



Student Finance

**LEARNING FROM GLOBAL BEST PRACTICE AND
FINANCIAL INNOVATIONS**

IN COOPERATION WITH:





PHOTO: © DUOC UC

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IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on leveraging the power of the private sector to tackle the world's most pressing development challenges. Working with private enterprises in more than 100 countries, IFC uses its capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity.

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Parthenon, which combined with Ernst & Young LLP in August of 2014, has a dedicated Education Practice – the first of its kind across management consulting firms – with the explicit mission and vision to be the leading strategy advisor to the global education industry. Parthenon has deep experience and a track record of consistent success in working closely with universities, colleges, states, districts, and leading educational reform and service organizations across the globe. For more information visit www.parthenon.ey.com.

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Contents

LEARNING FROM GLOBAL BEST PRACTICE AND FINANCIAL INNOVATIONS

INTRODUCTION	4
CASE STUDIES	9
Eduloan	10
Ideal Invest	12
Duoc UC	14
LEADING-EDGE INNOVATIONS	17
Social Impact Bonds	18
Human Capital Financing	19
Peer-to-peer Lending	20
Crowdfunding	21
LESSONS FROM EXPERIENCE	23
Lesson 1: Student lending is still a “push” product in many developing countries	24
Lesson 2: The central role of TEIs in student lending focuses on design and implementation	26
Lesson 3: Sustainability of the lending product is driven by graduate employability	28
Lesson 4: The lending product should be easy to understand and tailored to student requirements	30
Lesson 5: Specialized NBFIs may be more effective at offering student finance than traditional banks	32
CONCLUSION	33

Introduction

Across emerging markets, the middle class is growing and with it, demand for higher education and skills. Access to tertiary education is strongly correlated to increases in GDP and can be transformative for individual life chances and national economic growth.

Demand is also fueled by other factors: in many emerging economies a “demographic dividend” of young people—the product of significant reductions in child and infant mortality rates—is poised to enter education and work. And, according to the 2014 Millennium Development Goals report, nearly 90% of children in developing regions are on track to complete primary education. The shift from agricultural to knowledge-based economies also plays a significant role in creating demand for higher learning.

These factors, together with greater aspirations fueled by globalized media, have spurred widespread growth in demand for tertiary education.

However, in many countries public tertiary education institutions (TEIs) have not been able to keep pace with the rapid growth of demand for education, leading to a shortage of tertiary education seats. Demand for tertiary education is supporting the development of a buoyant private education sector as changes to Government regulation enable private institutions to expand and complement the often overburdened public systems. The entry of private TEIs has enabled many

more students to access education, driven innovation in education systems, and helped fill urgent labor market gaps.

Student Finance Can Support Access to Education but is Highly Variable Across Markets

Unfortunately, private tertiary education is still unaffordable for many families. In light of capacity issues in public systems and the urgent need to widen education access beyond the elite, new approaches to financing education are a necessity. There are numerous approaches that Governments are taking, including voucher systems for students and financial incentives to universities to provide scholarships. One of the mechanisms gaining traction in emerging economies is the development of dedicated student lending instruments to support students seeking greater education opportunities.

In some emerging markets such as those in Latin America, student finance is well-established, providing students and their families with a variety of options. Conversely, the concept of fee-paying education, to

say nothing of taking loans to finance education, is still nascent in many countries.

Meanwhile, student lending in many developed markets is in crisis, requiring new approaches to continue providing responsible student loans. In the United States, student loan debt has hit \$1.2 trillion with the average 2014 graduate owing \$33,000. In the United Kingdom, higher education was free until 1998, but today costs up to \$14,000 annually. The financial mechanisms providing student lending that have been implemented in large developed economies are clearly not providing models that emerging economies should emulate. New, more innovative solutions are required.

Student lending innovations can help point the way for financial institutions and impact investors interested in supporting access to tertiary education in emerging markets, as well as illustrating new approaches for how student lending in developed markets might move beyond its current crisis point. With sustainable new models emerging that provide fair terms to students and favorable returns to investors, student finance has the potential to be a growing terrain for investors.

This paper highlights innovative student financing models, as well as key lessons for donors, lenders, and TEIs, by drawing on the findings of a 2013 IFC study undertaken with support from Parthenon, a strategy consulting firm working in the education sector.

Learning from Global Student Lending Best Practice and Financial Innovation

The purpose of the study was to identify key success factors in private sector student lending in order to support IFC in understanding, and potentially making investments, in student lending across a range of



Facilitating Access to Finance

A variety of factors contribute to shaping student lending landscapes:

- In many emerging markets, mechanisms such as credit bureaus are nascent or nonexistent, and lenders struggle to assess borrower credit-worthiness;
- Student finance requires a culture open to loan-taking; for example, the slow growth of student finance in the Middle East may be due in part to limited availability of sharia compliant student lending products;
- Public sector student loan programs dominate some markets, which may constrain innovation or sustainability in student lending systems. Moreover, some government loan schemes are set up as effective grants for education;
- Variability in TEI sectors influences consumer demand for loans: if there is insufficient supply of tertiary seats and those seats that exist are filled easily, institutions will have no imperative to enroll less economically advantaged students

emerging markets. The study examined 70 student lending models globally as well as a range of innovative financial models. Detailed case studies were developed for eight compelling and diverse private sector student lending models.

The study also highlighted a range of innovative financial models including crowdfunding, big box banking, social impact bonds, and other mechanisms. The purpose of this investigation of innovative financial models was to see what leading-edge methods might be at work in other sectors and to see if they might offer inspiration to student lending.

In what follows we showcase three of the models investigated—Eduloan, Ideal Invest, and Duoc UC—to exemplify the study findings. Details of some of the innovative financial models are also set out to illustrate emerging approaches to student lending.

