (2) financing a larger proportion of students in key fields than are represented in the general student body.

AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR LATIN AMERICA

PROGRAM EVALUATION STUDIES

INTERCOUNTRY EVALUATION OF EDUCATION CREDIT INSTITUTIONS IN LATIN AMERICA

June 1974

A.I.D. Evaluation Studies represent the views of their authors and are not intended as statements of official policy.

A STUDY OF
LATIN AMERICAN EDUCATION CREDIT INSTITUTIONS

Background

Fifteen countries of Latin America and the Caribbean now have national student loan programs administered by public or private agencies. A.I.D. has provided financial or advisory assistance to six of these institutions (in Colombia, Dominican Republic, Ecuador, Honduras, Nicaragua and Peru), and the Inter-American Development Bank has made loans to three (Jamaica, Panama and Trinidad and Tobago) and has at least two more under consideration.

The purpose of this study was to review the experience of A.I.D. in assisting education credit institutions, to assess the strengths or weaknesses of student loan programs and the problems they face, and to provide comparative information that could provide a basis for program decisions and project design in response to potential future requests for assistance.

Scope of the Study

This study was conducted by Allison Herrick, LA/DP (team leader), and Howard Sharlach and Linda Seville, LA/DR. It included a review of published literature on student loan programs, study of project documents, interviews with A.I.D./W and IDB officer with pertinent experience, and gathering of information from the field. Written information was received from USAID's in Ecuador, Jamaica Nicaragua, Panama and Peru, and field investigations were carried out in Brazil, Colombia, Dominican Republic, and Honduras. Mrs. Herrick also attended the fifth Congress of the Association of Panamerican Institutes of Credit for Education (APICE) in which representatives from 17 countries participated.

Content of the Report

I. FRAMEWORK OF THE STUDY

The team approached the study of Latin American education credit institutions by analyzing the stated goals of the institutions and the policies or programs that would contribute to attainment of these goals. The study does not address the broad problems of financing for higher education as a whole. The two major goals to which the study is addressed are (1) to provide the country with skilled manpower needed for social and economic development and (2) to promote equality of opportunity for access to post-secondary education.

An education credit institution can contribute to these goals by (a) financing the training of a greater number of people in key fields as rapidly as possible, (b) favoring students with the greatest economic need, (c) creating opportunity for those who have not had it before, and (d) establishing itself as a well-run, effective and financially self-sustaining institution.

It became apparent that the manpower development and equality of opportunity goals at times are mutually exclusive. In other words, striving for social equity in sharing the benefits of educational opportunity might preclude the training of a greater number as rapidly as possible or vice versa. This study is presented, therefore, in terms of the measures required to contribute to either of these goals rather than in terms of country case studies.

There are no model diagrams or prescriptions for establishing or contributing to the viability of education credit institutions. There are some common characteristcs and likely problems or common pitfalls, however, which are pointed out in the summary findings of Part II.

Part III discusses in greater detail the characteristics and problems of representative institutions. It is intended to offer points of reference to those who will be considering future decisions on assistance to education credit institutions. It provides examples of how one might arrive at a particular objective that is best suited for an individual country at a given time in its developmental process. A least developed country, for example, would most likely be looking for a mechanism to train students abroad so that upon their return they could form the nucleus of a domestic learning institution. At the other end of the spectrum, the chief function of student credit in more developed countries might well be to concentrate on domestic loans for special groups or on secondary school scholarships in order to widen the social base of access to higher education.

II. SUMMARY FINDINGS

A. Role of Education Credit in Latin America

The student loan movement in Latin America is growing steadily in size and influence. It is developing and enlarging sources of financing for education credit and is helping to create acceptance for the idea that students should undertake greater financial responsibility for their own education. In 1964 there were only four national education credit institutions in Latin America and the Caribbean. By 1973 there were 17 such institutions in 15 countries, and plans for two more underway. Their total budgets for 1972 were well over $30 million. (see Table I, Latin America Credit Institutions).

Education credit institutions have played a substantial role in promoting a variety of support for students in post-secondary education. Their programs have enabled thousands of students of limited economic means to participate in higher education. They have helped to persuade governments and educational institutions that scholarship programs should be converted to loan programs, which make far more efficient use of the financial resources granted to students. The very existence of these institutions, which are capable of objective administration of loans and scholarships, has stimulated new sources of education grants and credits from government ministries, municipal governments, private business, interested individuals, and foreign donors (for further discussion see pages 11 and 12).

B. Contribution to preparation of trained manpower

Credit is usually granted for study in fields related to current estimates of national needs and priorities as seen by the lending institution or established by the government. The proportion of credits for the arts, humanities and law is generally small (see Table IV). In some countries, the credit institution itself is a prime mover in the development and updating of human resource surveys; in some a national planning office sets the priorities; and in others decisions are based on general knowledge of the society and its needs.

A student loan program is most effective if the administering institution combines its responsibility for financial administration with continuing programs of research into manpower needs, evaluation of the impact of the program on individual and social needs, and development of testing and counseling services (Table III shows the functions of each institution).

All the credit institutions see their major goal as the promotion of trained manpower needed for economic and social development. Depending upon the size of the country and the relative size of the program each institution appears to be making a general impact on manpower development by (a) making it possible for students to finish their training within a shorter period of time and (b) financing a larger proportion of students in key fields than are represented in the general student body. There has been, however, little effort systematically to use credit as an instrument of manpower policy by introducing a sliding scale of credit terms and forgiveness factors (for further discussion see pages 13 and 14).

C. Contribution to increasing opportunities for education

The goal to broaden the opportunity for access to education is more or less explicit in most countries, but implementation of this goal has been subsidiary to efforts to fulfill the manpower goal. The new and growing credit agencies, in order to preserve their limited capital, tend to start with conservative lending policies that assist students with proven academic record and motivation and the ability to provide acceptable guarantors of the loan.

Also, since post-secondary education is emphasized in all the loan programs, and in most Latin American countries only about one percent of students entering primary school continue past the secondary level, the potential for significant broadening of opportunity is severely circumscribed. Only the poorest of the applicants (most of whom are at least lower middle class) can be reached -- not the poorest of the people. It is difficult to reach members of the poorer majority of the population when there are too few primary and secondary schools, those that exist are unevenly distributed in the country, and most families are too poor to be able to send their children.

In charging little or no tuition to the student, the higher education systems of Latin America, are subsidizing the economically well-off students to a greater degree than the poorer students, who must seek credit and assume obligations for repayment. Greater equity at the university level itself will depend upon changes in policy toward higher charges of the teaching costs to the student (for further discussion see pages 15-19).

D. Contribution to greater efficiency in the higher education system

Education credit does make it possible for students at higher levels to complete courses of study in fields of their choice (as long as they are within the eligible priority fields). Credit enables poorer students who are potential dropouts to complete their studies. It also permits and motivates students who have been attending part-time to complete their studies in a shorter period. Wastage in the education system can thus be diminished.

In theory education credit can boost the education system in another way, by providing incentives to enter selected fields for which there are vacant places in the universities and technical institutes of the country. Thus the cost of maintaining a faculty or department in a certain field can be rationalized. This study group is unable to report particular instances of such an effect at the post-secondary level, but the secretariats of education at the state level in Brazil have a program to purchase vacant places in private secondary schools at less than the cost of tuition and fill them with students who could not otherwise afford them (for further discussion see page 39).

E. Costs and Sources of Finance

Student loan programs call for heavy infusions of financing for at least ten to twelve years before returns, in the form of interest and principal payments, will be great enough to support a continuing level of lending to students. For an expanding program commensurately greater new capital investment will be required for a longer period, as the returns on loans of the earlier years will be inadequate to cover the new higher levels.

To avoid depletion of capital there must be sufficient income to cover all administrative costs, inflation, debt service and a potential bad debt rate of at least 5 percent of payments due but probably more realistically 10 percent. Also, if a student loan program includes a forgiveness factor -- for work in a particular field or in a rural area, for example -- the grant factor has to be covered by special subsidies or other income.

The financial position of an education credit institution is in constant flux, as the screening and placing of students may take longer than anticipated, collections may lag, repayments are re-scheduled, and supporting grants are not received as anticipated. Cash flow projections should be revised regularly (see Tables Va, Vb and Vc).

Few if any education credit institutions have included in their student loan contracts a maintenance of value provision to cover inflation. They have concluded that their most important immediate task was to persuade the students and the community that the beneficiary of student aid should be expected to pay it back. They have not yet been prepared to impose increases in the amounts due to be repaid. External donors might encourage credit institutions to use some system for maintenance of value - Brazil, for example, is planning to lend in terms of units of established minimum salary. If three units are borrowed, then three units at current rates will have to be repaid (for further discussion see pages 22-33).

F. Administration

Administrative capacity is a key requisite for successful conduct of a credit program. Over attention to expansionary planning and insufficient attention to management of current operations has caused serious difficulty for at least one institution. As currently structured most programs are by nature supervised credit systems requiring organizational capability to handle the detail involved in maintaining individual accounts, as well as the important complementary screening, counseling and research functions of the program (for further discussion see pages 32-37).

