Assessment of the CDB Student Loan Scheme (SLS)

Volume I:
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Acknowledgments

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Finally, the team received special support from CDB's Department of Evaluation and Oversight and collaboration from staff throughout the Institution. A group of CDB and DFI stakeholders provided feedback on a draft of the Assessment report at a workshop held in Barbados on October 29, 2004.

Executive Summary

In 1972, the CDB initiated a Student Loan Scheme (SLS) to make funds for Human Resource Development (HRD) available to the governments of its Borrowing Member Countries in the Organization of Eastern Caribbean States (OECS), Belize, and the dependent territories. Over the SLS's 30 thirty-year life span, the CDB gave 99 loans with a total value of close to USD87 million.[1] From 1999-2003, the data from five countries shows that the SLS has been used by Development Finance Institutions (DFIs) to fund close to 5,000 student loans. In 1988, an evaluation of the SLS was undertaken to assess the status of the scheme, loan delivery systems, impact on the borrowers and participating countries, and administrative policies and practices.

The recent mid-term review of the Special Development Fund (SDF) Cycle V recommended an evaluation of the SLS in order to determine its impact and the effectiveness of the use of SDF Resources.

Universalia is pleased to submit to the Caribbean Development Bank (CDB) the final report of the 2004 Assessment of the Student Loan Scheme (SLS). The primary objective of this evaluation, as described in the Terms of Reference, is to assess the development effectiveness of CDB's response to the human resource development needs of the Borrowing Member Countries (BMC) from the perspective of CDB's mission of poverty reduction. The evaluation considered the broad issues of effectiveness, relevance, efficiency, and sustainability of the SLS.

Universalia collected primary data using a mix of qualitative and quantitative methods that included document review, interviews at CDB, analysis of a sample of sub-loans, tracer studies of a sample of sub-borrowers, self-administered questionnaires to DFIs and a sample of borrowers, as well as field missions to Dominica, St. Lucia, St. Kitts and Nevis, British Virgin Islands, and Belize.

Context

Student loan schemes have been established in at least 50 countries around the world. The literature illustrates many of the difficulties in running such programs, some of which include the high administrative costs for managing loan schemes, high default rates, and subsidized interest rates. These initiatives all struggle to find the balance between providing some degree of subsidy to needy students and ensuring that the loan schemes are financially sustainable.

At the time the SLS was launched in 1972, the CDB was still in its infancy. Its poverty agenda, although evident in its Charter, had not been operationalized as it is currently with the introduction of concepts such as the *poverty prism* and resource allocation strategies that emphasize poverty reduction. Over this 32-year period, implementation of the SLS has brought about a variety in the models and approaches among the BMCs.

[1] Terms of Reference, "Consultancy Services to Undertake an Impact Assessment of the Student Loan Scheme Programme in the Caribbean Development Bank's Borrowing Member Countries."

Effectiveness

Overall, the SLS is deemed as an important tool in CDB's development effectiveness. The study finds that the SLS has met its objectives of training human resources and improving access to tertiary education in the region. In doing so, it has generally contributed to the HRD needs of the BMCs. Despite concerns about the emigration of graduates, the data from the sample of SLS borrowers traced in this study suggests that the students generally return to serve in the region after graduation. Nonetheless, the "push" and "pull" factors for staying overseas may lead to significant differences by country at different points in time.

The SLS is an increasingly important source of funding for higher education, representing more than 50% of the funding mix for a majority of the students interviewed. The impact on students is generally positive – 80% of the SLS borrowers in the study sample indicate that without the SLS, they would not have been able to pursue a post-secondary education. In addition, most of the graduates are able to find jobs shortly after graduation. Students also indicate that their standard of living has generally improved as a result of their participation in the scheme, but some note difficulties in servicing debt as a result of lower than expected salaries after graduation. The debt burden for students and its implications for the sustainability of the scheme require attention from the SLS.

At a broad level, the SLS is perceived to make indirect contributions to poverty reduction in the participating countries because it facilitates opportunities for education and training and helps build country capacities. The SLS, however, has been less successful in providing loans to the poor. The security and guarantee requirements for obtaining student loans limit access to the SLS for the poorest segment of the population. Since the special SLS windows to benefit the poor are in early stages of implementation, relatively few students have benefited to date. The study also found examples of mechanisms to facilitate the accessibility of the SLS, such as guarantee funds and interest relief programs with participation of the DFIs, government, and other actors. These mechanisms warrant closer study and monitoring.

The majority of SLS borrowers are female, reflecting general trends in educational enrolment and completion rates in the Caribbean. The study notes that the gender disparity is a complex social phenomenon beyond the scope of the SLS. At the same time, however, there is no evidence of SLS-specific strategies to address the gender question.

Many of the factors that limit the effectiveness of the SLS are not new, nor are they exclusive to the SLS; they are evident in other student loan schemes in the region and around the world.

Relevance

The SLS responds to the needs for education financing of its clients – the students— at a time when other sources of funding are diminishing. Nevertheless, the terms and conditions of the student loans, although better than most alternatives, generate a series of hardships for students, both during the study period and in the years following graduation. In this regard, key operational issues for further consideration by CDB and the DFIs are: maximum loan amount, interest rate, servicing interest during grace, and repayment schedule.

The SLS is also relevant to regional and country needs. Regional and local institutions providing tertiary education are playing an important role in the SLS in some countries. In others, however, there is still a steady demand for extra-regional study due to factors that have already been noted by the CDB (such as program offerings, cost of programs, desire for a “different” experience, friends and family abroad). CDB represents the primary source of funds for the DFIs/Executing Agencies, where student loans are an important component of their portfolio. The demand for loans is expected to remain steady but the DFI capacity to respond to the demand is sometimes limited by the resources available.

The SLS is also relevant to the CDB at the strategic and policy level, although its explicit links to the HRD strategy and to the SDF objectives can be strengthened. For example, the SLS would need to improve the pro-poor focus in its lending operations in order to be more aligned with SDF objectives and priorities.

CDB’s comparative advantage includes offering DFIs low interest rates, grace period, and a longer repayment period. In general, commercial banks and credit unions are not aggressively entering the market for student loans, thus DFIs remain the key reference point in each country. It is important to note, however, that in St. Lucia it is a commercial bank that operates the SLS.

Efficiency

The governance of the SLS is generally adequate both at the CDB and the country level. In the BMCs, the DFI Board of Directors is responsible for the oversight of the SLS in most cases. The Student Loan Advisory Committees, which are intended to monitor non-credit performance and to act as a resource in matters concerning the educational aspects of sub-loans, would advise the Board and management of the DFIs. These Committees, however, are not operational in all countries.

Although loan management is adequately provided by the CDB, the SLS has lacked a programmatic approach. This has contributed to some of the limitations of the SLS in results achievement, learning, greater integration with CDB strategy and policy, and CDB’s development effectiveness. This study concludes that there are a number of ways in which the development intervention of providing student loans could become more strategic for the CDB and thus make greater contributions to the BMCs. A “programmatic approach”, which refers to the way in which a programme is designed and managed, would help to move the SLS in this direction.

At the country level, the DFIs have adopted diverse approaches for staffing and managing the SLS. The students cite a series of concerns that reflect on the efficiency of management with regard to: the approval process, on-going communications with clients, and disbursements. The lack of data on administrative costs of the SLS in the DFIs provides some uncertainty concerning the administrative efficiency of the scheme. This is an area worth monitoring in the future.

Sustainability

Stakeholders have shared their concerns about the financial viability of the SLS. The level of arrears and default is a major issue for loan programs all over the world and the situation in the Caribbean is no different, with a worrisome proportion of student loans in arrears and default in some countries. Of positive note is that all of the DFIs interviewed during the study, are sharpening their pursuit of clients for repayment and collections, in order to clean up the student loan portfolio.

For the CDB, the SLS is a financially sustainable initiative due to the minimal risk of default ensured by direct or indirect government guarantees of the loan funds. The Assessment found that the CDB could improve in the other dimensions of sustainability addressed in this study, namely capacity building and learning. The CDB is currently missing the opportunity to learn from the way the Scheme is implemented across countries, which would go a long way in strengthening its development effectiveness.

Lessons Learned

The report highlights a number of lessons learned from implementing student loan schemes around the world. Two principal areas of concern on loan schemes are their financial viability on the one hand, and their effectiveness in targeting the poor, on the other. Many of the lessons learned globally in this area are applicable to the CDB's scheme.