The study revealed important lessons for three key groups:

- Donors, including development banks and foundations
- Lenders, including financial institutions such as banks and Non-Banking Financial Institutions (NBFIs)
- Tertiary Education Institutions (TEIs)

Student Lending Models

Case studies were developed for eight compelling and diverse private sector models:

Ideal Invest

Brazil

A private student loan manager that funds its operations through the securitization of student loans in an asset-backed securities fund, which carries the loans to maturity. Its loan program allows students to pay 65% of the monthly tuition, in 2.5x the length of study. This is made possible because all of Ideal's partner universities agree to subsidize part or all of the interest on the loan.

Professional and Career Development Loans

United Kingdom

A government-sponsored program, focuses on employability-related courses. Loans are offered at reduced interest rates with eligible employability-related courses lasting up to two years. Aims to be a lender of last resort for students who cannot find funding elsewhere.

Sistema de Garantia Mútua

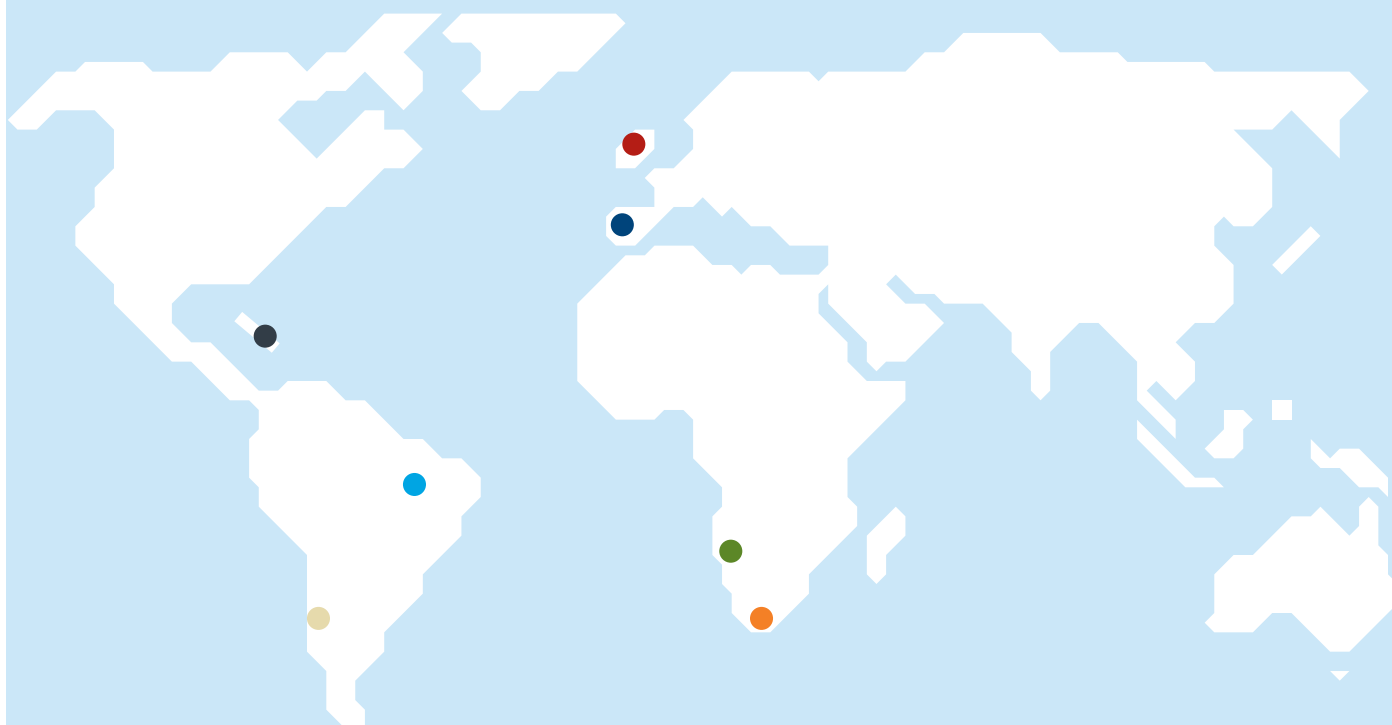
Portugal

An intermediary coordination body between six banks and the Portuguese government, offers competitive student loan packages. The program structure is unique - government guarantees 10% of a total loan portfolio value which is jointly bid on and offered by banks, pooling and therefore decreasing risk. Interest rates for repayment are contingent on academic performance.

Trustco

Namibia

A microfinance institution that offers student loans and is targeted at civil servants, predominantly teachers, who live in rural areas and take classes online. Government support guarantees graduate pay increases, streamlined loan payments, and targeted customer acquisition strategy.



FUNDAPLUB

Brazil

A non-profit education credit program that allows students the option to pay 50% of monthly tuition, with the rest deferred post-graduation. Students repay tuition along with an annual administration rate (similar to an interest rate) of 10%. TEIs bear risk in deferring the tuition fees in order to stimulate enrollment.

FUNDAPEC

Dominican Republic

A non-banking commercial lending institution that provides loans for a range of degrees and qualifications through reinvested capital, short-term financing from banks, and long-term financing from multilateral organizations.

Duoc UC

Chile

A vocational tertiary educational institution that operates its own student loan facility. Most students are from the lowest income quintiles and as many as 70% are the first in their family to access tertiary education.

Eduloan

South Africa

A non-banking financial institution that uses a debenture educational bond sold at market rates to socially responsible investors to generate the capital to fund its loans. The financing model employed by Eduloan offers a return to shareholders based on inter alia low interest rates and low default rates.