One of the most persistent problems faced by education credit institutions is the collection of interest and loan repayments. A large proportion of staff time is required for keeping accounts, for disbursement as well as collection, and for follow-up on delinquencies and potential defaults. The alternative possibility, of handling the financial transactions through a bank or other financial institution, should be thoroughly explored. The credit institution would therefore be able to concentrate on its main business, which is the allocation of credit for purposes of development, confining its involvement in disbursements and collections to the setting of policy and dealing with special problems. In any case, it is essential to maintain a business-like approach in dealing with the student recipient and to make sure he understands the requirements for repayment.

G. Implications for A.I.D.

(1) In terms of timely disbursement of A.I.D. loans, the support of education credit institutions has not posed problems. However, success in providing sufficient seed capital to put the institution on a sound financial basis for a continuing program has not been achieved. Furthermore, the initial support from A.I.D. will not, in all instances, have been sufficient, in combination with the efforts of the institution itself, achieve the leverage required to obtain additional financing from other sources.

(2) A.I.D. must recognize that under present conditions a credit institution will require capital infusions for more than 10 years to maintain a given program level, and longer to support an expanding program. Changes in conditions (such as higher interest rates and shorter amortization periods for student loans) might alleviate the cash flow deficits in the earlier years of a program, but these probably would not be totally sufficient.

(3) In order to obtain a faster return on student loans, and thus shorten the loan-repayment cycle turnover, A.I.D. might encourage application of the following measures:

- higher interest rates, close to or at commercial rates.
- shorter grace periods
- shorten amortization periods
- limitations on period of study financed
- maintenance of value provisions
- enforceable guaranties
- sizeable delinquency penalties
- effective tools of collection(salary garnishes, etc.)

However, there may be practical or policy consideration militating against applying all these methods; for example, debt burden may become too high in relation to the earining power of the student graduate, or policy may favor the financing of a full university course of 4 to 6 years instead of the last years only. But there is little excuse for not making provision for maintenance of value and not systematically invoking penalties and enforcing collection (as some institutions have done in the past). Table II shows the present loan terms of Latin American institutions.

(4) Education loan programs are reaching individual post-secondary students with academic ability and relatively great economic need. But so far, with the exception of a secondary level scholarship program in Colombia and a special program for dependents of union members in Brazil, they have had little impact in broadening opportunities for the majority of the young population that will never

finish secondary school. If A.I.D. programs are to be designed to focus on low-income groups in the population, assistance to education at higher levels, even if it emphasizes programs to reach disadvantaged students, will not do the trick. In order to reach young people who have not already been selected out of the system by economic and social factors, the problems must be attacked at the secondary and primary levels.

(5) Education credit institutions face a number of administrative problems. They tend to grow fast, outgrowing internal control mechanisms, and they frequently underestimate the organization and management capability they will need. In contemplating assistance to any such institution, especially one that has been established relatively recently, or one that is now plannning expansion of its program, A.I.D. should expect to have to work closely with its management on a continuing basis.

(6) Credit institutions should have as broad a mandate as possible in the substance of their business. In other words, they are most effective if they not only administer a wide range of programs (for loans and scholarships) but also are involved in manpower planning, vocational and academic guidance, research on the impact of manpower training, job placement, and creation of imaginative proposals for further expanding educational opportunities and financing. They may use banking resources to finance or subsidize their programs, but they are not banks nor should they try to be. A.I.D. should encourage them to delegate loan disbursement and collection, and possibly other administrative tasks, to other organizations as much as possible in order to reduce overhead and to lessen distractions from the principal functions of the institution. Furthermore, banks may well have greater success in handling the loans on a business-like basis.

III. CHARACTERISTICS AND PROBLEMS OF REPRESENTATIVE INSTITUTIONS

In this section the characteristic roles and major policy and management issues of Latin American education credit institutions are discussed in greater detail. The purpose of the exposition is not as much to reach conclusions or to give definitive advice as to provide indications of likely problems or areas of conflict between objectives and examples of the approaches and solutions that can be found in Latin America.

The topics are organized as follows:

A. Role of Education Credit in Latin America

1. Promotion of Education Credit as a Means of Financing Higher Education

The leadership of the education credit movement has made a positive contribution toward acceptance of the idea that the costs of higher level education should be borne by the recipients. They believe that a student receiving a loan instead of a scholarship will have a greater sense of responsibility about his education. They also see the advantage in recouping the money used to finance one student for use by another in a later year. Governments are heavily burdened financially by their policies to provide universal primary education, to expand secondary education and reform the content of education at both levels. Since higher education benefits directly only a small percentage of the population, many educators are now urging that governments restrict themselves to financing the capital costs of higher education, leaving the recurrent costs to be paid by the students, either immediately or on a deferred basis through national credit programs.

Under such a policy two regressive aspects of the present system of subsidy of higher education could be mitigated:

(1) the de facto incremental subsidy granted to the more affluent student who receives a free or inexpensive education while the student who is less well off must assume a loan obligation to obtain the same education, and

(2) the use of public revenues obtained from all taxpayers to pay for the small number who benefit from higher education, a group which is, or will be, better able and can afford to pay for it.

Moreover, in a system in which costs are visible, a healthy competition to provide quality education at minimal cost has a better chance to be developed among teaching institutions.

Following are examples of the work of education credit institutions in the move toward recognition of real costs and an increased role for student credit:

> In several countries serious studies of the actual costs of education are being undertaken -- in Colombia, Venezuela, and Argentina, among others (see Bibliography). The results of the studies and the analytical models developed are being widely shared.

In 1955, when ICETEX of Colombia was given the responsibility for administering a national fund for university level study within the country, the granting of scholarships for this purpose was greatly reduced.

In the Dominican Republic two private universities increased their tuition by about 50 percent -- not to th. full costs but to about one-third of the recurrent cost -- and converted their scholarship programs to student loan funds to be administered by FCE, the education credit institution. Although the number of credits being disbursed by FCE has been more than double the number it would have administered from its own funds alone without additional funds administered on behalf of other institutions and donors.

2. Role in Administration of National and International Scholarship Programs:

An education credit institution, even though it may not offer scholarship grants from its own funds, usually serves as a catalyst to promote scholarship funding and may provide support services for programs sponsored by various sources, internal and external. For example, the screening system of the institution can be used to select scholarship recipients, as well as loan recipients, according to objective standards; politics and favoritism can be taken out of the selection process. Also, through the combination of educational and vocational counseling and analysis of human resource needs, the most rational allocation of funds for social and economic development purposes can be made, and the donor can be assured of good management of the donated resources.

ICETEX of Colombia, according to law, selects all recipients of major private, national and international grants for study abroad except those of Ford Foundation, the Fulbright program and A.I.D. participants in fields outside the areas of concentration of the USAID program.

CAPES of Brazil performs a similar function in administration of grants for post-graduate study within the country and abroad.

IECE of Ecuador is working with the OAS and the UN as well as bilateral development agencies, to obtain increases in the numbers and types of Scholarships available. It is encouraging private and foreign firms to enter into special agreements to make partial scholarships that can be complemented with IECE's own resources (which can be used only for loans). Because IECE s own resources are still limited, they are not being used for foreign study except as supplements to scholarships.

B. Contribution to Manpower Needs

1. Preparation of trained manpower needed for social and economic development:

The manpower development goal is served in varying degrees by all national education credit institutions, as all of them extend credits on the basis of formal or informal priority rankings of fields of study. Continuing evaluation of success or failure in filling vacancies in certain fields plans for revision of priorities to meet changing needs are generally inadequate, however. Until now the educated guesses of the credit managers have generally been on the right track, but some countries are reaching the point where more rigorous analysis will be required.

The proportion of students receiving loans for the study of technical and social science subjects is usually higher than the proportion of students in those fields among the general student population, and to the extent that a student loan program reaches a significant part of the student population, its influence on the completion of training in designated fields can be substantial. The Student Loan Bureau of the Bank of Jamaica, for example, estimates that the percentage of Jamaican students receiving credit will rise from 8 to over 50 percent. In Argentina, the aim of INCE is to be able to provide credits to 10 percent of all post-secondary students per annum. ICETEX serves at least 10 percent of all university students in 1972.

Credit institutions do make loans to some students in the fields of law (which is usually an overcrowded field) or the arts, if the applicant is sure to be able to repay the loan or has a guaranteed job; but the emphasis is on fields more closely related to development. There may be a time when the influence of education credit becomes so strong that educators may fear that the society will suffer from a lack of people in creative fields. That time is not close, but if it should come there would be solutions.

Table IV shows the fields of study financed in the past four years in seven countries. Medicine, engineering, agriculture, education, business administration and natural and social sciences are strongly represented in most programs; law, fine arts and the humanities generally account for a smaller proportion.