On the financial viability of loan schemes:

In general, the experience has shown that high default rates, subsidized interest rates, and high administrative costs negatively affect the financial viability of student loan schemes. In addition, there is also evidence that:

- Maintaining the repayment burden for students at a relatively low level decreases the probability of repayment default.
- The existence of effective collection mechanisms helps reduce the probability of default.
- Introducing positive and negative incentives and raising credit awareness contributes to a culture of responsibility that enhances the probability of repayment.
- A carefully designed interest rate and subsidy policy protects the long-term financial viability of the schemes.
- The risks shouldered by the banks are high in the absence of a perfect individual credit system where punitive measures can form an effective restraint on those customers with bad record.

On targeting the poor through loan schemes:

Many of the student loan schemes implemented in different regions of the world share a social objective of providing equal access to education. They are guided by the principle that financial assistance should ensure that no student is denied a university education because he/she lacks the means to pay for it. From the efforts being made to target the poor, the following lessons arise:

- Some eligibility criteria, including overly stringent guarantee conditions, can work against measures taken to benefit marginalized groups including the poor.
- To be effective in increasing the education access of the poor, loans need to be offered at attractive rates, which include the security and collateral requirements.
- The equity aim of a student loan scheme is affected not only by the design of the scheme, but also by the efficiency of the operating agency.
- In order for a loan to be helpful to a student, it has to be provided at a level that is appropriate given the full costs of the study programme.

On design and management of student loan schemes:

In addition, the assessment of the CDB's loan scheme also identifies a few lessons with regards to the design and management of student loans. These lessons underlie several of the Assessment recommendations that are described below.

- It is necessary to monitor both the financial and the non-financial aspects of the SLS in order to assess outcomes and impacts of student loan schemes.
- Student loans that are managed with a programmatic approach (a mix of tools, long term perspective, strategy) offer greater potential to focus on strategic issues such as poverty reduction and economic development.
- In order to be effective, a more programmatic approach requires increased capacities of the DFIs at the country level.

Overview of the Recommendations

The following recommendations stem from the main findings and conclusions of the report and address strategic and operational dimensions of the SLS. A full description of the recommendations is provided in Section 7 of the report.

Strategic level

1. CDB should develop a programmatic approach to providing student loans where there is clear responsibility, within the institution, for coordinating and managing a programme for results.

In order to improve the performance of the SLS in a number of the areas noted in this study (for example, the pro-poor focus, the links with CDB's HRD policy, the administrative efficiency and financial sustainability of the SLS in the DFIs), CDB should strongly consider developing a programmatic approach to student loans. A more in-depth discussion of such an approach has been prepared as Appendix I to the report.

2. CDB should strengthen strategic and operational linkages between the SLS and CDB's HRD strategy as well as sector work in education, poverty reduction, and other areas.

The SLS linkages to corporate strategies (such as HRD) are an integral part of a programmatic approach. One of the first steps in developing the programmatic approach is to specify the ways in which student loans contribute to broader corporate strategies. Some of these linkages do exist at a strategic level, such as the relation established in CDB's Results-based Management Cascade between the Strategic Objective of "Fostering more rapid economic growth of the economies of the BMCs" and the corporate priority on overall quality and equitable access to vocational training, and secondary and tertiary education. On the operational level, there are many ways in which resources and skills can be shared across units and departments in the CDB in order to enhance the effectiveness of the student loan programme.

3. The CDB should actively collaborate with the DFIs, Governments, and other donors to establish complementary mechanisms (such as guarantee funds) that will increase accessibility of loan funds to the poor.

The assessment concludes that the SLS needs to strengthen its pro-poor focus. This will require developing alternative ways of sharing the risk of lending to the poor. In this regard, the assessment team urges CDB to play a greater role in leveraging resources to finance tertiary education for poorer populations. It could, for example, facilitate the establishment of guarantee funds to support qualified loan applicants who do not have the collateral required. Before doing so, the CDB should assess the special programs that are in place in St. Lucia, Belize, and in other contexts.

4. The CDB should explore alternatives with the DFIs to help make the SLS more sustainable and pro-poor.

This recommendation has a number of dimensions that should reflect the stage of implementation and the needs of each of the countries and DFIs.

For those countries that already have a pro-poor window of funding, CDB could work with the DFIs to make it operational so that loans are in fact given under that window. This may require identifying ways of spreading the risk of lending under this window, improving targeting, etc.

5. The CDB should support initiatives that help to create an enabling environment and improved institutional framework for student loan programmes in the BMCs.

This recommendation responds to the concerns raised in the countries visited as well as the issues that have come up in other contexts. The enabling environment includes aspects of the "rules of the game", meaning the institutional and legislative frameworks that regulate and track credit transactions. At the country level, there is also need for BMCs to build their capacities for developing HRD strategies. This includes generating labor market research and other data to support HRD decision making. The lack of such strategies has meant that the "priority list" used in student loan appraisal is a less useful and forward-looking tool. There is a role for CDB to play in providing technical assistance funds for the development of these capacities.

Operational level

The following recommendations are independent of the decision to adopt a programmatic approach. Such and approach would nonetheless facilitate implementation of these recommendations.

6. For policy, guidelines and future appraisals, the CDB should consider:

- Providing lending for student loans only through SL schemes (instead of consolidated lines of credit), which could help countries to access additional loan funding for students.
- Targeting a proportion of the loans for vocational- technical education and training, which would help link it to HRD policy.
- Allowing more flexibility for the maximum loan amount to be given with CDB's SLS funds, leaving the final decision to the DFI after their own appraisal process. Although the CDB sets maximum loan amounts in consultation with DFIs, there is a need for on-going flexibility with this figure during the loan period.
- Joint CDB- DFI analysis of the policy that requires students to service interest during the grace period.

7. For monitoring, evaluation and learning, the CDB should consider:

- Developing a Monitoring and Evaluation (M&E) framework for the SLS that is linked to the SLS strategy and performance measures. The M&E framework and system would need to be jointly owned by the CDB and the DFIs. The framework should include the planned results, indicators, sources of information, method of collection, frequency of collection, and responsible unit or individual.
- Developing performance indicators that include different dimensions in order to provide a more complete picture of the SLS. The users of M&E information should be consulted on the key indicators to be included.
- Prioritizing the information required for M&E and assisting DFIs with data collection. Given that the completion of forms and data collection is a point of concern for the DFIs, the SLS would need to prioritize the information, frequency, and methods to be used in

collecting data for monitoring and evaluation. The CDB should consider providing technical assistance and/or funding to the DFIs in order to facilitate the gathering of data.

- Building opportunities for learning into the SLS. This could be achieved through electronic or print media and/or face-to-face activities. The exchanges could share what is being done in terms of guarantee schemes, improved collections processes, and other areas of "best practice".

8. In the management of the SLS, the DFIs should consider taking measures to:

- Assess the role and contribution of the SLAC and develop clearer terms of reference for the Committee, making it a more strategic body.
- Assess the requirement to service interest during the loan period.
- Improve the communication of terms and implications of the loan with applicants; there is a need to spend more time with applicants at the front end, but it may be even more important to stay in touch directly with them (not only their family).
- Increase efficiencies in the loan cycle, especially in approval and disbursement. At the same time, the DFIs should notify students of any delays in a timely fashion so that they can arrange alternatives.
- Adopt a policy of providing regular statements to borrowers on the status of payment of interest and principal on the loan.
- Depending on size/value of portfolio, the DFIs may want to consider having a dedicated staff person year around, not only during peak periods.
- Improve communications with student loan clients and marketing of complementary financial services to this group.
- Continue to make improvements in the information systems that track the financial and non-financial indicators that are important for decision-makers about SLS at the country and CDB level.