Case Studies

THREE MODELS EXEMPLIFYING FINDINGS OF THE STUDY

Eduloan	10
Ideal Invest	12
Duoc UC	14

South Africa: Eduloan

YEAR ESTABLISHED: 1996

PARTNERS: 36 universities, educational bookshops, food outlets, Pick n Pay stores, accommodation companies; Governmental entities (the National Treasury, Human Resource Development Council of South Africa)

OUTREACH: Marketing and Sales team of ~65 people, with active online, campus, and media presence, including on Mxit, Facebook, and Twitter and popular radio and television broadcasts

KEY CUSTOMERS: Primarily targets civil servants (90%) who are upgrading their skills to achieve an increase in pay. Recipients of loans must have full-time employment and the monthly loan repayment must not exceed 25% of the borrower's net income

TOTAL BORROWERS: ~758,000 cumulative

INTEREST RATE: Fixed interest rate of the South African prime rate prime rate + 1%

REPAYMENT TERMS: Varies widely from 6 months to 24 months

AVERAGE LOAN SIZE: \$1,000

BORROWER COUNSELING: Eduloan cannot provide formal or direct financial counseling due to South African regulations. Financial aid officers at partner institutions are trained annually and provide support and guidance to borrowers. The extensive

PHOTO: © EDULOAN



Eduloan branch network and a dedicated call center are responsible for customer support. Additionally, Eduloan also supports and shares information through its website as well as interacts with borrowers and potential new borrowers on social media

Case Studies

Eduloan

Eduloan's Model

Eduloan is a non-banking commercial lending institution generating capital via an educational debenture bond sold to socially responsible investors. To provide a return to investors and make the program sustainable, Eduloan has implemented a financing model that generates a return based on inter alia low interest rates and low default rates. Universities, keen to fill marginal seats in a highly competitive private tertiary education sector, provide marketing support and financial aid counseling.

The program targets low-middle income borrowers who exceed the income to qualify for the state-funded scheme or who cannot afford commercial bank loans. Since inception Eduloan has catered to nearly three quarters of a million borrowers and loaned over \$300 million. Its current growth rate is 12%.

Eduloan's low default rates and consistent growth are linked to its screening processes, wherein it performs a thorough risk assessment of prospective borrowers in collaboration with the credit bureaus using the Empirica credit score system. Eduloan's focused user

base of civil servants allows the institution to secure higher repayment through direct payroll deductions with the National Treasury. Government benefits from the Eduloan program, as it supports civil servants to upskill in priority areas. Eduloan provides loans for ancillary expenses, and to facilitate this it offers an integrated funds management system wherein students receive pre-loaded debit cards they may use for purchases at partner educational bookshops, food outlets, Pick n Pay stores, and accommodation companies. This allows Eduloan to carefully monitor and control student spending activity.

PHOTO: © EDULOAN



Every year, Eduloan enables 40,000-50,000 students to access tertiary education

Brazil:

Ideal Invest

YEAR ESTABLISHED: 2001

PARTNERS: ~200 Tertiary Education Institutions. IFC invested \$7.5 million in equity in 2009

OUTREACH: 40+ sales team plus a call center as well as active on-campus and online marketing with education institution partners

KEY CUSTOMERS: Students in C-tier and D-tier income groups (monthly household earnings of ~\$800 to ~\$2,000), who would not otherwise have access to tertiary education

TOTAL BORROWERS: ~25,000

INTEREST RATE: Maximum of 1.35% monthly with the average ranging from 0% to 17.5% annually

REPAYMENT TERMS: Two and a half times the length of study; typically 8 to 10 years

AVERAGE LOAN SIZE: \$5,000

BORROWER COUNSELING: A student outreach team maintains contact with students via text and email during and after the study period, while a comprehensive website provides immediate support and information



PHOTO: © IDEAL INVEST

Case Studies

Ideal Invest

Ideal Invest's Model

Ideal Invest is a private student loan management company that uses an asset-backed securities fund to fund a strong and growing student loan portfolio of ~25,000 students. Ideal has loaned over \$240 million since 2006 through its main student lending product, Pravalor, which is available to individuals enrolled in one of ~15,000 courses at ~200 TEIs. The loan covers up to half of a student's tuition and can be repaid in 2.5x the study period.

Ideal Invest's high performance hinges on its university partnerships, simple loan structure, and ongoing borrower support. Ideal Invest markets not only through its own sales team, website, and call center, but also through the websites and campuses of its partner universities, which are often the first point of contact for students. Brazil's tertiary education market is highly competitive, with institutions vying to fill seats. In this context, Ideal Invest can help universities to fill excess capacity with students who are on average higher achieving, more likely to complete their degrees, and enrolled in courses at higher tuition levels.

Recognizing this, TEIs support the loan program through covering a percentage of borrowers' interest payments, assuming some of the risk for loans, and/or supporting marketing. While Brazil's government student loan program (FIES) is less expensive, it is not available to all students and in all TEIs. Many students choose Ideal Invest's loans because they are easier to understand, less administratively cumbersome, and can be paid off more quickly.