2. The use of a forgiveness factor as an instrument of manpower policy

The sponsors of education credit funds, governmental or private, have on occasion created special incentives for recipients to apply their training by working in a particular field or a particular geographic area or type of community, but no country yet makes systematic use of forgiveness as a policy tool. In Colombia ICETEX administers a fund for the Ministry of Mines and Petroleum (financed by a 1970 A.I.D. loan) under which a student recipient is forgiven his obligation to repay if he fulfills a specified work commitment. In other A.I.D.-supported programs the forgiveness factor is applied when a recipient goes to work in any of several previously agreed-upon fields. In Honduras a new foreign-donor program will include a sliding scale for repayment based on academic grades achieved.

Forgiveness policies may be effective and useful to a limited degree. Even the forgiveness factor does not keep all students for more than a year or so in the fields that they originally chose. Furthermore, it might not be a disadvantage for the long run to raise barriers to mobility among occupations.

Because follow-up procedures and labor market surveys are not well-developed, data analyzing the use of any particular training finance is scarce, and interpretation of a recipient's contribution or non-contribution to the needs of his society is very difficult. According to a recent study in Jamaica, the majority of loan recipients did not continue to work in the specific field in which they had been trained. Those who were most apt to change professions were teachers, who were finding better paid jobs as accountants and clerks -- while those who remained in their field were lawyers and doctors. Such a study raises the question whether the burden of loan repayment should be adjusted for socially desirable but low-paid professions such as teaching.

C. Contribution to Increasing Opportunities for Education

1. Limitations on the effectiveness of education credit in broadening opportunities for education:

All the credit institutions explicitly state their purpose is to contribute to social and economic development by offering education credit to students "of limited economic means" or "who would otherwise not be able to continue their education." Most of them require information on economic status to be submitted with an application for credit, and they usually set a maximum family income level for eligibility. Income levels are apt to be understated, however, and in most countries even income tax records which may be used to verify income levels, are not reliable indicators of economic means. Nevertheless, the system can work in general, at least to guide the choice of one recipient among a number of otherwise equally qualified candidates.

However, the policies of the lending institutions most frequently resolve the basic conflict in goals, as between manpower development and broadening of opportunity, in favor of the former. A number of factors have had a limiting influence on the expansion of opportunity

A. Programs are concentrated at post-secondary levels where only about one percent of the eligible portion of the population can be found.

A survey of wastage in education conducted in 1972 in Honduras illustrates the need to extend credit programs at least to the secondary level if expansion of opportunity for education -- at secondary of higher level -- is seen as an important goal. Of every 100 students entering primary school, 21 reach the 6th grade, 14 enter secondary school, and 1 enters higher education. Among secondary school dropouts surveyed, 56 percent had to go to work; and among the primary graduates who did not plan to attend secondary school at all, 98 percent claimed to have make their decision for economic reasons.

B. Most recipients, or at least most well qualified applicants, come from private secondary schools and, therefore, are presumably from families that are relatively well off.

For example, in Colombia 70 percent of the students at the national university come from private secondary schools, and 60 percent of secondary school places are in private schools.

C. The desire to achieve quick results in producing fully trained people to meet manpower needs leads to a concentration on post-graduate studies or on the last few years of a university course.

When the primary orientation of an institution is to meet the needs of the national education system as a whole -- the need to finance high and rising costs at university and post-graduate levels; the need to serve an expanding student demand; and the need to develop the capability to provide training in institutions within the country -- the first emphasis of the credit program will be on the most elitist part of the system, i.e. on postgraduate study abroad.

Educredito of Venezuela provides an example of such an approach. The first beneficiaries of the program were candidates for postgraduate study abroad who were to return to the country for university teaching positions. The second priority has been to fund university students who are well along in their courses. Pilot programs to reach rural residents and candidates for vocational training had to wait (but are now underway)

D. The desire to develop a sound financial basis for a revolving loan fund leads institutions to award credits to the surest risks in terms of academic qualification and proven perseverance in pursuing their studies. Students from the public school system will not be able to compete as effectively as those from private schools when loans are based on academic tests.

E. The need to make scarce resources go as far as possible, also results in concentration on students who will complete their studies in a short period and will therefore also soon begin repayments to replenish the loan fund.

F. The requirement that borrowers have guarantors eliminates applicants without family or friends of sufficient economic means to undertake a guaranty.

G. Some lending agencies believe they do not know how or cannot afford to identify and recruit poor students who have ability.

2. Some Approaches to the problem of broadening opportunity

There is evidence, however, that in spite of these factors, the goal of providing opportunity to those who can least afford the education is accepted, and that policies to this end have been developed.

ICETEX of Colombia has developed a system for evaluating income, financial standing and family size. Above a certain maximum income and maximum of family holdings a credit will not be granted. An additional 10 percent above the maximum is permitted for each child after the first two in the family, and priority is given to families of lesser means. The criteria are rigorously applied.

An overwhelming majority (92 percent) of the students served by the INDE program in Nicaragua in 1969-1970 are reported to have been children of parents who were common laborers, small farmers, small shopkeepers, and domestic employees.

In the Dominican Republic a maximum family income is also prescribed, and the status of the applicant's family and of the guarantors are evaluated by various means. A survey of graduates of the program showed that over half of the beneficiaries would not have been able to continue their studies, or would not have been able to continue in the field of their choice, without the credit. Recipients included students from regions without higher education facilities who would not have been able to leave home without credit.. The majority came from families of lower income than those who traditionally have participated in higher education.

INCE of Argentina is administering a Ministry of Social Welfare program of scholarships for secondary technical students and loans to first year university students. This program reaches students not covered by INCE's regular loan fund, which covers only the last years of a university career, and only students of insitutions in the five most remote and poorest areas of the country are eligible to participate.

ICETEX of Colombia administers a broad national program of scholarships for public school students at secondary level. Recipients are selected through a system of weighted criteria covering socio-economic background,

size of family, academic potential, type of course, educational and economic needs of the region, and location of the vacancies in the school. The system is designed to favor poorer rural areas and vocational courses. The next step would be to have all applicants compete through a single national system. Then a student from a rural area with limited means would be able to attend the public or private school of his choice.

ICETEX has recently established an alumnae fund that it hopes will be used to guarantee loans to students who do not have access to guarantors.

In Honduras EDUCREDITO has embarked on a campaign to persuade Chambers of Commerce, business and fraternal groups, labor unions and other organizations to agree to guarantee a number of loans for students who otherwise would not be able to find individual guarantors in their socio-economic milieu.

Brazil provides a unique example of a national program designated to give educational opportunities at primary and secondary levels to children of lower income families. PEBE, an affiliate of the Ministry of Labor, working through some 3,000 individual labor unions in all parts of the country has, since 1966, provided some 900,000 fellowships to junior and senior high school students. It's 1973 program of some 205,000 fellowships assisted 5% of all secondary school students in the country. In addition, PEBE conducts a small but growing loan program (over 4,000 loans in 1973). These loans provide much larger financial assistance to highly qualified dependents of union members to pursue technical programs in the areas of Brazil's greatest manpower shortages.

3. Limitations on size and duration of student loans

For several resons education credit institutions have tended to limit the size and duration of their commitments to individual students. The most compelling reason in the early years of a program is the desire to make a relatively small amount of capital go as far as possible. There is also a desire initially to identify the best risks, both academically and financially. Emphasis is therefore placed on the student who has successfully completed one or more years of study and is statistically less likely to drop out, on the assumption that he is sufficiently motivated to complete his studies and to have the earning capacity to repay his loan.

Small programs like those of IECE in Ecuador and INDE in Nicaragua make limited loans for study abroad to top off scholarship grants received from other sources. They finance neither the full costs of foreign study nor those of a full university career. For in-country study they have preferred to allocate their funds to students in their last year or two. However, Educredito of Honduras, which had a similar policy, has now changed it to provide opportunities to students who could not have managed to begin higher education without credit.

FCE of the Dominican Republic began with a policy to fund no more than two years of study abroad and has reaffirmed it after a limited trial of loans for 4-year university degrees. It was found that recipients of the larger loans with longer repayment periods, had a greater tendency to be delinquent in repayment. Therefore, for study abroad, the policy to fund no more than two years of terminal junior college, technical studies or graduate study has been reaffirmed. Only within the country will a full program at a university be funded.

D. The Contribution of Education Credit Toward Efficiency in the Training of Human Resources

In many countries one of the most inefficient aspects of higher education is the high proportion of dropouts. Another is the large number of students who take many years to complete their course or complete it only after considerable loss of time.

> In Argentina, a study of the university population of the early 1960's showed that the major reason for irregularity in attendance was the need to work (about 40 percent): an additional significant reason for male students was military service. Another study, of dropout rates at two universities in the 1950's, showed ratios of dropouts to graduates of 10 to 4 and 10 to 6 respectively. For 47 percent of the dropouts (and 58 percent of those from lower income groups) the reasons were economic.
>
> In Honduras in response to a survey of university dropouts, 66 percent of the respondents stated that their families could no longer support them in school. Another large group stated that they could not manage both studies and work.

There is good evidence that students receiving education credit will be more apt to complete their education, and to do so in less time than those who do not receive credit. The credit enables the student borrower to continue his education in the first instance, or to devote more time to it if he has had to be self-supporting. His assumption of an obligation to pay for the education gives him the motivation to qualify himself for better paying employment and to complete his course of study as quickly as possible, thus keeping his total obligation to a minimum.