Acronyms

AID Bank	Dominica Agricultural Industrial and Development Bank
BMC	Borrowing Member Country
BNTF	Basic Needs Trust Fund
BOD	Board of Directors
BOSL	Bank of St. Lucia
BVI	British Virgin Islands
BZ	Belize
BZD	Belize Dollars
CDB	Caribbean Development Bank
CGCED	Caribbean Group For Economic Cooperation and Development
CI	Cayman Islands
CTCS	Caribbean Technological Consultancy Services
DBSKN	Development Bank of St. Kitts and Nevis
DBVI	Development Bank of British Virgin Islands
DFC	Development Finance Corporation, Belize
DFI	Development Finance Institution
DMI	Dominica
EA	Executing Agency
EC	Eastern Caribbean
ECSLGF	Eastern Caribbean Student Loan Guarantee Fund
GDP	Gross Domestic Product
GOSL	Government of St. Lucia
HRD	Human Resource Development
HRDS	Human Resource Development Strategy
M&E	Monitoring and Evaluation
OCR	Ordinary Capital Resources
OECS	Organization of Eastern Caribbean States
PPES	Project Performance Evaluation System
PPMS	Project Performance Monitoring System
PSDD	Private Sector Development Division
SDF	Special Development Fund

SFR	Special Funds Resources
SKN	St. Kitts and Nevis
SL	Student Loan
SLAC	Student Loan Advisory Committee
SLS	Student Loan Scheme
SSB	Social Security Board
STFB	Scholarship Trust Fund Board
STL	St. Lucia
TAP	Technical Assistance Program
TOR	Terms of Reference
US	United States of America
USD	US Dollars
USDF	United Special Development Fund
UWI	University of the West Indies
XCD	Eastern Caribbean Dollars

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1. Introduction

In 1972, the CDB initiated a Student Loan Scheme (SLS) to make funds for Human Resource Development (HRD) available to the governments of its Borrowing Member Countries in the Organization of Eastern Caribbean States (OECS), Belize, and the dependent territories. Over the SLS's 30 thirty-year life span, the CDB has made 99 loans with a total value of close to USD87 million.[2] In 1988, an evaluation of the SLS was undertaken to assess the status of the scheme, loan delivery systems, impact on the borrowers and participating countries, and administrative policies and practices.

The recent mid-term review of the Special Development Fund (SDF) Cycle V recommended an evaluation of the SLS in order to determine its impact and the effectiveness of the use of SDF Resources. In early 2004, CDB issued a call for proposals to conduct an assessment of the SLS. At the end of the bidding process, Universalia was selected to carry out this assessment. This document presents a *final report* on the findings and overall conclusions of the assessment. It also identifies the recommendations for the future of the SLS. The report and its recommendations were the subject of a workshop with CDB stakeholders in Barbados on October 29, 2004.

Volume I of this report is organized into six sections:

- Section 2 describes the methodology used in this study;
- Section 3 sets the context for the SLS;
- Section 4 is a profile of the SLS, with the general characteristics of the loans;
- Section 5 reports the assessment's findings on effectiveness, relevance, efficiency, and sustainability of the SLS;
- Section 6 provides a summary of lessons learned in student loan schemes, drawing from international experience
- Section 7 presents the overall conclusions of this assessment and recommendations for the future.

Appendix I provides a concept note on the definition, rationale, and issues to consider in developing a programmatic approach to the SLS. All of the other report appendices are presented in Volume II.

[2] Terms of Reference, "Consultancy Services to Undertake an Impact Assessment of the Student Loan Scheme Programme in the Caribbean Development Bank's Borrowing Member Countries."

2. Methodology

The overall purpose of the evaluation, as described in the Terms of Reference (TORs), is to assess the development effectiveness of CDB's response to the human resource development needs of the Borrowing Member Countries (BMC) from the perspective of CDB's mission of poverty reduction.[3]

The specific issues and questions that guide the evaluation were presented to the CDB in the study's Inception Report and Detailed Workplan. These are captured in the evaluation matrix, which is included as Appendix V of Volume II.

The link between issues from the Terms of Reference and the Assessment's evaluation matrix is presented in Exhibit 2.1.

Exhibit 2.1 Link Between Issues from TOR and the Evaluation Matrix

Issues from Terms of Reference	Revised Evaluation Matrix	
Strategic relevance	Relevance:	To: • Country needs • Target population • Client satisfaction • CDB strategy and comparative advantage • SDF objectives
Poverty relevance	Effectiveness:	Poverty targeting / pro-poor focus Effects on loan recipients
Efficacy of the SLS	Effectiveness:	Results achievement SLS results in relation to country priorities (HRD needs) Effects on loan recipients
Efficiency	Efficiency:	CDB-EA processes Loan distribution and repayment systems SLS management practices and SLS resources Institutional capacity
Sustainability	Sustainability:	M&E Framework and support for learning, accountability and assessment of results Financial viability Ability to respond to future demand
Institutional development impact	Efficiency:	Institutional capacity of the CDB and EA (operational and management capacity)
CDB performance in SLS management	Efficiency:	SLS management practices.
Borrowing and Executing Agency performance	Efficiency:	Institutional capacity of Borrowing and Executing Agency

The general time frame covered by the evaluation is 1993 – 2002. However, because of data availability, much of the data collected focuses on the last five years (1999-2003).

[3] As identified in discussions with the CDB, for the purpose of this study, development effectiveness is defined as the increased access to resources for financing tertiary education.

2.1 Data Collection Strategy

The Assessment Workplan called for three levels of data collection. The first level focused on a self-administered questionnaire to the participating Executing Agencies (EA)/Development Finance Institutions (DFIs). A second level included field missions to five countries for more in-depth data collection, primarily through interviews with key informants. The third level, to be carried out in three countries, was to explore the effects of the SLS on the student borrowers and gather data for the analysis of the counterfactual. Due to the difficulties in reaching SLS students/borrowers that became evident in Dominica, the first country visited, the team made adjustments in this approach and included efforts to contact students and rejected applicants in all five countries where field missions were carried out.

Input from Executing Agencies/DFIs in the BMCs

A first level of data was collected via a self-administered questionnaire to Executing Agencies (EA)/ Development Finance Institutions (DFIs) in 11 BMCs. The questionnaire was sent by fax and email. The purpose of the questionnaire was to gather information necessary to profile the SLS and identify management practices and key issues in delivering the SLS in each country. A total of 10 questionnaires were received as input for the draft report (a few, however, were incomplete). The participating DFIs are noted in Exhibit 2.2.

Exhibit 2.2 DFI Respondents to the SLS DFI Questionnaire

DFIs[4]
Anguilla Development Board
Antigua and Barbuda Development Bank
Development Finance Corporation, Belize
Development Bank of the British Virgin Islands
Dominica Agricultural Industrial and Development Bank
Grenada Development Bank
Development Bank of St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Turks and Caicos Islands

[4] The Cayman Islands Development Bank [formerly the Agricultural and Industrial Development Board] indicated that it has not been involved with CDB since the late 1980s and did not consider it appropriate to respond to the questionnaire given that the study's period of emphasis was 1993-2002.

Tracer Study

A tracer study was originally planned for Dominica (DMI), St. Kitts and Nevis (SKN), and British Virgin Islands (BVI). In Dominica, however, the tracer information was incomplete – less than 25% of the student borrowers on the list could be traced. The team added Belize to the tracer study in order to gather additional data. The purpose of the tracer component was to collect information on what has happened to SLS borrowers after completing their studies. The team provided lists of SLS sub-borrowers who had taken the loans in the late 1990s to resource people in government and they would in turn indicate the whereabouts of the individuals that they knew. Resource people were based in the Establishment Department for DMI and SKN and in the Ministry of Education for BVI. In Belize, the DFI generated tracer information for a sample of its sub-loans with the assistance of staff members in its branch offices.

Exhibit 2.3 Tracer Study Overview

COUNTRY	NO. SUB-LOANS	NO. OF PEOPLE TRACED	PERCENTAGE TRACED
SKN	92	69	75%
BVI	51	42	82%
Belize	129	127	98%
DMI	113	27	24%
Total	**385**	**265**	**69%**

Analysis of a Sample of SLS Sub-Loans

A sample of the SLS sub-loans (as reported to CDB in the SL-4 reporting format) provided the data on the general characteristics of SLS borrowers (Gender, Area/Field of Study, Location of Study, Length of Study Program, Loan Size) in five countries. The team focused on the forms for the period ending 2003 or 2004. For each of these characteristics, a sample of approximately 1,400 sub-loans was considered.

Exhibit 2.4 Sample of SLS Sub-Loans

COUNTRY	LOAN NO.	PERIOD	NO. OF LOANS
Dominica	15/SFR-OR-DMI	Aug 01 – March 04	464
St. Lucia	26/SFR-OR-STL	July 1 - Dec 03	340
St. Kitts and Nevis	17/SFR-OR-SKN	June 01 - Nov 03	252
British Virgin Islands	10/SFR-OR-BVI	Jan 00 - Dec 02	62
Belize	11/SFR-OR-BZ	Jan 98 - Sep 99	277
		Total	**1,395**

Field Missions to a Sample of Five BMCs

For a sample of five countries (listed in Exhibit 2.5), the team conducted on-site visits between July 6 and August 11, 2004. The selection of countries for the field mission was based on five fundamental criteria: data availability, geographical diversity, relative importance in CDB portfolio (based on the amount/number of loans from CDB), diversity in terms of institutional arrangements, and potential for collaboration from the DFI.