TEIs cover a percentage of borrowers' interest payments in Ideal Invest's loan program

PHOTO: © WORLD BANK



Chile:

Duoc UC

YEAR ESTABLISHED: 2007

PARTNERS: Banco de Crédito e Inversiones. IFC invested \$10 million in 2007 in a risk sharing facility/ credit enhancement loan

OUTREACH: Students are sourced at the institution level, with financial aid officers offering the program (along with the government loan program and relevant scholarships/grants) to any student who requires financing. Students enroll directly with BCI

KEY CUSTOMERS: Low-income students who would not qualify for commercial loans from banks; the majority of borrowers belong to the bottom three quintiles of the income distribution and 60-70% are the first in their family to attend a TEI

TOTAL BORROWERS: ~5,200 since inception

INTEREST RATE: Interest rate of 10% annually with a 2% spread based on macroeconomic conditions, floating for the duration of the loan

REPAYMENT TERMS: Student pays 30-50% of monthly tuition fee, with interest, every month; remaining principal and interest after studies must be paid up to 1X study period length

AVERAGE LOAN SIZE: \$3,500

BORROWER COUNSELING: Counseling services are offered by banks and the university through financial aid officers and campus representatives who have been informed and trained on the product



PHOTO: © DUOC UC

Case Studies

Duoc UC

Duoc's Model

Duoc is a non-profit, private Chilean vocational TEI founded in 1968. It has 16 campuses offering two year technical degrees and four year professional degrees. Duoc UC now has ~88K students, of whom three-quarters are from the lowest three income quintiles. In 2007, Duoc created a student loan facility in partnership with IFC and Banco de Crédito e Inversiones. Students can take out a maximum loan of \$4,500 per year and must repay the loan within a period of years commensurate to their study period.

The university's objective in introducing the loan program was to increase enrollments and to increase accessibility of its program to lower-income students, while BCI was motivated to participate given the program's social responsibility objectives and the potential to reach new customers.

Duoc borrowers are typically those who would not qualify for commercial loans from banks, and 40% of its students are working adults taking night courses. Duoc has introduced innovations including segmenting

students based on credit worthiness: it establishes ratios of "Greens" (low-risk), "Yellows" (medium risk), and "Reds" (high risk). This delivers diversity of economic means in the student base, as well as ensuring the program portfolio is always balanced in risk terms without being too heavily weighted toward the highest risk students.

Marketing is jointly conducted by Duoc and BCI, via online marketing during admissions periods, emails to admitted students, and print advertising on campus. The Duoc UC student lending facility closed at the end of 2014.

PHOTO: © DUOC UC



Duoc aims to increase enrollments and reach lower-income students through its student loan program



Leading-Edge Innovations

NEW MODELS WITH POTENTIAL APPLICATIONS IN STUDENT FINANCE

Social Impact Bonds	18
Human Capital Financing	19
Peer-to-peer Lending	20
Crowdfunding	21

The study examined a range of innovative financial models, many of them enabled by new technologies, and some already expanding access to student finance.

Social Impact Bonds

Social Impact Bonds (SIBs), or “Pay for Success Bonds”, pioneered in the UK, Australia, the US, and India, are a relatively new financial instrument that directly links yield—typically 5 to 9%—with a social outcome.

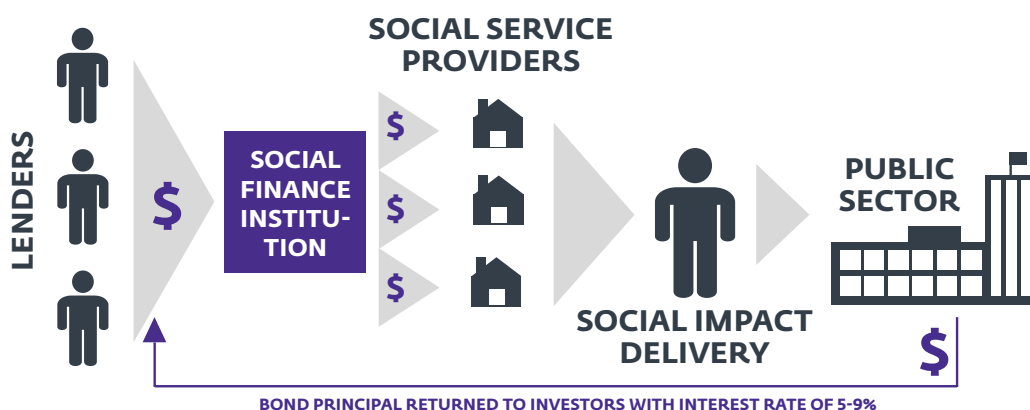
Social service providers enter into contracts with the public sector (brokered and administered by social finance institutions) to administer projects that will deliver a measurable social impact. Upon completion of the project, if social impact goals have been met, the relevant governmental entity pays back investors along with a portion of the realized savings (return). Unlike regular bonds, if the stated project goal is not met, principal is not

repaid to investors. Until now, SIBs have typically been used to reduce negative outcomes (such as recidivism rates) but less often used to produce or encourage positive outcomes (such as tertiary degree completion).

Organizations exploring SIBs include:

- Social Finance
- Third Sector Capital Partners
- Social Ventures Australia

How it Works



New Models With Potential Applications in Student Finance

Human Capital Financing, in some forms known as Income Share Agreements or Income Based Repayment, leverages web platforms to connect socially-minded investors with those looking for low risk alternative sources of financing for their academic or entrepreneurial ventures.

increase process efficiencies and could potentially allow providers to map student risk using statistical models based on academic plans, country of residence, and academic performance. This risk assessment would aid in determining customized interest rates, repayment requirements, and loan amounts.

Leading human capital finance platforms include:

- Lumni
- Upstart



Leading-Edge Innovations

New Models With Potential Applications in Student Finance

Peer-to-peer Lending

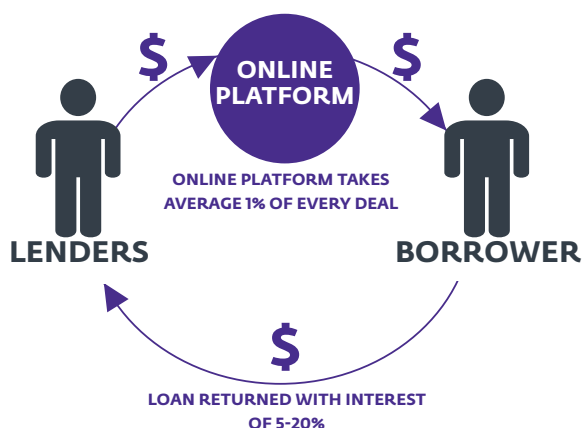
Peer-to-peer lending is an online-enabled innovation wherein individual lenders provide capital directly to individual borrowers.