> IFARHU of Panama has found that 90 percent of all students financed under its program complete their studies, a far higher percentage than among students as a whole.

INCE of Argentina has studied the effect of credit on university students in the fields of agriculture, veterinary medicine and engineering. The students receiving credit, who are not eligible for loans until after they have successfully completed at least three years of study, have finished their entire course one or more years

sooner than they would have without credit. They have also taken heavier course loads and earned a larger number of credits in the shorter time.

There is also some evidence that the performance of a student is affected by his receipt of credit. A study in Colombia has shown that the academic achievement of students with credit is better than that of the average student. Attribution of cause and effect, however, is difficult, because the student who receives credit may be the more highly motivated student in the first instance. Furthermore, most credit granting institutions require that the student maintain a minimum grade level in order to continue receiving disbursement of his loan, and this level is usually higher than the passing level set by the educational institution.

E. Costs and Sources of Finance

1. Sources of Funds

In order to avoid diminution of funds available for loans to students, and eventual decapitalization, an education credit institution requires regular infusions of funds to cover the costs of administration, debt servicing, inflation, scholarship administration, the interest subsidy provided on student loans, loan forgiveness policies, and bad debts.

The sources of funds vary according to the type of institution, its history, its role in the country's educational system, and other national and cultural factors. Some institutions make a special effort to maintain their status as private agencies. Other, public, institutions derive a substantial amount of capital and operating income from the public budget or other public mechanism.

Various particular methods of creating income have been worked out by individual institutions. Others, such as bond issues, lotteries, savings systems or educational development banks, are under study but have not yet been tried. Among sources of income currently used are the following:

Source	Used by
Regular contributions from government budget	Colombia, Argentina, Dominican Republic
Loans from government	Honduras
External loans	See Table I
Special government grants	Dominican Republic
Discounted bank loans	Colombia, Argentina
Fees for administration of particular programs and other services	Colombia, Dominican Republic
Income from short-term investments	Colombia, Dominican Republic, Honduras
Interest and repayments on student loans	All (interest is at subsidized rates)
Private donations	Many

Allocation of oil revenues	Ecuador
Compulsory payroll deduction matched by government contribution	Panama

Government backing of a credit institution, public or private, can be manifested in a number of ways.

In the Dominican Republic FCE receives a regular monthly amount from the government budget and has received grants of PL-480 generated funds to cover administrative expenses.

In Colombia, the Bank of the Republic will rediscount credits granted by the commercial banks and Caja Agraria a) to ICETEX for the student loan program, or b) directly to students selected according to ICETEX criteria. ICETEX can invest inactive portions of these loans at the best possible rates but pays only two percent interest to the banks. The amounts loaned by the banks are exempted from certain regulations limiting investments.

In Honduras private enterprises that make contributions to Educredito may reduce theirtaxes by an equal amount.

In Jamaica, in order to avoid decapitalization of the Student Loan Fund administered by the Bank of Jamaica, the government agreed to subsidize administrative costs until such time as the interest paid to the Fund can cover these costs, to assume responsibility for maintenance of value and to cover any losses due to uncollectable debts.

In Trinidad and Tobago, under the terms of the IDB loan, the government is similarly committed, to make capital contributions to match the external loan funds and to cover administrative costs and losses. In addition, the government will pay the interest and principal on the IDB loan and will subsidize the repayment of subloans for any recipients who would have to pay more than one-sixth of their annual income to meet their obligation to the student loan fund.

2. The Need for Capital

The creation of a revolving student loan fund -- that is, one that can sustain a given annual level of lending to students from its own resources (consisting of interest and principle payments on prior loans and other regular sources of income to cover administrative costs) requires between 10 and 20 years. Education credit institutions and their external supporters in the past have projected achievement of a revolving fund capability within five to ten years, but experience shows that longer periods may be required.

In long-run planning for financing of education credit, several factors militating against self-sufficiency in the revolving fund must be taken into consideration:

a. Factors contributing to decapitalization:

(1) Delinquencies in repayments of student loans may be greater than the five to ten percent for which a reserve fund has been created.

(2) In addition to the delinquencies that will be uncollectable, the delinquencies that represent slow repayments and renegotiations of debts will adversely affect the annual cash flow.

(3) The capital lost through loan forgiveness policies (if any) must be covered by other income or capital subsidy.

(4) Unless the credit institution obtains sufficient initial capital at less cost than the interest rate charged to student borrowers (which is lower than usual commercial rates), the interest spread must be covered.

(5) The costs of inflation must be charged to the borrower or otherwise covered.

b. Increasing demand: as education credit becomes established, the demand increases, and the granting institution expands its capacity to handle selection, disbursement and collection. Thus, the annual level of lending increases; but collections, which are based on previous lower levels of lending, do not cover the increases.

The following examples illustrate several different capital resource situations:

The experience of the oldest, largest and most successful program, ICETEX in Colombia, shows continually increasing government subsidies with no predictable end in sight. Although the

original program of foreign study loans has been reduced, ICETEX has been given new responsibilities for higher levels of student credit, secondary school scholarships and execution of international donors' programs, and has required larger infusions of government funds. To the extent that these requirements represent a shift from government grant programs to expanding revolving loan programs or represent policies to foster greater social equity in educational benefits, this lack of self-sufficiency should be acceptable. A conclusion from this example may well be, however, that the more successful an Education Credit Institution is, the less likely it is to become self-sufficient for an indeterminate time.

Daniel Rogers' hypothetical case for Guatemala -- of 100 students per year at $1,000 per student (starting with 100 students in the first of six school years), with a two percent rate of loss, one-year grace period, eight percent interest, a repayment period equal to the period of borrowing, stable administrative costs, and debt service on A.I.D. terms -- shows that the annual outflow of capital must continue for 12 years, to a total of $4.2 million before annual income begins to surpass outflow (see Table V. a.). Under different assumptions the capital needs could be even greater -- if, for example, (1) the rate of bad debt were higher than two percent; (2) the repayment period were two or three times the period of study; (3) the student did not finish in the average time projected; (4) the interest during the disbursement period is not paid in, but is capitalized or simply deferred.

IECE of Ecuador provides an example of an institution expecting continuing, and increasing, government contributions to its program based on oil revenues. The government subsidy is expected to be required for about ten years to maintain the lending level at about $1.0 million annually as interest on loans will not cover operating expenses and losses until that time. An expansion of the program, which now funds only the last two years of a university education, would require expanded subsidy (see Table V. b.).

To maintain the $1 million annual level of lending estimated for 1973 Educredito of Honduras will require external financing to follow the A.I.D. loan which is expected to be fully disbursed in 1975. A request to IDB is planned.

IPFE of Peru, which is a strictly private institute, depends solely on contributions from the private sector and

international donor organizations; the government provides no financing. Government support used to be given in the form of adouble tax deduction privilege for donating entities. The loss of this privilege has resulted in a diminution of the program.

The Student Revolving Loan Fund of Trinidad and Tobago will be able to apply all reflows above its management fees and other administrative costs to new student loans. The government will repay the IDB loan of 1972, guaranty delinquent payments and continue to fund any student whose complete course cannot be financed by the fund. Nevertheless, financial projections in the IDB loan paper show that unless an additional source of capital is available, the level of lending to students, which would rise to over $2 million in the fourth year of external loan disbursement (and government subsidy), would have to decline to $0.5 million in the seventh year before reflows permitted the level to rise again.

IFARHU of Panama has been supported by the government since its formation in 1965, with an annual budgetary contribution of $200,000 for administrative expenses. Until 1971 the government contribution for lending capital was covered by bonds. The IFARHU program is now financed more than adequately through a 1.5 percent payroll tax matched by 0.5 percent from the government.

For the FCE of the Dominican Republic, even the conservative alternative projections of interest income, administrative costs and availabilities for lending made at the time of the second A.I.D. loan in 1970 have proved to be overly optimistic (see Table V. c.). For 1972, income from interest and principal was $296,200 instead of the $376,000 projected. Income from private sources was $55,700 instead of $252,000; and the regular subsidy from the government was $300,000 instead of $400,000. And the operational deficit, which had been expected to be eliminated by 1972, was close to $200,000 that year. Without a third external loan (a request is pending with the IDB) or some other infusion of funds, FCE will not have sufficient resources to maintain its loan program at the 1972 level of $1.2 million. It would probably have to curtail this level sharply and act essentially as a collection agency. With a new external loan to cover the next four or five years, and improved performance in collection on student loans, the level of student lending could be maintained, and possibly increased. But to sustain this level on a continuing basis new money at the rate of about $1.0 million a year would be required for an indefinite period.

3. Costs of Operation

The total costs of operation of a student credit institution usually include administrative costs (personnel, office supplies, rent, equipment, promotional activities, etc.) and debt service. Administrative costs can be expected to be proportionately higher for growing institutions with smaller portfolios and lower for established institutions with larger student subloan portfolios and broader types of operation (see Table III, Activities of Latin American Education Credit Institutions). The nature of the activities of the institutions requires a minimal administrative organization even for a small-size portfolio; this organization is usually adequate to manage a considerable expansion of the portfolio.