Exhibit 2.5 Data Collection in the Sample BMCs

COUNTRY	DATES
Dominica	July 6-9
St. Lucia	July 12-13
St. Kitts and Nevis	July 14-16
British Virgin Islands	July 18-21
Belize	August 9-11

The field missions were used in order to interview representatives from the EA, government officials, education sector experts, members of the Student Loan Advisory Committees (SLAC), and to collect the relevant statistical data that is available at the country level. Appendices V, VI, and VIII present the tools used for data collection and a list of all the stakeholders consulted.

In addition, as noted above, the field visits in each country were used to gather the feedback from the participants in the SLS. Three tools were used in this regard: a Student/Borrower questionnaire, individual interviews, and group interviews. Most of the DFIs had difficulties in tracking and gathering the students for group interviews. Thus, the team used alternative strategies, such as:

- Requesting the assistance of the Establishment Department in each country in locating the individuals who were currently employed in the public sector (using a copy of the SL-4 forms with a list of sub-borrowers);
- Visiting ministries and companies where "clusters" of SLS borrowers were working in order to conduct individual or small group interviews with borrowers/participants in their workplace and request that they fill out a questionnaire.
- Asking interviewees to recommend others (friends and colleagues) who had received or had been denied the student loan from the DFI;

For the counterfactual, in each country, the team sought out people who had been denied the loans. In the rare case, DFIs could identify and contact one or two people. Mostly, however, it was the SLS borrowers who pointed us to friends who had been denied loans or decided not to apply for a student loan from the DFI because they had other credit options. The number of students in the sample is shown in Exhibit 2.6.

Exhibit 2.6 Sample of the Students/Borrowers, Rejected Applicants, and Others

COUNTRY	NUMBER OF STUDENTS/BORROWERS[5]	APPLICANTS WHO WERE DENIED LOANS	OTHERS WHO DID NOT APPLY FOR THE SLS
Dominica	19	3	1
St. Lucia	11	--	1
St. Kitts and Nevis	19	2	1
British Virgin Islands	10	1	--
Belize	17	--	--
Total	**76**	**6**	**3**

The responses to the questionnaire are provided in Appendix X of Volume II.

[5] The number of students who filled out the questionnaire is roughly equivalent to the number interviewed.

Interviews with CDB Stakeholders

The Assessment also included interviews with CDB staff, management, and donors. A list of the people interviewed is presented in Appendix IX of Volume II.

Document and Literature Review

CDB documents and broader literature on student loans and strategies for financing tertiary education provided another source of data for the study. The list of resources used is included in Appendix VIII of Volume II.

2.2 Limitations to the Assessment

There are several limitations to the Assessment that must be considered in reviewing this report. These are briefly noted below.

1) Timing and logistics

The period of the study coincided with summer holidays in many countries. This factor hampered to some extent the DFI response to the questionnaire. Furthermore, the DFIs indicated that there was very little advance notice of the team's visit. In one case, the General Manager received the CDB letter of notification of the mission dates the day before the team's arrival. Despite the short notice, the DFIs were able to set up all of the meetings required, except for some difficulties in gathering students.

2) Counterfactual data collection

All of the DFIs expressed the fact that they do not keep records of the individual whose application is rejected. There is no list of "rejected or denied" applicants to use as a point of departure. To date, there has not been a need for this data in their institutions. Furthermore, in some cases the rejection takes place at the inquiry stage, before the applicant has begun any of the paperwork.

3) Data availability

- The study did not have data on the socio-economic origins of borrowers in order to assess the extent to which SLS borrowers come from poor or non-poor households. This would have required a review of student loan applications. The demand on time for carrying out this exercise was beyond the level of resources available for the study.
- The DFIs did not have the information requested on the SLS readily accessible (for example, the data on applications, approvals or the financial and administrative cost data requested in the questionnaire). This means that the data set is incomplete.
- Different reporting formats used over the period being evaluated and the dispersion of this information within in CDB made it difficult to generate data sets for each country for equivalent periods of time.

4) Tracer information quality

In Dominica, the resource people were not able to identify the whereabouts of many of the students, thus limiting the contribution of that tracer information to the findings.

3. The Context for Student Loans

In most countries around the world, public resources are insufficient for financing tertiary education. The sharing of costs between governments and students has increasingly become the norm in both developed and developing countries. At the same time, there is a recognized need for mechanisms that help ensure equity so that the needy, but qualified, students are not left out.

Student loan schemes have been established in at least 50 countries. In each of these locations, the context and rationale for the scheme help determine the central objective and type of policies pursued. As a result, there are schemes in place that seek to facilitate the expansion of the higher education system, to meet specific manpower needs, to ease the financial burdens on certain groups, to recover costs, or pursue social objectives – such as improving equity and access for the poor to higher education.[6] These objectives are not mutually exclusive. Some schemes will have multiple objectives orienting their development. Moreover, the objectives are likely to change over time in response to a changing environment.

From an organizational standpoint, there are a variety of arrangements for implementing lending schemes. In many countries, the student loan programs have been run by public agencies. But more recently new actors have appeared, including commercial banks, for-profit private agencies, and nonprofit institutions. In the Caribbean, there are schemes operating through the commercial banks and credit unions in some countries, the development finance institutions, a Student Loan Bureau (Jamaica), and as a Statutory Board under the Ministry of Education (the Student Revolving Loan Fund in Barbados).

Exhibit 3.1 Types of organizational structure of Student Loan Schemes

Type of Organizational Setup	Example
Department within University	United States, Mexico, China,
Specialized Agency	ICETEX (Colombia)
Universities with Agency	SOFES (Mexico)
Commercial Bank	Many Countries
Agency with Commercial Bank	FUNDAYACUCHO (Venezuela), SLB (Jamaica)
Government with Agency	United States
Government with Commercial Banks	Canada, Poland, Hungary
Multilateral Agency with Commercial Bank	EBRD / ABN

Source: Salmi, Jamil, Student Loans in an International Perspective (no date).

[6] Ziderman, Adrian. Student Loans in Thailand: Are they Effective, Equitable, Sustainable?, Policy Research and Dialogue Student Loans Schemes in Asia Series, Vol.1, No.1, 2003, p. 27.

Studies have shown many of the difficulties in running such programs. Some of the problems plaguing student loan programs are the high administrative costs, high default, and subsidized interest rates. In fact, a 1992 World Bank review of international experience with student loan schemes in industrialized and developing countries found that because of heavily subsidized interest rates, high default rates, and high administrative costs (up to 25% in many Latin American schemes), the repayment rate of loans has not been significant. In many cases, it would have been cheaper to substitute loans with outright grants.[7]

Exhibit 3.2 Other Loan Schemes: Proportion of the Original Value of the Loan Recovered

Country	Without default & administrative costs	With default & administrative costs
Mortgage Loans		
Venezuela	77	8
Kenya	30	8
Chile	52	18
Honduras	49	27
Indonesia	43	29
Brazil	38	29
Jamaica	44	30
Denmark	48	38
Japan	50	40
United States	71	47
Finland	65	48
Norway	67	52
Colombia	71	53
Hong Kong	57	53
Province of Quebec, Canada	69	63
Barbados	87	67
Income-Contingent Loans		
Australia	52	43
Sweden	72	67

Source: Albrecht, D. and A. Ziderman (1992). Financing Universities in Developing Countries. Document PHREE/92/61. The World Bank: Washington D.C, p. 79.

The programs all struggle to find the balance between providing subsidies to needy students and ensuring that they are financially sustainable. Although loan programs exist in many countries, they often reach only a small share of the people who need them.

[7] Albrecht and Ziderman, Adrian. Deferred Cost Recovery for Higher Education, World Bank, 1992.

The focus of this assessment is on the experience of a sample of countries in the English-speaking Caribbean who participate in the CDB's Student Loan Scheme. Most of the examples are drawn from the five countries visited during the field missions. Yet there are other experiences in countries such as Jamaica, Barbados and the Spanish-speaking Caribbean. The experiences of Jamaica and Barbados are outlined below.

Student loan schemes in Jamaica date from 1971. During this period, the scheme has been redesigned a number of times and has been funded through projects with the Inter-American Development Bank and The World Bank. The SLB has even experimented with public-private partnerships to implement the scheme in which the SLB approved loan applications and partner financial institutions (commercial banks) were responsible for the loan initiation and servicing. This arrangement generated significant problems that led to a restructuring of the project.

The SLB processes an average of 6,500 applications for loans to pay tuition fees. The average loan size varies depending on the type of tertiary institution, from US$541 for teachers' colleges to US$1,717 for UWI in 2001-2002. Some of the features and challenges of the SLB, which are also of concern for the CDB's student loan scheme, are noted in the table below.