The model allows investors to take on greater risk and achieve returns up to 35%, though typical loan interest rates range from 5-20%.

Loan size can vary widely, from \$100 to \$35,000. For-profit online platforms generate revenue on the “closing fee”, a small percentage of the overall amount (~1%), while non-profit platforms do not have a closing fee and instead rely on donations and on-site volunteer support.

Such services attract borrowers who do not have access to financing or are looking for a lower rate than can be provided by financial institutions. In order to calculate loan terms appropriately, these online sites use borrower credit information or volunteer vetting when a borrower lacks credit history.

How it Works



Leading platforms enabling peer-to-peer lending include:

- Zopa
- Prosper
- Zidisha
- Kiva Zip

Leading-Edge Innovations

New Models With Potential Applications in Student Finance

Crowdfunding

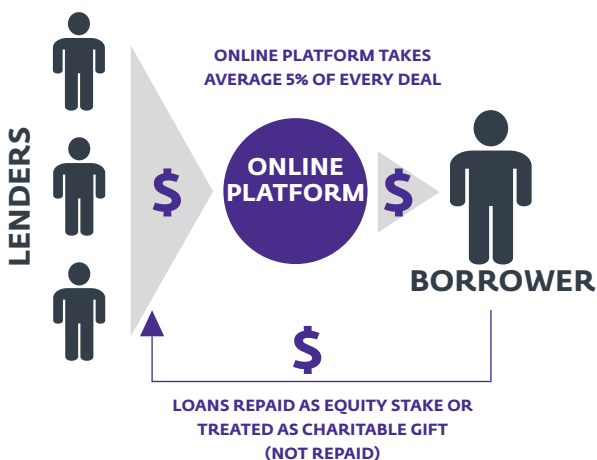
Crowdfunding utilizes online platforms to connect individuals and groups to private ventures to achieve an overall funding goal.

Financial support may take the role of donations, investment in return for in-kind offers, or investment for equity. For-profit online platforms generate revenue on the "closing fee", a small percentage of the overall amount. Some models give equity stake in exchange for funding or repay loans in kind. Non-profit online platforms

do not have a closing fee and instead rely on donations. Repayment periods typically vary from between three months to five years. There are no restrictions on loan size.

Though non-profits and organizations with social causes have made extensive use of crowdfunding, a student-dedicated platform has not been popularized.

How it Works



Leading crowdfunding sites include:

- Kickstarter
- Crowdrise
- Crowdfunder



Lessons from Experience

LESSONS FROM THE GLOBAL STUDY OF STUDENT FINANCE INNOVATION

Lesson 1: Student lending is still a “push” product in many developing countries	24
Lesson 2: The central role of TEIs in student lending focuses on design and implementation	26
Lesson 3: Sustainability of the lending product is driven by graduate employability	28
Lesson 4: The lending product should be easy to understand and tailored to student requirements	30
Lesson 5: Specialized NBFIs may be more effective at offering student finance than traditional banks	32

Lessons from Experience

Lesson 1: Student lending is still a “push” product in many developing countries

Unsurprisingly, nascent student lending markets require greater degrees of consumer education and marketing. As consumer awareness grows, the external market stimulation required for student lending decreases, shifting student lending to a “pull” product. Students in nascent student lending markets are less likely to be aware of student loans and are more likely to learn about them from friends, family, or their TEI rather than a financial institution.

Moreover, many private sector lenders struggle to reach students at the Base of the Pyramid (BoP) and therefore target higher income brackets: for example, Ideal Invest, Duoc UC, and Eduloan target low-income individuals but the majority of their borrowers are not BoP consumers. Student borrowers are challenging to engage, and the compounding effects of poverty make them even more difficult to serve sustainably. This is consistent with emerging findings from the impact investing sector as a whole.

The study findings also underscore the importance of addressing demand appropriately and of understanding the nuance of local lending contexts prior to market entry.

Specific lessons for key stakeholder groups include:

Donors should be aware that adoption of student loans will take time:

Successful student loan programs may only come about after multiple attempts at market stimulation. Eduloan, Ideal Invest, Duoc UC, and other successful models have been piloted and refined over several years; no program was executed perfectly the first time.

Lenders may need to educate potential borrowers and their families:

Where consumers are unaware of financing for education, lenders must educate in the basics. For example, Ideal Invest is currently developing an online one-stop-shop where students can learn about a range of financing options. Moreover, lenders must invest in resources such as trained frontline staff, online sales systems, and marketing collateral in order to effectively engage the target audience across appropriate platforms. For example, Ideal and Eduloan invest significantly in large teams dedicated to raising awareness of financing options.

TEIs must be actively involved in the student lending process:

While financial institutions are more engaged in student finance in mature markets, TEIs play a stronger role in emerging markets. A student finance program that does not involve TEIs as key stakeholders is unlikely to thrive in these contexts. This is clearly demonstrated by the success of Duoc UC’s student finance counseling, which highlights both the institution’s own finance options and the government loan program, enabling many more low-income students to access tertiary education.

Market Stimulation and Investment

Countries at different stages of student loan market maturity require different approaches to drive student loan ramp-up.