Student credit is supervised from beginning to end -- from screening and counseling of applicants, to disbursement during the period of study and verification of academic achievement, to assistance in finding employment, to scheduling and re-scheduling of repayments, and follow-up on delinquencies. The recent experience of several institutions shows a range of from 12 to 23 percent for strictly administrative costs expressed as a percentage of total annual outlay. It seems reasonable to expect, however, that good management in an established institution can keep these costs down to 10 to 15 percent.

A student credit institution can be expected to have short- and long-term debt service costs. The major costs of repayment of principal on external loans will not have to be met until after the expiration of the grace period, when it is likely that there will be an increasing reflow of interest and principal from recipients. But in the meantime, short-term credits and the interest on long-term credits will have to be covered; these generally account for less than five percent of total annual outlay at present.

Some examples of operating costs follow:

ICETEX of Colombia reports that for 1972 total operating expenses accounted for 14.2 percent of all expenditures (of over $7 million); administrative expenses alone were 11.3 percent. The budget for 1973 anticipates 11 percent for costs of operating all the programs administered by ICETEX.

INCE of Argentina reports administrative costs for its university loan program in 1972 were 12 percent (plus 5 percent for debt service) of a total outlay of $400,000. For personnel alone the costs were 7 percent, but the same staff is expected to be able to handle an increasing portfolio over the next few years.

For IECE of Ecuador administrative costs for the first year of operation (1973) with its high start-up costs

are projected at about 18 percent. By 1975 they are expected to level off at $120,000, which would represent 14 percent of the budget projected for that year, and 12 percent of the $1.1 million level projected for 1977.

In Honduras the total operating costs of Educredito, which were 7 percent of student loans committed in 1969 and 1970, and 12 percent in 1971, rose to 17 percent in 1972, but are budgeted at only 9 percent for 1973. Unusual expenditures of $143,000 were required in 1972, when Educredito moved from the offices of its sponsoring organization, the Centro Cooperativo Tecnico Industrial (CCTI), to its own offices, expanded its full-time staff, and processed an unusually large number of short-term students. The Director of Educredito expects to need little additional staff to carry out a $2 million program, over twice as large as that of 1972.

4. Collection Problems

One of the most difficult functions, and of course one of the most important, of an education credit institution is the collection of interest and loan repayments. Collection is a continuing responsibility that requires (1) creation of a climate of acceptance of the idea that student loans must be repaid and must be repaid on time, (2) an effective administrative apparatus, (3) imaginative methods of persuasion or enforcement of repayments, and (4) sufficient flexibility to permit rescheduling of debts.

In some cultural situations the acceptance of loan obligations will be affected by attitudes regarding obligations to the government and the right to a free education. Such attitudes should be realistically assessed in projecting collection rates. It may also be a mistake not to use a bank or other recognized financial institution for disbursement and collection of loans, because borrowers would be less likely to be delinquent or default on a bank loan. (In Mexico, Jamaica and Trinidad and Tobago entire student loan programs are administered by banks.)

ICETEX of Colombia, which began in the 1950's with a program of loans for graduate study abroad, has had a sufficient span of experience to demonstrate that it can achieve a long-term collection rate up to 90 percent. Loan policies and methods of collection have had to be adjusted and improved since the early years when repayments were on a nearly voluntary basis. When ICETEX took over the entire government program of credit

for in-country post-secondary study, the borrower was not required to produce a guarantor for his loan, as the government was to be the guarantor for the portfolio as a whole. After two years the system was changed to require a co-signer to the loan and counseling as to the repayment requirement. Late payment problems still involve 10 percent of borrowers for study abroad and 40 percent of those in-country.

In Honduras the collection experience of Educredito has been good during its first five years of operation, and it has found that lower-income students have the better repayment records. However, Educredito has been calculating the percentage of delinquencies (or late payments) as a proportion of the total outstanding portfolio instead of as a proportion of the amounts due and overdue as of a given date. The delinquencies of 60-90 days are reported as 0.99 percent of the portfolio as of December 31, 1972, and 1.13 percent as of September 30, 1973. But since the total portfolio almost doubled during that period, the rate of delinquency on amounts actually due for repayment must be increasing more significantly.

The Fundacion de Credito Educative (FCE) of the Dominican Republic provides an example of an institution that has been faced with severe collection problems. FCE took over the portfolio of a predecessor organization, sponrosed by the government, which had a very poor record of collection and had not succeeded in persuading recipients of credit that loans were indeed expected to be paid back. FCE believes that it has created some change in attitude. Borrowers on the whole understand the concept of an education loan, and the majority of them are making payments, though not necessarily on schedule. Collection of payments due, however, remains a pressing current problem for FCE.

INCE of Argentina has not given figures for delinquencies in repayments but has reported that collection presents a continuing problem. In Argentina, the parent of the borrower signs his note as acknowledgement of the debt but does not actually guarantee repayment.

It seems to be a common experience for education credit institutions to find that the first year or two of the amortization period is the most difficult in terms of collection. Although the credit institutions recognize that the borrower may not have been working for very long, or

may not have found employment, and will have other expenses associated with the early part of the amortization period, they generally believe that their present systems permit adequate grace periods and repayment periods and sufficient flexibility in repayment schedules. Supervision, negotiation, counseling, persuasion and enforcing of penalties for late payment are required. All this requires organization and large amounts of staff time.

Using data from the Dominican Republic, the Inter-American Development Bank is developing a model for the study of student loan funds. The model will be used to test assumptions regarding ability to repay a student loan using data on earnings in the professions for which credit is available, number of years since graduation and family status. If analysis shows that graduates in certain fields, such as civil engineering, have a good capacity for repayment, or that graduates in nursing or sociology are unable to meet the terms of their contracts, education credit institutions may have to modify their policies, according to the needs and priorities of the country, in order to subsidize further certain fields of study.

Comparisons between countries and institutions should be made with care because the methods of defining or reporting delinquency vary. An expression of the "number of months worth of delinquencies", for example, may obscure the fact that most borrowers are making current payments but some have missed a few payments in the first years of amortization. In some countries the normal practice is to pay debts within 30 days whereas in others 60 or 90 days may be quite acceptable. Thus, a statement of 60-day delinquency may be more significant in one country than in another. The fact is, however, that education credit is offered at subsidized interest rates, and in any country the lowest cost debt is usually the last one paid. An education credit institution must develop a systematic means to collect delinquent payments, to enforce penalties for late payments, to stop disbursements to students not maintaining the required academic level, and to make immediate collection of full amounts due from students who drop out or fail to return to their country. Furthermore, continuing rescheduling of accounts will affect both short- and long-term availabilities of capital and regular revision of cash flow projections will be required.

5. Covering for Bad Debts

Although it is generally recognized that it would be unrealistic to expect 100 percent success in collection of student loan obligations, some institutions have failed, at least in their early years, to budget for losses due to bad debts or to include them in cash flow projections. ICETEX of Colombia, the institution with the longest experience in student lending, reports an average five percent annual loss for the period 1953 to 1968. (For policy reasons, ICETEX does not write off any bad debts until five years after they were due.) Considering the length of experience, history of good management, and breadth of program of ICETEX, this example illustrates probably the lowest rate of loss that can be expected. A rate of 10 percent might not be unreasonable for any institution.

Various methods of covering the costs of delinquencies and defaults have been used:

In its in-country program ICETEX collects two or three percent on each loan for a guaranty fund. In addition, in order to accommodate differing capacities for repayment, ICETEX has designed a sliding scale of interest rates and amortization periods. A student signs up for an amortization plan at the time the loan is granted: under Plan I, the shortest, he would repay the debt in one year at six percent interest; under Plan VIII, the longest, he would be permitted a maximum of eight years for repayment and the interest would be 16 percent, which is close to commercial rates.

FCE of the Dominican Republic, which was without a reserve for bad debts from 1967 to 1973, just created a fund with an initial reserve of $100,000. This fund will be increased by regular annual contributions from the operating budget.

More than half the Latin American institutions require their recipients to participate in life insurance programs -- these programs will cover those debts that are uncollectable because of death or disability.

Educredito of Honduras has required loan recipients to participate in a life insurance plan that is very costly for the student. A new system of self-insurance now being implemented will not only provide the insurance coverage at less cost but will permit Educredito to maintain a general reserve for bad debts.

F. Administration

1. Need for Efficient Organization with Capacity for Undertaking Increasing Responsibilities

The effectiveness or weakness of an education credit institution is very much dependent on its organizational strength. Whether it be an arm of a government ministry, an autonomous agency attached to a ministry or other paragovernmental body, or a strictly private institution, it must have strong executive leadership, able staff and efficient operation. A weakness in some of the organizations is an over-reliance on one officer for all decision making and responsibility. When the leader is not present, all substantive activity ceases until his return.

A newly created education credit institution cannot perform instantly even its basic functions. Even well-established institutions are continually improving their organization and their capacity to undertake broader functions and expanded programs.