Exhibit 3.3 Features of the Jamaican Student Loan Bureau's recent Student Loan Project

ISSUE	SLB EXPERIENCE
Pro-poor focus and targeting	During implementation of the recent World Bank project (1996 –2002), the SLB faced challenges with targeting: a higher than expected proportion of beneficiaries were from the wealthiest quintiles. One of the premises of the project was that the demand for tuition loans included significant representation of the very poor. This was not the case. Nonetheless, the project was able to improve targeting of student loans by reducing the income cut-off line for first-time applicants. In a two-year period, the distribution of loan beneficiaries from the bottom three quintiles increased from 22% to 50%. The World Bank project included a Grant-in-Aid component ($7.12 million) entirely funded by the Government of Jamaica. These grants were to assist full-time lower-income students, helping them meet part of the expenses not covered by tuition loans. The grant program was started in 1997.
Administrative efficiency	The SLB faced enormous difficulties with the private/public partnership (with commercial banks) used to implement the scheme in the late 1990s (World Bank project). Over the project period, the SLB became more efficient in its capacity to target loans and to process loan application in a timely and correct manner. As reported in 2002, loan application processing time was approximately 3 weeks, from the date of loan application. Administrative costs were estimated at 11.3 % of the portfolio in 2002, still below average for Latin America student loan programs which average 15-20%
Financial sustainability	In the 1980s, the SLB faced high threats to its sustainability because only about a third of the loans were repaid. The Bureau's subsequent efforts to make the system more financially viable paid off, including an advertising campaign appealing to students' civic duty, and publishing "shame lists" with names and photos of those with outstanding debts. Within months, repayments improved substantially; Despite improvements, at the end of the recent World Bank project there are still questions about the financial sustainability of the scheme. High rates of loan repayment arrears (approximately 74%) and default (approximately 30%) were still evident in 2001. (Precise figures not available)

Sources: The World Bank, Implementation Completion Report (SCL-40700) on a Loan to Jamaica for a Student Loan Project, December 31,2002 and Kin Bing Wu, "The Jamaican Student Loan Scheme," International Higher Education, Winter 2001.

In Barbados, the situation is somewhat different. The government has a policy of universal free education up to the first degree. The Revolving Loan Fund was established to assist needy students who wanted to pursue studies overseas. The Fund provides loan financing for study programmes in areas on the national priority list. The loans can also be used for living expenses. As in other countries, repayment of the loans is an issue. However, the reflows have been adequate to sustain the Fund and not pose a threat to its long-term viability.

4. Profile of the SLS

The SLS was designed to respond to the need for improving access to post-secondary education and training among citizens and residents in the target group of twelve Borrowing Member Countries (BMCs) of the Caribbean Development Bank (CDB). At the time of the SLS's launch in 1972, the CDB was still in its infancy. It did not have a stated poverty agenda, perhaps because this emphasis was already implicitly embedded in its Charter. Article 1 of the Bank's Charter states: "The purpose of the Bank shall be to contribute to the harmonious economic growth and development of the member countries in the Caribbean (hereinafter called the "region") and to promote economic co-operation and integration among them, having special and urgent regard to the needs of the less developed members of the region."

The CDB Annual Report 1972 records the following statement regarding Student Loans: "The Bank has begun a new programme of loans to the Governments, to be on-lent to students aged 15 and over. The loan covers board and lodging and travel expenses as well as fees, and are repayable at 6 per cent during the ten years after graduation. These loans are not available for courses in humanities, law or social science; but are available for other university courses, for teacher training, for technical and vocational training, for business studies and for para-professional training." The SLS has evolved since then, and the guidelines have been modified in keeping with the changing operating environment.

The SLS programme formed part of the wider human resources response. It was seen as a particularly useful option in those countries where the fiscal situation could not support universal funding by government for education and training. The SLS was designed as a vehicle for providing governments with loan financing that would extend access to post-secondary education to students who would not otherwise be able to pursue such studies. The programme was therefore part of a national/regional response to the global challenge facing all Caribbean countries.

The initial SLS was a practical response to a development need. Following a straightforward beginning, the Scheme has evolved with interesting national peculiarities among the BMCs. It provides useful grounds for comparative analysis and learning.

4.1 Milestones in SLS Evolution

YEAR	MILESTONE
1972	Student Loan Scheme (SLS) Initiated; Guidelines for SLS introduced
1974	Maximum sub-loan increased from XCD 2,500 plus transportation expenses to EC $3,000. Thirty-fifth Meeting of the Board of Directors calls existing ceiling on funds "grossly inadequate". BOD agrees to a portion of SLS funds to finance extra-regional institutions.
1981	Report on the operations of the SLS indicated a need for broadening the framework of the operations without damage to the integrity of the objectives, and for providing more flexibility in accommodating the needs of the Borrowers.
1982	At its Seventy-Forth and Seventy-Fifth Meetings, the Board of Directors considered the Paper, Student Loan Scheme – Variation in Terms and Conditions and approved recommendations for changes in existing CDB policy.

YEAR	MILESTONE
1983	The Unified Special Development Fund [SDF(U)] Established
1985	Revisions to the SLS Guidelines
1988	Final Report - Assessment of the Impact of the Student Loan Scheme; Trevor Hamilton & Associates
1996	Assessment of SDF IV calls for a "fresh look" at the student loan program, recommends an evaluation to assess the rationale for the SLS, issues of efficiency, and effectiveness
1997	Revisions to the SLS Guidelines
2000	Special Development Fund (SDF) IV Assessment-concluded that student loans are not necessarily targeted to reach the poor.
2001	Special Development Fund (SDF) V introduced: new resource allocation strategy based on the needs and performance of SDF funds, in support of its primary objective – Poverty Reduction; 'Poverty Prism', to Human Resource Development Strategy with a view of adapting HRD to provide greater access to the poor.
2001	Project Performance Evaluation System Introduced (PPES)
2003	SDF V Mid-term Review
2004	Assessment of the SLS; Universalia Management Group

4.2 CDB Lending Under the SLS

Over the span of 31 years, the CDB provided a total of 99 loans to countries for on-lending to students. This has totaled over USD 86 million (Exhibit 4.1).

Exhibit 4.1 SLS Approvals (1972-2003)

Country	No.of Loans	Value of Loans Approved ($'000)
Anguilla	5	1,500
Antigua	5	1,810
Belize	8	2,781
British Virgin Islands	6	5,632
Cayman Islands	3	460
Dominica	14	14,759
Grenada	10	5,778
Montserrat	4	931
St. Kitts and Nevis	12	18,327
St. Lucia	18	26,876
St. Vincent and Grenadines	9	5,947
Turks and Caicos	5	1,900
Total	**99**	**86,701**

Source: CDB, Human Resource Development Policy - 2003, November 2003, Appendix 2

From 1999-2003, the data from five countries shows that the SLS has been used by the DFIs to fund close to 5,000 student loans for a total value of USD 48.9 million.

Exhibit 4.2 DFI Student Loan Approvals in Five Countries (1999-2003)

Country	No. of Loans	Value of Loans Approved (USD)
AID Bank, Dominica	1,031	11,504,668
Bank of St. Lucia	610	11,272,450
Development Bank of St. Kitts and Nevis	776	12,478,005
Development Bank of the Virgin Islands	67	1,582,310
Development Finance Corporation, Belize	2,479	12,099,140
Total	**4,963**	**48,936,573**

Source: DFIs
Note: The total for Bank of St. Lucia reflects three years of loan activity beginning July 2001.

5. Evaluation Findings

5.1 Effectiveness

The assessment of effectiveness analyzes the extent to which the SLS has achieved what it set out to achieve. The broad areas reviewed include the contribution of the SLS to the HRD of countries, to the individual educational development of students, and to poverty reduction in each of the participating BMCs.

5.1.1 Meeting the SLS Objectives

As stated in the *Student Loan Scheme – Revision of the Policy and Guidelines* (1997), the expressed objective of the SLS is "to train persons in areas where shortages of appropriately qualified manpower are apparent, so that they could provide services that were acutely in demand, thus accelerating the economic development of the respective countries."[8] Through education and training of persons at the tertiary level in priority areas the Scheme was to bring a larger number of the population into the mainstream of the economy as productive and contributing members. The basis for the SLS was that people trained under the scheme would provide service to the Region.

In addition to meeting the HRD needs of countries, discussions with CDB stakeholders in May 2004 suggest that a primary aim of the SLS has been to improve access to tertiary education. The concept of "access" is also key to the CDB's HRD Policy - 2003. The following sections of this report address both of these dimensions of effectiveness for the SLS.