Nascent Student Loan Market

- Student loan is “push product”
- Awareness-raising required around concept of loans

High

External Investment & Market Stimulation Required



Morocco



Egypt

Low

Developing Student Loan Market

- Growing awareness of loans and uptake/utilization

Mexico



South Africa



Brazil



Chile

Mature Student Loan Market

- Student loan is “pull product”
- Awareness-raising required around individual products

Awareness & Perception of Loans



UK



USA

Lessons from Experience

Lesson 2: The central role of TEIs in student lending focuses on design and implementation

In markets where awareness of education finance is low, the first port of call to reach prospective borrowers is their current or prospective college or university. For this reason, successful models cultivate close working relationships with tertiary institution partners, even co-locating at university campuses and online. In seven out of the eight student finance programs studied, students first learned of the opportunity to access a student loan through their TEI.

Many private TEIs stand to benefit significantly from the availability of student finance, which may support them to:

- Increase enrollments, fill vacant capacity, and support institutional expansion, by increasing enrollment of students from a broader range of income groups
- Raise retention rates, since financing enables more students to complete their degrees and because some lenders report that their students are more motivated to complete degrees than average students
- Improve per-student margins, since students accessing loans often take higher-priced degrees (for example, in Ideal Invest's partner universities)
- Improve institutional cash flow, since institutions can collect tuition fees up front

TEI participation in student finance commonly takes the form of:

Risk sharing in the loan facility:

Ideal Invest is investigating a new scheme whereby TEIs can opt to risk-share. These arrangements must be carefully managed to avoid dis-incentivizing TEIs from promoting loans.

Discounting of tuition or interest rates for student loan takers:

Some universities offer early settlement discounts on tuition, while many of Ideal Invest's partners pay up to 100% of their students' loan interest.

Promotion and counseling:

Ideal offers a bespoke tool on partner university websites that enables students to automatically assess their loan eligibility and likely monthly repayments. Eduloan has 37 branch offices at universities in South Africa and works closely with financial aid offices. Duoc UC trains campus representatives and financial officers to be well-versed in its loan product.

TEIs that raise awareness of student loans are often motivated by competitive pressures

Key lessons for stakeholders include:

Donors can play a pivotal role in identifying the most promising tertiary segments for student finance:

Detailed research prior to market entry is strongly recommended, specifically to identify competitive tertiary segments (including individual institutions, degree types and/or fields of study) that would benefit most from loan products. These would include segments that have at least some of the following characteristics:

- Enrollment growth greater than the market average;
- Excess capacity and/or desire to expand;
- Expected degree payback period less than the market average;
- No current or expected market distortion (e.g. expected expansion of public sector);
- High graduate employability; and/or
- Outcomes equivalent, or superior to public sector institutions.

Lenders could engage with, and provide incentives to, TEIs to support the growth of student loans:

Engaging TEIs as co-designers and key stakeholders in the student finance product design and implementation ensures that they are more likely to remain committed and supportive partners.

TEIs can improve institutional viability by supporting access to student finance:

Where loan schemes do not yet exist, TEIs may be able to develop their own student financing options. Moreover, clear roles and responsibilities are recommended, such as the development of a student finance function within the institutional administration.

Lessons from Experience

Lesson 3: Sustainability of the lending product is driven by graduate employability

Graduate employability is a function of many factors which include: the match between the graduate's degree program and labor market needs; the reputation of the TEI; links to industry within the TEI, including opportunities for internships; and the graduate's academic performance. Student loans are only sustainable if most borrowers can achieve a higher income after completing their education, ensuring they can repay a loan on time and in full. Lenders therefore have a vested interest in identifying strong candidates for "employable" degrees that will meet market demand.

Unlike many publicly sponsored loan programs, private sector student loan programs are typically not available to all prospective borrowers, but instead are highly targeted to segments with high graduate employability or earning potential—for example, Eduloan targets civil servants and Duoc targets students in vocational programs. Data analysis plays a significant role for some programs: Ideal Invest has iterated a proprietary credit-scoring model that allows it to screen candidates to assess employability. Moreover, some lenders, such as Portugal's Sistema de Garantia Mútua, reward student borrowers who succeed academically (since academic success is correlated with higher employability), by reducing their interest rates.

As previously noted, private sector student lenders have struggled to reach the BoP. One of the key challenges of extending student loans to BoP borrowers is that most methods of assessing borrower credit-worthiness traditionally focus on personal and family finances, with a parent often acting as co-signatory. BoP students and their families often cannot provide robust credit histories and therefore are not able to access loans. If lenders focused instead on likely future employability among borrowers, this could widen access to loans for people who are not served by the current system

because of their personal or family finances. Better data on graduate employability would support access to loans for people from the BoP.

Specific lessons for key stakeholder groups include:

Donors can help to develop robust data on graduate employability:

Donors have an important role to play in developing market-specific data related to graduate employability, such as details on graduate placements from particular universities and programs, trends in the labor market, and demand for specific courses among employers. This data would support lenders to screen prospective borrowers more effectively, thereby reducing default rates, potentially decreasing interest rates, and improving the sustainability of loan programs. Moreover, this could support the expansion of loans into the BoP if alternatives to traditional credit assessments played a role in the loan assessment process.

Lenders can gather good data on borrowers and non-borrowers:

The most successful lenders will gather data on their borrowers' repayment patterns and the labor market and use this to inform future borrower assessment. Innovative lenders, like Eduloan, also track individuals they have rejected for loans—which helps them to refine and improve screening methods in the long term.

TEIs can support the sustainability of loan programs by tracking metrics:

These data might include figures on alumni placement, performance, and degree payback period. Donors and lenders must have some confidence in the performance of graduates from particular institutions and/or degree programs. TEIs that gather this information will be more likely to be able to forge partnerships to develop student finance programs. Moreover, labor market data, if it were publicly available, might inform student and parent decisions about taking a loan.