The government institution of Argentina, INCE, was not prepared to make its first student loan until two years after its establishment.

In Ecuador, IECE was established by law in April 1971. The Executive Director was appointed in November 1972, and six months were spent in completing a Board of Directors and filling out a staff. The first student loan was made in March 1973, and the first agreements to administer scholarships are not expected to be completed until 1974.

Educredito of Honduras was established in 1968 under the sponsorship of Centro Cooperativo Tecnico Industrial (CCTI) with a part-time executive secretary but became an independent private agency with full-time staff in 1972. It is now establishing a new department to handle job counseling and placement for students who have completed their programs. It also plans expansion of the program to include administration of external donor scholarships.

ICETEX of Colombia was founded in 1950 primarily to provide credit to deserving students who had the opportunity to study abroad. The program has steadily broadened, to include loans for in-country study in 1955, administration of foreign scholarships in 1958, responsibility for human resources study in 1962, an

employment service in 1967, use of long-term, low-interest loans from commercial banks in 1968, administration of all secondary level scholarships in 1971, and administration of A.I.D. participant training in 1972.

The example of the PEBE program in Brazil shows that much of the processing of applications can be turned over to participating organizations with a net result of a tremendous savings in overhead expenses. By clearly defining eligibility requirements and establishing quotas much of the screening of applications can be farmed out, and the approval of individual loans handled on a mechanical basis. Special situations and policy guidance, nevertheless, must still be handled by the management and board of the credit granting institution.

2. Continuing Need for Technical Assistance

The education credit institutions benefit from sharing their experience with each other and from outside technical advice, organizational assistance, and research. In some instances an institution might well have foundered without such assistance. ICETEX, the well-respected and oldest established institution, has been a source of inspiration and advice throughout Latin America, opening its doors to visiting delegations and sending members of the board of directors and staff to offer assistance in other countries.

Other institutions have also shared their experience and ideas with each other, e.g., Argentina with Ecuador and Honduras with Guatemala. The Asociacion Panamericana de Institutiones de Credito Educativo (APICE), with its membership of national credit institutions and associated educational institutions, holds technical seminars on various topics of interest to its members and meets in a biannual congress of members and observers. The external donors, A.I.D. and Inter-American Development Bank, have been agents for and sources of technical assistance providing (or requiring as conditions precedent to loans) on-the-scene advice, assistance in developing or revising accounting systems, feasibility studies, manpower studies, and grants for expansion of administrative capacity.

A.I.D. has assisted FCE of Dominican Republic in developing administrative and accounting procedures to keep track of the principal and interest owed to each student account, in improving collection efforts, in calculating the reserves needed to fund continuing students, in conducting a study of the demand for and impact of the program, and in other surveys and projections.

In Honduras the A.I.D. loan of $2 million to Educredito includes up to $50,000 for technical assistance and training of personnel. Through 1973 these funds had been budgeted or used for training of personnel and visits to other credit institutions, a survey of drop-out rates, improvement of accounting systems, devising a self-insurance system and setting up a new administrative unit for study of manpower demand and placement of graduates.

Even ICETEX, with its experience and administrative capacity, continues to improve its systems. To meet the problem of inadequate control over data on student recipients and the status of their accounts, for example, a new data processing system has been installed, and technical assistance has been made available through IBRD, Ford Foundation and A.I.D.

3. Administration of Student Loan Disbursement and Collection

In some countries the student loan fund is administered completely by a bank under the authority of the government. Such is the case for the Bank of Jamaica, the National Commercial Bank of Trinidad and Tobago and the Central Bank of Mexico. A student loan office of the bank selects recipients, counsels them, and disburses and collects loans.

For disbursement to students various existing fiduciaries are used in other countries. In Argentina the postal savings system plays a role. In Colombia, ICETEX deposits funds each semester in the name of a recipient in a savings account in a local branch of a bank or a local office of Caja Agraria. In this way the student gets to earn some interest on the money until such time as he needs to draw upon the account. The banks benefit from the use of the money deposited and in establishing relationships with potential future clients. In the Dominican Republic disbursing banks receive a single check each month with a list of students eligible to draw upon it.

For collection, however, in spite of the administrative problems involved, most of the institutions have rejected the use of banks as intermediaries. While recognizing that there might well be a more positive attitude toward repayment if a bank were involved, they have decided that collection through a bank would be too costly and that they would prefer to be directly in touch with their constituency of borrowers and guarantors. In Honduras, however, branches of Banco Atlantida (Chase Manhattan) are used to make collections outside the capital city area.

The experience of collection problems, in the United States as well as in Latin America, suggests that the most effective collection agents must be used -- and in many countries these would be the banks.

PEBE of Brazil provides an interesting example of an institution sharply curtailing administrative expenses through the use of a computer and the banking system. For a fee of one-half of one percent the Banco do Brasil, which has branches nearly everywhere, handles the disbursement of funds. PEBE sends a computer print-out in the name of each union member whose dependent is to receive a grant to both the branch and to the union. Both must verify to PEBE the accurate disbursement of the funds. Any problems the students may have can be handled locally by the union and the use of the bank provides a mechanism to insure against any misallocation of funds. The union has the responsibility to verify with the local educational institution that the student is enrolled at the beginning of the year. It must also check with each student to see that his family has indeed received the grant and it is being applied toward his education. Subsequent reports on the student are sent by the educational institution to PEBE, and if any irregularities have occurred the particular union is penalized by having its quota of scholarships reduced. Although the administrative mechanisms are quite extensive, the costs of follow-up at the local level are not borne by PEBE, which is able to hold its administrative costs to only two percent of its budget.

4. Follow-up

In all the institutions for which information is available, the system for follow-up on the participation of graduates in the labor force of the country is weak or non-existent. The only follow-up takes place during the amortization period of the student loan when the accounting and collection departments need to know the location of the graduate and frequently must negotiate his repayment schedule in terms of his current earnings. The need for further follow-up is recognized, but the methods have not yet been developed.

ICETEX of Colombia, recognizing its lack of data on the results of the program in terms of utilization of trained human resources and economic contribution to the society, has begun to analyze what has happened to the UNESCO-sponsored graduates of their program.

FCE of Dominican Republic has contracted for two studies that may offer some insight into the effects of education credit: a social impact study and a study of income levels to be expected for graduates. Preliminary results of the social impact study show that graduates have some difficulty finding employment. For some of them it is possibly because they have been trained in a new field, one for which there is not a developed market. Of some 1,400 recipients surveyed, 39 percent indicated they had had difficulty finding work. Five percent found work

through their alma mater, only three percent through FCE, and the rest through their own efforts, family, friends, newspaper ads, etc. FCE recognized that expanded placement services and a campaign to educate potential employers are required. Continuing follow-up studies and analysis of manpower needs might lead to changes in priorities among fields of study.

Associations of ex-beneficiaries might play a role in continuing follow-up. Such associations have been formed recently in Colombia, Honduras, Peru, and possibly in other countries. However, A.I.D.'s general lack of success in forming organizations of alumni from participant training programs does not augur for significant results.

G. Disbursement of A.I.D. Loans

There have been no major problems in disbursing the A.I.D. loans for education credit in Colombia, the Dominican Republic or Honduras. The problem is, rather, that credit institutions must secure continuing sources of capital to maintain student lending levels once the A.I.D. loans are disbursed.

In Colombia portions of Education Sector Loans III, IV, and V were allocated for ICETEX programs.

In the Dominican Republic both A.I.D. loans have moved as planned, the second A.I.D. loan is expected to be fully disbursed in 1974.

In Honduras, Educredito was first supported by two local currency loans totalling $500,000 made by the government from two-step funds in 1969 and 1971. An A.I.D. project loan of $2 million signed in 1971 was expected to be disbursed by 1976. In fact, Educredito has raised the required share of its own funds at a faster rate than anticipated, and the A.I.D. loan is likely to be disbursed in three and one-half instead of five years.

Education Credit in Brazil

I. Programs of the Ministry of Education and Culture (MEC)

A. CAPES (Cordenacao do Aperfeicoamento de Pessoal de Nivel Superior)

1. A specialized agency of MEC founded in 1952 and restructered in 1964 to broaden its jurisdiction over support for higher education

   Presiding officer is the Minister of Education, policy is set by a council of 9 members.

   Annual program (of $4.2 million in 1972) applied 40% to provide equipment or personnel to university centers of advanced training; 59% for scholarships for students at these centers and abroad; 19% for administration.

2. Students receive scholarships (bolsas) for post-graduate study only, in fields determined as eligible each year by the council; study abroad accounted for about 25% of the students (late 1960's) who were in fields for which facilities not available in the country.

3. CAPES administers the scholarship programs of some other countries and international organizations for Brazilian students.

B. Ministry-administered scholarship programs

1. An annual program of several $100,000 at university and secondary levels; thru federal and state budgets. Until 1972 the responsibility of choosing the recipients rested with the states; but now a national centralized screening system is run by MEC with the result that complaints about favoritism have been eliminated.

2. Bolsas de trabalho.

   An employer (business or educational) covers the cost of a bolsa for potential future employees, who work parttime during their study period.