[8] Caribbean Development Bank, Paper BD 31/76 Rev. 1, Student Loan Scheme – Revision of the Policy and Guidelines (1997), p. (i).

HRD Needs of Countries

Finding 1: The SLS has, in general, met its objectives of training human resources and improving access to tertiary education in the Caribbean; it has been less successful in supporting the poverty focus of the Scheme.

The data collected in this study suggests that the SLS has been an effective tool for contributing to the country and regional HRD needs. It is also clear that without the SLS, many people would not have been able to finance their education. In this way, the SLS has broadened access to tertiary education in the region. There are areas, such as the poverty focus of the Scheme, where the CDB needs to pay some attention to in order to ensure that the SLS contributes to CDB's development effectiveness. Subsequent findings provide data that supports this overall finding.

Finding 2: SLS borrowers generally pursue programs of study that relate to the government's stated priorities for Human Resource Development (HRD). There are, however, weaknesses in the formulation and use of the "Priority Lists" that limit their guidance and strategic orientation to the SLS.

The SLS guidelines stipulate that the governments of the BMCs should annually update and publish a "Priority List", which is a comprehensive list of higher, and technical/vocational programmes of study based on the training needs in the country.[9] In the context of the SLS, these lists are the reference point for aligning sub-loan approvals with BMC human resource development needs. A review of a sample of the lists included in the loan appraisal documents, or given to the team during the field mission, found a variety in terms of the breadth and depth of the areas of study. The lists include anywhere from 9 to 37 categories, sometimes adding sub-categories as examples. The majority of fields listed are in academic or professional fields rather than vocational/technical areas.

One of the requirements for accessing loans from the SLS is that the programme of study must fall within national priorities. In the sample of countries visited, the DFI staff and SLAC members involved in the student loan approval process cite the priority list as a general reference, but in many cases the list is not in active use. They note that the guidance provided by the list is limited because often it is not updated in a timely fashion. In fact, only one of the countries visited had a list that was updated in 2003 for the academic year 2004/2005. The others were 2 to 4 years out of date.

Because the lists are broad, the programmes of study funded through the SLS are generally included. None of the CDB appraisal documents reviewed express concerns about the content or use of the Priority Lists. The1988 evaluation of the SLS also found a satisfactory level of compliance in the restriction of use of SLS funds to national priority courses.

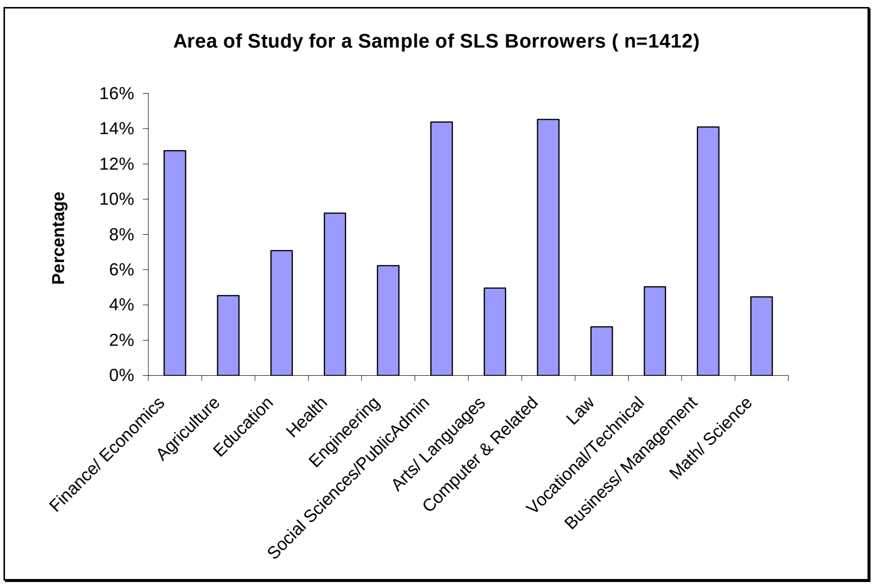
[9] CDB, Student Loan Scheme – Revision of the Policy and Guidelines, October 16, 1997, Paper BD 31/76 Rev. 1, p. iv,

The lists give no indication of the relative priority among fields of study for the country's HRD. Not surprisingly, there are some fields that are much more popular than others among SLS borrowers. Out of the 76 SLS borrowers who responded to the questionnaire, 40% had studied in Management and Business-related fields. These fields were also some of the most common in an analysis of the programmes of study for a sample of sub-loans approved in each of the 5 countries in the sample. (See Exhibit 5.1) In this data, the highest percentages of sub-loans were for:

- Finance/economics,
- Business/Management,
- Social Science/Public Administration, and
- Computer science and related areas.

These fields were also in demand in the 1980s, as illustrated through the 1988 evaluation of the SLS, where the majority of loans went to Business/Management related programmes and the social sciences.

Exhibit 5.1 Programmes of Study for a Sample of SLS Sub-Borrowers



Source: Sample of Sub-Loans from 5 Countries, SL-4 Forms

The popularity of some fields of studies, and the potential for a glut in the labour market, is of concern to some stakeholders in the countries visited. In Belize, although they are concerned with student preference for the Management and Business fields, they are also reluctant to restrict the approval of loans in this area because the programmes of study are offered at the University of Belize. The field of law is one of the areas that becomes saturated in some countries and has been taken off the list at times, at least in Dominica and St. Lucia. A limited number (5%) of loans in the sample are for vocational-technical programmes.

Thus, if alignment with the priority list is the parameter for assessing contribution to HRD needs and priorities, then there is sufficient evidence that the SLS has been effective in this regard. There are a number of concerns, however, to be noted with respect to the formulation of these lists. The limitations identified during the field mission to five countries include:

- The fact that Priority Lists are not linked to a broader HRD strategy; most of the countries do have a public sector HR strategy, but they do not have a complete and/or up-to-date HRD policy or strategy that could provide the overall framework for the priority lists;
- The lists rarely take into consideration the needs of private sector. In most countries, the government's HRD division, which is either part of the Establishment or Education ministries, takes the lead in developing the lists. These departments request input from the ministries and may complement this with an analysis of the work permits granted by government.
- The lists are not informed by labor market research. This means that the lists tend to reflect the needs of the past and they lack a strategic, forward-looking orientation.

The CDB SLS Guidelines (1997) indicate that the establishment and updating of the Priority List is a responsibility of the Student Loan Advisory Committee; some stakeholders indicate that the SLAC should play a greater role in "driving" the shaping of the priority list. The role of the SLAC is further addressed in section 5.3.1 of the report.

Overall, the study notes that the characteristics of the Priority List and the lack of an overall HRD strategy may limit the ways in which SLS-funded loans contribute to the more strategic BMC needs and priorities for the future. For CDB, this suggests a role in helping the BMCs to generate the labour market and other data needed to inform strategies and decision making.

Finding 3: For the sample of SLS borrowers that was traced in this study, the data suggests that students who borrow from SLS tend to serve in the region after graduation. The extent to which people return from extra-regional studies or contribute to the regional economy from abroad, still requires attention in order to improve effectiveness.

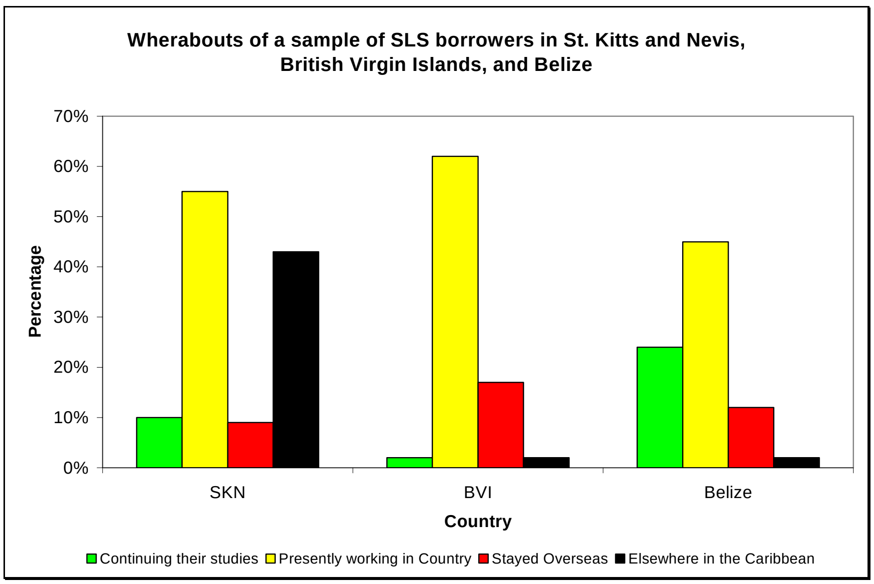
One of the critical assumptions behind the provision of loans for higher education is that the people trained under the scheme will provide service to the Region. Many of the students (about 43%) who borrow SLS funds from the DFIs do so for studying outside of the Caribbean.