Better data on graduate employability would support access to loans for students from the base of the pyramid

Lessons from Experience

Lesson 4: The lending product should be easy to understand and tailored to student requirements

In nascent student lending markets it is not enough to offer a loan product and expect students to enroll. In fact, the study identified multiple examples of education financing initiatives that had failed to achieve ramp-up because insufficient attention was given to how the loan product would reach the consumer.

Students are often first time borrowers, may be living independently for the first time, and are accustomed to using information technology to access services. Recognizing this, IFC has previously developed online-accessible financial education materials for students and their families living in emerging markets. The guide *Your Money, Your Future* covers basic financial issues, budgeting, loans, establishing credit, debt management, and saving and is distributed by IFC partners. In the same vein, successful student lending programs design their products and services carefully to fit the student borrower profile, and they invest in borrower education. Moreover, they iterate the product and process design over time.

Ease of enrollment and loan disbursement played a significant role in driving success for leading student finance programs; successful programs require a few key metrics rather than extensive paperwork to complete a credit check, employ online systems, and offer single-step enrollment processes (often co-located at TEI campuses). Successful programs also offer simple, easy-to-understand loan terms.

Leading lenders also effectively manage repayment. Trustco, Ideal Invest, Lumni, and Eduloan all conduct pre-

checks to ensure that the loan burden will not be excessive for the borrower, with Lumni and Eduloan capping repayments as a percentage of salary. Effective repayment processes are automated deductions and do not vary in amount or repayment method month-to-month. Finally, successful programs engage in ongoing communication with borrowers, such as calling to check on late payments and offering ongoing counseling.

Ease of enrollment and loan disbursement play a significant role in driving success for leading student finance programs

Examples of student-friendly product and process design include:

Enrollment: Trustco allows students (most of them from Namibia's many remote, sparsely populated rural areas) to enroll for its loans and for IOL courses simultaneously. Its door-to-door salesforce uses handheld devices to immediately assess prospective borrower credit-worthiness and pre-approve loans.

Disbursal: Eduloan pays the students' tuition directly to the university and offers a pre-loaded debit card that students use to purchase textbooks, buy food, and even pay rent with designated partners.

Repayment: Ideal Invest finances students' education through successive small loans for each semester. Monthly repayments are half of what normal tuition payments would be, with double the degree length to repay. These simple, transparent designs support families whose cash flow may not enable them to take long-term loans. The payment flow also supports Ideal to extend more credit to borrowers with a track record of repayment. Similarly, Duoc UC requires students to pay only 30-50% of tuition a month, with remaining payments due up to the length of the degree post-graduation.

In order to support loan programs to develop simplicity and student-friendly design, key stakeholders could do the following:

Donors can play a role in capacity building and disseminating best practices:

Donors can support piloting and iterative development of student finance schemes. Donors can also support capacity-building among student finance providers, for example supporting the development of robust back-end systems to track repayment and cultivating skills in marketing and outreach.

Lenders can invest time to learn about the dynamics and behavior of target borrowers:

Time invested up-front in understanding the specifics of borrower behavior and attitudes, for example through surveying, focus groups, and user testing, will support lenders to design loan systems that are likely to encourage effective enrollment, disbursal, and repayment. Effective programs will also continuously test, evolve, and adapt their products to suit market needs.

TEIs must be actively involved in the student lending process:

TEIs are an important channel to reach prospective borrowers through, for example, on-campus engagement, online marketing, tuition payment, and course enrollment. TEIs can also support ongoing tracking of the lending scheme and identify inefficiencies in design.

Lessons from Experience

Lesson 5: Specialized NBFIs may be more effective at offering student finance than traditional banks

Student loan portfolios at traditional banks can be small and costly; for example, one major bank consulted for the study indicated that its relatively small student loan portfolio of under 5,000 loans per year required as much administrative oversight as its entire mortgage book.

The study found that for banks student loans are rarely a central product in the portfolio and are typically offered for one of three reasons: because they complete a product suite; because banks see their provision as a socially responsible measure; and/or because banks are keen to engage individuals early to become lifelong customers. With their relatively risky borrower profile, usually low interest rates, small loan sizes, and high administration costs, student loans are not often profitable for mainstream banks.

NBFIs, on the other hand, may be able to focus on student lending as a core portfolio product, increasing efficiency, responsiveness to borrower needs, profit margins, and ultimately viability.

The key lessons for stakeholders include:

Donors should partner with financial institutions that have the incentives and motivation to treat student finance as a core product:

Motivated and incentivized financial institutions can include banks and NBFIs, including microfinance organizations. If experienced NBFIs have already developed a student loan product that effectively meets the requirements of student borrowers, equity investments can allow them to expand.

Lenders should allocate adequate resources to student finance by treating it as a distinct business product:

This will allow for further innovation and tailoring to students but also a more profitable business model as demonstrated by many NBFIs. The study also observed that NBFIs had been successful in securitizing their loan portfolios as an alternative funding solution, an approach that could be appropriate for a range of lenders.

TEIs must be aggressive in marketing and incentivizing financial sector partners:

TEIs play a critical role in designing and implementing student finance programs with financial sector partners and should be as engaged as these partners in promotion. Looking beyond the traditional banks may enable TEIs to offer student finance more quickly and/or efficiently than if they try to convince mainstream banks to participate as partners in a loan program.

Conclusion



Perhaps the key finding of the study is the importance of tailoring student finance offerings to specific contexts and populations

Innovative approaches to education finance have the potential to dramatically expand access to tertiary education and, in turn, to improve the life chances of people across emerging markets.