   The scheme has been tried successfully but is growing slowly; employers are reluctant to start employing the less qualified candidates at the beginning of the study program.

C. Projected student loan programs.

1. To start some time in the future at postgraduate and technical secondary levels; CAPES to administer the higher level, and MEC a pilot program at the secondary level.

2. Under the present CAPES plan, loans would be made only for accepted fields of study; to qualify a candidate would require 50 "points" for financial need and 50 for academic achievement; to anticipate an inflation factor, the loans would be made in units of minimumssalary and repaid in similar units; 12 month grace period with twice the study period to repay.

3. At university level MEC support is in form of subsidy to expanding institutions; tuition is free. A student loan program at this level is not likely until after adoption of a policy to charge tutition (as called for in the constitution).

II. State programs for full utilization of secondary private school places.

A. Secondary level places that are not filled are purchased by the state (at less than full tuition cost) and filled with candidates who could not otherwise afford the school or find a place in at state-supported school.

B. The private administration of the school is retained, but state teachers are placed in the school in proportion to the number of places purchased.

C. Results include: the saving of underattended private schools from bankrupcy; the fuller use of available facilities; more rapid introduction of reformed curricula at secondary level; opportunities for individual students.

III. PEBE (Programa Especial de Bolsas de Estudo)

A. A semi-independent agency within the Ministry of Labor and Social Security. It was founded and began operations in 1966 for the purpose of providing fellowships to the dependents of labor union members.

Policy is determined by an Administrative Council composed of two representatives of the Ministry of Labor (one of these is always President of PEBE), one representative from the Ministry of Education and tworepresentatives from member unions.

B. To date PEBE has provided 900,000 scholarships in the amount of approximately 270 million cruzeiros. Resource base is as follows:

60.0 - Counterpart from USAID Program loans (1966-1969)

45.0 - (SESI) Social Security Admin.*
(SESC) Commerce Social Services (1966-70)

53.0 - Unemployment Fund and Labor Union Dues (1968-73)*

4.0 - Counterpart from labor unions (1970-73)

0.5 - Donations by sponsor union (1971-73)

104.0 - GOB budget (1970-73)

2.0 - Central Bank (1972)

TOTAL $268.0 million cruzeiros

C. Program

1. Largest program is direct scholarships to union dependents for grades 5 - 8 and all 4 grades of high school. Basic level of a scholarship is currently 1,200 cruzeiros ($200 U.S.).

The program has grown rapidly but by November '73 it appeared to be stabilizing unless a new or increased source of funding were to be found in 1974.

Year	Fellowships	Value in Million Crs.
1966	21,000	7
1967	87,000	31
1968	85,000	23
1969	101,000	29
1970	120,000	35
1971	130,000	37
1972	180,000	54
1973	205,000	59
1974*(Est.)	205,000	59

Each of the participating 3,000 unions is given a scholarship quota. Scholarships are based on financial need and attendance of the parent at union meetings, but no more than one scholarship

* Represent GOB budget surpluses

is given to the family of a union member. Union quotas are determined by size of union and part of the country. Extra quotas are given to rural unions. The regional breakdown of 1973 fellowships was as follows:

North	4,500
Northeast	31,300
Southeast	108,100
South	57,300
Central.West	3,700
	204,900

2. The other major activity of PEBE is to provide loans for gifted students in technical areas determined to be in short supply by the GOB. These loans are in the amount of 2,700 cruzeiros annually ($450 U.S.). Many candidates are selected on the basis of their previous record at primary level under the program. However, the eligibility is widened to consider gifted students who for one reason or another did not receive a PEBE fellowship in grades 5-8. The students in the priority areas are guaranteed jobs at suitable salaries upon graduation.

This program has only been in operation for 3 years; in 1973 approximately 2,500 loans for a total of 3 million cruzeiros were granted. Since the program is so new there has been no significant repayment experience.

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TABLE I

LATIN AMERICAN EDUCATION CREDIT INSTITUTIONS
($ millions)

Acronym	Full Name	Country	Year Established	Year of First Loan	Type of Institution	External Financing AID Grants	External Financing AID Loans	External Financing IDB	1972 Total Budget
INCE	Instituto Nacional de Credito Educativo para la Igualdad de Oportunidades	Argentina	1968	1970	Public, under Ministry of Education and Culture	-	-	-	0.4
CAPES	Cordenacao do Aperfeicoamento de Pessoal de Nivel Superior	Brazil	1952	(1974)	Public, under Ministry of Education and Culture	-	-	-	n.a.
PEBE	Programa Especial de Bolsas de Estudo	Brazil	1966	1966	Public, under Ministry of Labor and Social Security	-	(11.9)[1]	-	7.8
JNAEB	Junta Nacional de Auxilio Escolar y Becas	Chile	1964	1965	Public	-	-	-	n.a.
ICETEX	Instituto Colombiano de Credito Educativo y Estudios Tecnicos en el Exterior	Colombia	1950	1953	Public, under Ministry of Education	0.2	4.7	-	7.2
None	Anglo-Costa Rican Bank	Costa Rica	1965	1965	State Bank	-	-	-	n.a.
IECE	Instituto Ecuatoriano de Credito Educativo	Ecuador	1971	1973	Public, under Ministry of Education	*	-	-	(1973) 0.6
FCE	Fundacion de Credito Educativo	Dominican Republic	1967	1967	Private	(+0.9)[2] 0.5	3.2	-	1.5
Educredito		Honduras	1968	1968	Private	*	2.0	-	1.0
None	Student Loan Bureau, Bank of Jamaica	Jamaica	1970	1970	Public, under Ministry of Finance & Planning	-	-	4.7	4.4
None	Banco de Mexico	Mexico	1965	1966	Public	-	-	-	0.8

(cont'd)

TABLE I - page 2

Acronym	Full Name	Country	Year Established	Year of First Loan	Type of Institution	External Financing AID Grants	External Financing AID Loans	External Financing IDB	1972 Total Budget
INDE	Instituto Nicaraguense de Desarrollo: Educredito	Nicaragua	1964	1965	Private	0.3	-	-	0.1
IFARHU	Instituto para la Formacion y Aprovechamiento de los Recursos Humanos	Panama	1965	1965	Public, under Ministry of Education	-	-	2.1	6.3
INABEC	Instituto Nacional de Becas y Credito Educativo	Peru	1973	(1974)	Public, under Ministry of Education	-	-	-	-
IPFE	Instituto Peruano de Fomento Educativo	Peru	1962	1962	Private	0.4	-	-	0.1
None	Student Revolving Loan Fund	Trinidad & Tobago	1972	1973	Public, under Ministry of Planning and Development	-	-	3.7	n.a.
Educredito	Asociacion Civil de Credito Educativo	Venezuela	1965	1965	Private	-	-	-	n.a.

n.a. - not available
* less than $100,000
1/ from counterpart generated by A.I.D. program loans
2/ Government grants from funds generated by PL 480

TABLE II

LOAN TERMS OF LATIN AMERICAN EDUCATION CREDIT INSTITUTIONS

Institution	Country	Maximum Loan ($ US) Per Year Foreign	Per Year Domestic	No. of Years Foreign	No. of Years Domestic	Total Foreign	Total Domestic	Interest % 1/	Maximum Grace Period (yrs)	Maximum Length	Repayment Penalty for Late Payment (%)	Subscription to Insurance or Reserve Required
INCE	Argentina	-	400	-	6	-	-	4	1	2X	none	no
JNAEB	Chile	-	% minimum wage	-	n.a.	-	-	0	1	15Y; 3X	n.a.	n.a.
ICETEX	Colombia	varies	varies	as required		varies	3,000	6-16	1	10Y	12	2-3%
Anglo-Costa Rican Bank	Costa Rica	3,775	n.a.	-	-	n.a.	n.a.	set by C. Bank	1-5	8Y	6	yes
FCE	Dominican Republic	4,000	1,000*	2	5	-	5,000*	6	1/2	3X 2/	8	yes
IECE	Ecuador	-	-	2	2	-	-	5	1/2	2X	n.a.	n.a.
Educredito	Honduras	-	-	3	5	10,000	10,000	6	1/4	6Y	6	yes
Bank of Jamaica	Jamaica	4,320	1,200	3	2	8,640	4,000	6	1	10Y	none	yes
Banco de Mexico	Mexico	-	2,000	3	3	6,400	4,400	2	1/2	7Y	none	no
INDE: Educredito	Nicaragua	1,920	750	2	2	3,840	1,500	6	1	2X	n.a.	yes
IFARHU	Panama	-	2,000	-	-	8,000	4,000	5	1	2X	5	yes
IPFE	Peru	1,500	1,500	2	2	3,000	3,000	6	1/2	2X	3	no
Student Revolving Loan Fund	Trinidad & Tobago	-	-	2	5	n.a.	n.a.	5	1	15Y 3/	n.a.	yes
Educredito	Venezuela	5,000	1,333	2+	2+	-	-	3	1/2	2X	8	yes

*average
n.a. - information not available
Y = years
X = length of period financed

1/ Interest during amortization period; during study and grace periods interest rate may be lower.
2/ Minimum annual payment of 10 percent of earnings.
3/ Maximum annual payment of 1/6 of earnings.