Bonding requirements that are built in to loan agreements with students are meant to ensure that people come back to work either in the country or in the region after graduation. The DFIs indicated, however, that bonding is difficult to enforce. There have been concerns in the region about the numbers of students who study overseas through the SLS and don't immediately come back. Some stakeholders see the SLS as one of the factors contributing to the "brain drain". Others note that the remittances received from these borrowers are major sources of foreign exchange in some countries and should be assessed in considering the effectiveness of the SLS. In the absence of better information on the history of borrowers (both in and outside the region), it is difficult to provide a definitive account of the evolution of students participating in the Scheme.

The importance of these issues for the SLS, as noted by a senior education economist at The World Bank, is that "ultimately, the sustainability of a student loan scheme hinges on whether the economy is growing, whether students can find employment, and whether emigration is common among graduates from tertiary education institutions."[10]

Nonetheless, the data available from the sample of students in the tracer study indicates that most SLS borrowers are now working in their home country. (See Exhibit 5.2) Among the students who had gone overseas to study, the figures show that 21% (Belize), 24% (BVI) and 50% (St. Kitts and Nevis) did not return to their countries. Interviews with stakeholders point to the fact that the "push" and "pull" factors for staying overseas may lead to significant differences by country at different points in time.

Exhibit 5.2 Tracer Study Results for a Sample of SLS Borrowers



Source: Tracer study for a sample of sub-loans approved primarily in 1990s in St. Kitts and Nevis (Form SL-4, 1998 11/SFR Stud), British Virgin Islands (Form SL-4, 1999, 14/SFR-BVI), and Belize (random sample from DFC data base)

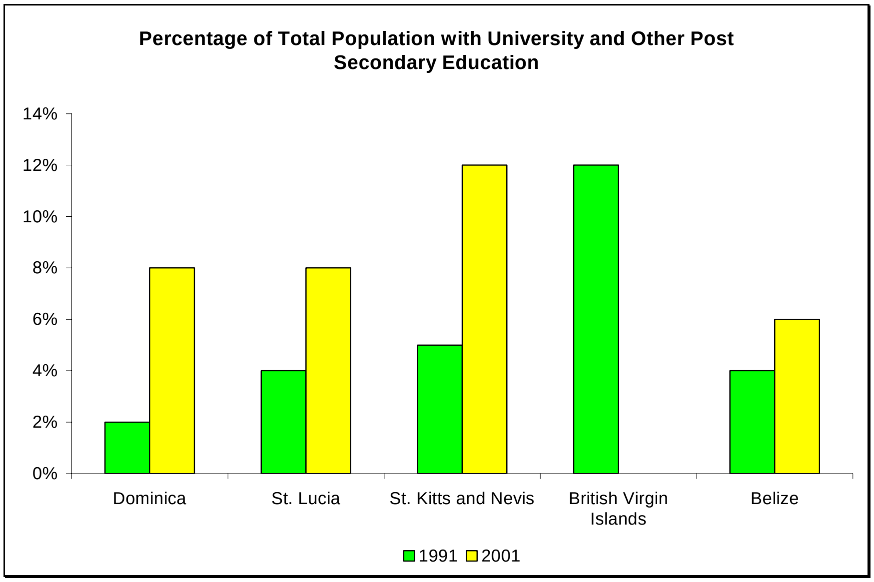
Access to tertiary education

Finding 4: Stakeholders in the five countries visited indicate that the student loans have helped to increase access to tertiary education. The evidence suggests that the SLS is an increasingly important source of funding for higher education, representing more than 50% of the funding mix for a majority of students interviewed.

Over the last decades, there has been an increase in percentage of total population with tertiary level education in the five sample countries in the Caribbean. Clearly, there are many factors that contribute to this increase over time, including the evolving opportunities for studying locally. And it is important to note that the levels are still below what is needed. Recent studies have noted the scarcity of people in the Caribbean workforce with tertiary-level education.

[10] Kin Bing Wu, "The Jamaican Student Loan Scheme," International Higher Education, Winter 2001.

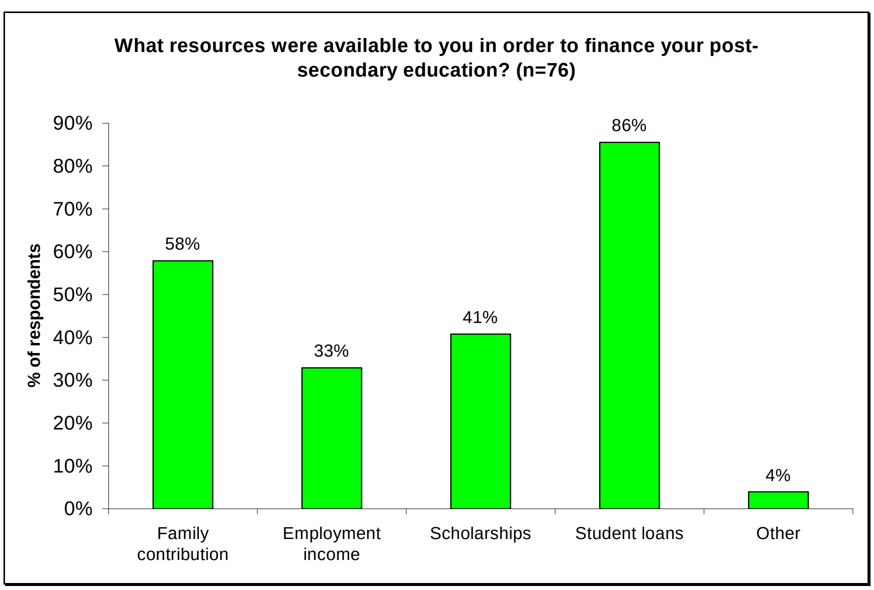
Exhibit 5.3 Population with Post Secondary Education in Five Sample Countries



Source: Census Data from each Country. 2001 Data not available for BVI

The funding sources available for higher education also contributes to Caribbean citizens' access to tertiary education. This study finds that, while students in the sample can draw on a number of options for funding their post-secondary education, the resources that are most widely available to them are student loans, followed by family contribution (see Exhibit 5.4). Only about 40% of the respondents indicated that scholarship funding was a resource available to them to pursue further studies.

Exhibit 5.4 Resources Available for Financing Post-Secondary Education for a Sample of SLS Borrowers



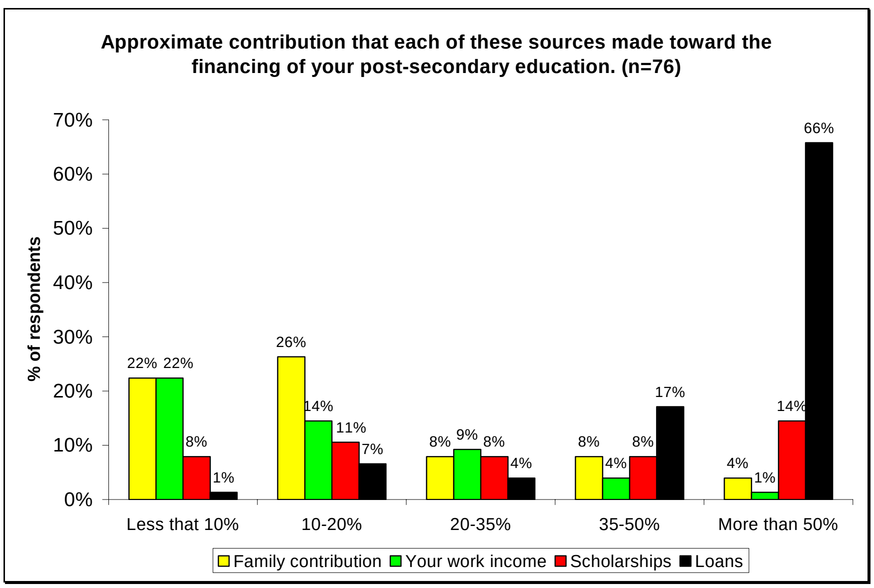
Source: SLS Borrower/Student questionnaire.
Note: Respondents could select more than one option so the total will be more than 100%. The percentages refer to the percentage of the sample answering this question (n=76) that selected the particular option.