While the models explored here are admirable innovations, their approaches must be adapted before being introduced in different markets. Perhaps the key finding of the study is the importance of tailoring student finance offerings to specific contexts and populations. Prior to market entry, the local context needs to be thoroughly investigated. A piloting period of experimentation and iteration will be required in order to find best-fit student financing mechanisms and to guarantee that the product and process design are efficient and effective prior to widespread roll-out.

Market stimulation—potentially in the form of removal of commonly experienced market barriers—may be required. This way of working is consistent with the “market transformation” approach promoted by IFC and supported by leading-edge research into impact investing.

Useful Links

LEARN MORE ABOUT THE ORGANIZATIONS HIGHLIGHTED IN THIS PUBLICATION:

- Crowdfunder: www.crowdfunder.com
- Crowdrise: www.crowdrise.com
- Duoc UC: www.duoc.cl
- Eduloan: www.eduloan.co.za
- FUNDAPEC: www.fundapec.edu.do
- FUNDAPLUB: www.fundaplub.org.br
- Ideal Invest: www.portalpravalier.com.br
- Kickstarter: www.kickstarter.com
- Kiva Zip: zip.kiva.org
- Lumni: www.lumni.net
- Professional and Career Development Loans: www.gov.uk/career-development-loans/overview
- Prosper: www.prosper.com
- Sistema de Garantia Mútua: www.garantiamutua.com
- Social Finance: www.socialfinanceus.org
- Third Sector Capital Partners: www.thirdsectorcap.org
- Trustco: www.tgi.na
- Social Ventures Australia: socialventures.com.au
- Upstart: www.upstart.com
- Zidisha: www.zidisha.org
- Zopa: www.zopa.com

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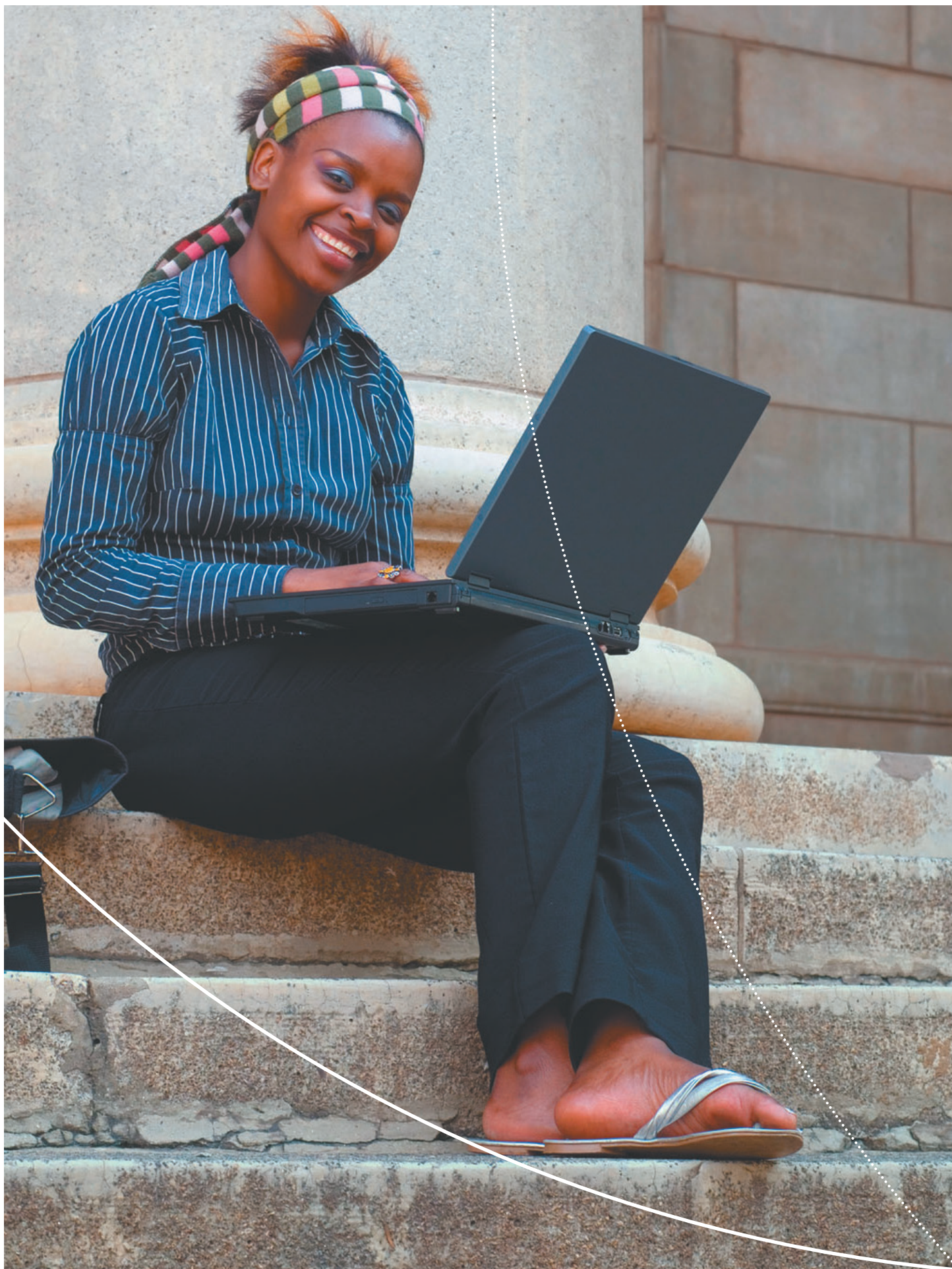


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