TABLE III

Activities of Latin American Education Credit Institutions

		ARGENTINA INCE	BRAZIL CAPES	BRAZIL FEBE	CHILE JNAEB	ANGLO-COSTA RICAN BANK	COLOMBIA ICETEX	DOM. REP. FCE	ECUADOR IBCE	HONDURAS EDUCREDITO	JAMAICA	BANCO de MEXICO	NICARAGUA INDE	PANAMA IFARHU	PERU INABEC	PERU IPFE	TRIN.& TOB.	VENEZUELA EDUCREDITO
Loans to Students																		
Domestic Study:	Gen'l 2^{0}	X																
	Techn. 2^{0}	X		X			19		(future)					X				
	Techn.						X	X	(future)	X	X	X	X	X		X		X
	Teach. Tr.					/	X				X							
	University	X			X	X	X	X	X	X	X		X	X		X	X	X
	Post Grad.	X	(future)			X						X	X	X		X		
Foreign Study:	Techn.	X				X		X	X	X		X	X	X		X		
	University					X			X	X			X	X		X	X	
	Post Grad.	X	(future)			X	X	X	X		X	X	X	X	X	X	X	X
Administration of programs of	: External Donors	X	X				X	X	(future)	(future)					X			
	Government						X		X	X				X	X			
	Inst. & Private	X			X		X	X	X					X	X			X
Scholarships	: General 2^{0}	X		X[1/]			X					X						
	Technical 2^{0}	X		X			X											
	Technical																	
	Post Grad.		X															
Monetary Exchange Services							X								X			
International Travel Service and Discount							X											
Selection of Recipients		X	X	by member unions	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Academic Guidance							X	X		X	X			X				
Placement Service				X			X											
Manpower Analysis							X	X	X		X			X		X		
Placement of Students from Abroad		X					X											

[1/] Also grades 5-8 of primary level and adult education at primary and secondary levels

Table IV
Fields of Study Financed by Latin American Credit Institutions

Country	Year	Agriculture		Architecture		Business		Education		Engineering		Fine Arts		Humanities		Law		Medicine		Nat. Sci.		Soc. Sci.		Other	
		Percent		Percent		Percent		Percent		Percent		Percent		Percent		Percent		Percent		Percent		Percent		Percent	
		D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.	D.	F.
Colombia	1972	11	11					11	9	29	17	4[1]	5[1]	1	4	7	3	18	10	6	19	15	25	1	
	1971	14	4					9	8	30	21	1[1]	4[1]	2	8	7	3	15	4	11	16	12	26		5
	1970	14	5	3	8	12	20	5	12	28	15	1		2	4	8	4	13	10	10	13	4	9	1	2
	1969	12	5	4	3	11	20	5	12	28	18	1	2	2	2	9	1	13	8	12	15	3	15		
Nicaragua	1972		14			21				14	14			11	10	8		29	19	10	5	1		6	38
	1971	14	11	1		20				14	5			2	5	13		28	16	6		3			63
	1970	6	29			33		11	12	9	12					9		28	24	3		1			24
	1969	4	21	1		31		13		12	29					13		21	14	5		1	7		29
Peru	1972		4		2	89	4	4	7		27				9			4	4	2	13	2	22		7
	1971		9		2	96	10	3	15		30									2	9		21		4
	1970		15		11	100	13				43		2		9						4		4		
	1969		7		7	100	20				40				13								13		
Panama	1972					4	6			7	16			54	7	3	1	8	26	3	5	8	13	13	26
	1971		3			1	6			4	19			74	5	1	1	9	22	1	4	4	16	6	24
	1969		4	7	1	10	28		4	10	22		1	7	4	3	1	57	28	3	4	3	2		
Dom. Rep. (cum. through June)	1972		14				19		10		25		1				1		14		2		14		
	1970	47	25		1		13		8		11		1		10				20		5		7	53[2]	
	1969	22	15			29	5	12	5	17	27				6			8	26	2	5	12	13		
Ecuador																									
July-Oct.	1973	1		2		16[3]				13		4		3		4		6		49		2		1	
Honduras																									
Cum.-'68-Sept'73		12				11		13		12								20		8		13		11	
Sept '72-Sept'73		8				8		21		8								19		11		10		15	

D - Domestic:: F - Foreign
Totals may not add due to rounding

1/ Includes architecture
2/ Includes industrial arts
3/ Includes economics

LA/DR:LSeville:1/74

TABLE V a

COSTS FOR A PROGRAM OF 100 NEW STUDENTS PER YEAR*
($1,000)

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Class 1:	Year 1	-100	-	2												
	Year 2		-98 1/	-	2.5	2.5										
	Year 3			-96	-	2.7	2.7	2.7								
	Year 4				-94	-	2.9	2.9	2.9	2.9						
	Year 5					-92	-	3.2	3.2	3.2	3.2	3.2				
	Year 6						-90	-	141.9	141.9	141.9	141.9	141.9	141.9	141.9	141.9
Class 1 - net outflow		-100	-98	-94	-91	-87	-84	9	148	148	145	145	142	142	-	-
Class 2			-100	-98	-94	-91	-87	-84	9	148	148	145	145	142	142	-
Class 3				-100	-98	-94	-91	-87	-84	9	148	148	145	145	142	142
Class 4					-100	-98	-94	-91	-87	-84	9	148	148	145	142	142
Class 5						-100	-98	-94	-91	-87	-84	9	148	148	145	145
Class 6							-100	-98	-94	-91	-87	-84	9	148	148	145
Class 7								-100	-98	-94	-91	-87	-84	9	148	148
Class 8									-100	-98	-94	-91	-87	-84	9	148
Class 9										-100	-98	-94	-91	-87	-84	9
Class 10											-100	-98	-94	-91	-87	-84
Class 11												-100	-98	-94	-91	-87
Class 12													-100	-98	-94	-91
Class 13														-100	-98	-94
Class 14															-100	-98
Class 15																-100
TOTAL for Students		-100	-198	-292	-383	-470	-554	-545	-397	-249	-104	41	183	325	325	325
Administration		-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20	-20
Losses (2%)		-	-	-	-	-	-	-	-3	-6	-8	-12	-15	-18	-18	-18
Debt Service 2/		-2	-7	-13	-21	-31	-42	-54	-62	-68	-70	-179	-179	-179	-179	-179
Cumulative TOTAL		-122	-347	-672	-1096	-1617	-2233	-2852	-3334	-3677	-3879	-4049	-4160	-3952	-3834	-3726

1/ Assumes a dropout rate of 2 percent per year.
2/ At A.I.D. loan terms(10 years at 2 percent, 30 years amortization at 3 percent)
* Assumes each student borrows $1,000/year for six years; interest is 8 percent; one year of grace; and repayment period equal to period of borrowing.

Source: Daniel C. Rogers, Trip Report, Guatemala, February 1973.

ECUADOR

IECE CASH FLOW PROJECTIONS (IN THOUSANDS DOLLARS)

Without AID Loan

	Source of funds	1973	74	75	76	77
1/	GOE contributions	566	607	766	921	1042
2/	Loan repayments and interest	-	-	10	45	63
3/	Other	5	15	98	22	30
	TOTAL:	571	622	874	988	1135

	Uses of funds	1973	74	75	76	77
4/	Student Loans					
	Secondary	-	-	-	-	250
	Technical	135	265	400	450	405
	College/Univ.	290	257	334	418	360
5/	Administrative Expenses	103	81	120	120	120
6/	Technical Assistance	3	25	20	-	-
	TOTAL	571	622	874	988	1135

1/ Based upon GOE's estimates annual oil production with $.008 per barrel allocated to IECE.
2/ Based upon loan repayment within double term of study at 5% interest.
3/ Includes estimates contributions from private sector, municipality and other special programs.
4/ Repayable in double the time upon completion of studies.
5/ Dip in 74 is due high start-up costs in '73.
6/ Includes specialized training for IECE technical personnel.

Source: USAID/Ecuador, October 1973.

TABLE V c

1970 PROJECTION OF SOURCES OF FINANCING FOR FCE OF DOMINICAN REPUBLIC
(the more conservative of two alternative estimates)

Sources	1970	1971	1972	1973	1974	1975	1976	1977	1978
Government transfers and grants	750	400	400	400	400	400	400	400	400
A.I.D.	498	682	647	371	-	-	-	-	-
Private Sources	193	248	258	252	260	260	260	260	260
Collections on loans[1/]									
Interest[2/]	140	211	276	338	386	415	444	472	500
Principal[3/]	60	80	100	120	140	160	180	200	220
TOTAL	1,641	1,621	1,481	1,481	1,186	1,235	1,284	1,332	1,380

1/ Assumes 10 percent rate of bad debt.
2/ At 5 percent.
3/ To be repaid in 10 years, beginning in third year; assuming no increase in annual rate of student lending.

Source: Adapted from AID-DLC/P-895, Annex II.