In most of the countries visited, scholarship funds from public sources are dwindling. The exception is BVI, where numbers and levels of scholarships are still relatively high (84 scholarships awarded for the period June 2003-April 2004, with 35 designated for overseas study programmes) and have not witnessed a decline in recent years[11]. Stakeholders note, however, that the amount of the BVI government grants (USD12, 000 per year) has remained static over time. The Cuban scholarship program (described in greater detail in Finding 17) has provided options for higher education for many students in the Caribbean. The number of students benefiting, however, is much smaller than it was several years ago because of the governments' more limited ability to provide complementary support for travel and living expenses.

Furthermore, government's ability to cover the economic cost of studying at the University of the West Indies (UWI) is also decreasing. In Dominica, for example, government officials indicated that they could no longer provide this assistance to students. The economic cost is the direct cost of an education at UWI plus the shared cost of the common services (for example, maintenance, buildings, equipment). This is equivalent to the cost of training students in a given year. The government is expected to cover the per capita cost, while the student pays examination fees, boarding and lodging expenses and other fees applicable to their area of study.

Given the scarcity of scholarship funding, it is not surprising that student loans represent a large proportion of the actual funding used by the questionnaire respondents to finance their studies - for 66% of the respondents, student loans amount to more than 50% of their funding for post-secondary education (Note Exhibit 5.5). The 1988 evaluation findings show that loans contributed about 35% of the funding.[12]

Exhibit 5.5 Contribution of Student Loans to the Financing of Post-Secondary Education for a Sample of SLS Borrowers



Source: SLS borrower/student questionnaire data.
Note: Respondents could select more than one option so the total will be more than 100%. The percentages refer to the percentage of the sample answering this question (n=76) that selected the particular option.

[11] Personal communication government officials; BVI numbers from the Island Sun Newspaper, June 5, 2004, "Minister provides update on Scholarships."

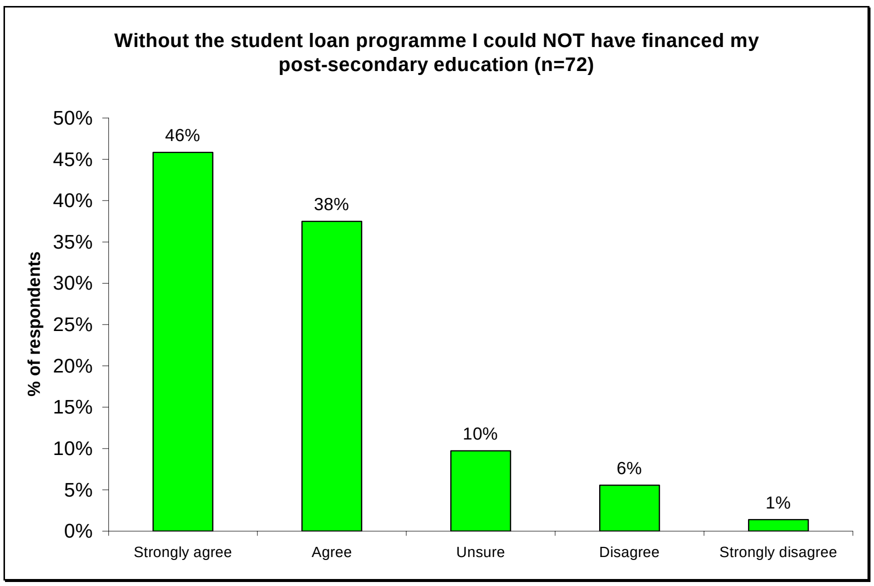
[12] Trevor Hamilton and Associates, Assessment of the Impact of the Student Loan Scheme of the Caribbean Development Bank, 1988, p. II-23

5.1.2 Impact on Students

Finding 5: Eighty per cent of the SLS borrowers/students indicate that without the student loans received from the DFIs, they would not have been able to pursue a post-secondary education.

More than 80% of the respondents to the SLS questionnaire indicate (agree or strongly agree) that they would not have financed their post-secondary education in the absence of student loans (see Exhibit 5.6). Across all countries, one of the strengths of the SLS noted by multiple stakeholders is that it gives opportunities to people who would otherwise not have them.

Exhibit 5.6 Ability to Finance Post-Secondary Education in the Absence of Student Loans



Source: SLS borrower/student questionnaire data.

Finding 6: Although there is insufficient data for a definitive assessment of the counterfactual, there is a perception that the students who are denied loans through the SLS can find alternative funding for their education, although in some cases this has required postponing or changing their educational goals.

The study's Workplan called for an assessment of the counterfactual – that is, in the absence of the SLS do students find ways to access post-secondary education? What are the alternative strategies that they develop? The data available for this component of the study is limited. It was difficult for the study team to find people who had been denied loans since the DFIs do not keep official records of these applicants. Often, the "denial" occurs when borrowers first inquire about a student loan. If they do not meet the established requirements (guarantors, tangible collateral, acceptance in an eligible program and institution), then they do not formalize the loan application. The DFI staff interviewed indicated that the numbers of denials would be relatively small. About 90% of the SLS borrowers responding to the questionnaire noted that they did *not* know anyone who had been rejected from the student loan program in their respective countries.

In the small number of interviews conducted with people who had been denied loans, or who chose not to apply for a DFI student loan, respondents described the alternative strategies they used to pursue their education in the absence of the SLS. These included:

- Pursuing UWI's degree programs in which one studies in their home country first (but the number of programs are limited),
- Changing the programme of study,
- Seeking a loan from their employer,
- Seeking distance learning opportunities, and
- Working in order to pay part-time studies.

The reasons that student loans were denied generally relate to deficiencies in the security or guarantees provided. In one case, for example, an applicant's uncle had pledged security in the form of land and property, but the DFI required that the uncle also sign as guarantor, since his name was on the land title. The uncle was only prepared to pledge the assets, not sign as guarantor, so the agreement could not be completed. In another instance, the family friend who had offered to provide security and guarantee died suddenly and the student's mother (a single parent) was unable to help.

Exhibit 5.7 Examples of Strategies Used by Students When Loans Have Been Denied

STRATEGIES USED
Case 1 The applicant's uncle had pledged security in the form of land and property valued at XCD200,000 (for a loan of XCD80,000), but the DFI required that the uncle sign as guarantor, since his name was on the land title. The agreement could not be concluded, since the uncle was only prepared to pledge the assets, but not sign as guarantor. Without access to the student loan resources, the interviewee faced the following options: • Apply for a scholarship under the Cuba programme. This approach was rejected since for strategic and security reasons, the student's first choice of a degree in Biotechnology was closed to non-Cubans. (After success in five CXC subjects, the interviewee had pursued A-level studies in Biology, Chemistry and Physics); • Change focus of study, and pursue a degree in Accounting at the University of Guyana. This option was rejected because of the high economic cost involved, and the fact that the Government was not prepared to pay it; and, • In 2004, after a two-year period of work at a local accounting firm, the student registered for a three-year correspondence course towards completing the ACCA professional qualifications in Accounting.
Case 2 The interviewee's loan application was submitted in June 2003, but was aborted because the security and guarantee conditions could not be met. The family-friend who had offered to provide the security and guarantee died suddenly and her single parent (mother) was unable was not in a position to help. Because of the unavailability of financial backing, the student was unable to access commercial sources of credit, and has been working as a cashier with a local retailing company, with the intention of building a pool of personal savings to finance tertiary level education. Even the Cuban scholarship option would not be a viable option, because of the lack of supporting family financial support. Study at the UWI centre has also been ruled out on financial grounds. Given five passes at CXC the likely next-step option being contemplated by the interviewee is to pursue studies in mathematics at a community college in New York, with support from a family friend in providing accommodation.

STRATEGIES USED
Case 3 The interviewee submitted her application in 2001, but it was rejected because the salary of the proposed guarantor was too committed, and did not provide adequate security for the loan. Following the early disappointment, the interviewee decided to use a mix of work-study to pursue a BSc degree in Management at the UWI centre. The student used a combination of funds from the encashment of insurance policies, along with a one-year, interest-free loan from her employer. She expects to seek a rollover of this loan of XCD20,000 for the next two years until she graduates. In her assessment, the SLS would have provided access to one secure, long-term source of funds that would have financed her studies, and reduced her level of stress and uncertainty about her ability to complete her studies and graduate.

Finding 7: In the study's sample, the majority of the SLS borrowers were able to find a job within six months of their graduation, usually in their field of training.

A majority (65 %) of the questionnaire respondents who had completed their study programmes were able to find jobs within six months of graduating.[13] Another 12% found jobs in less than a year. It is worth noting, however, that a number of the students sampled work in the public sector and were coming back to their positions after a period of study leave.

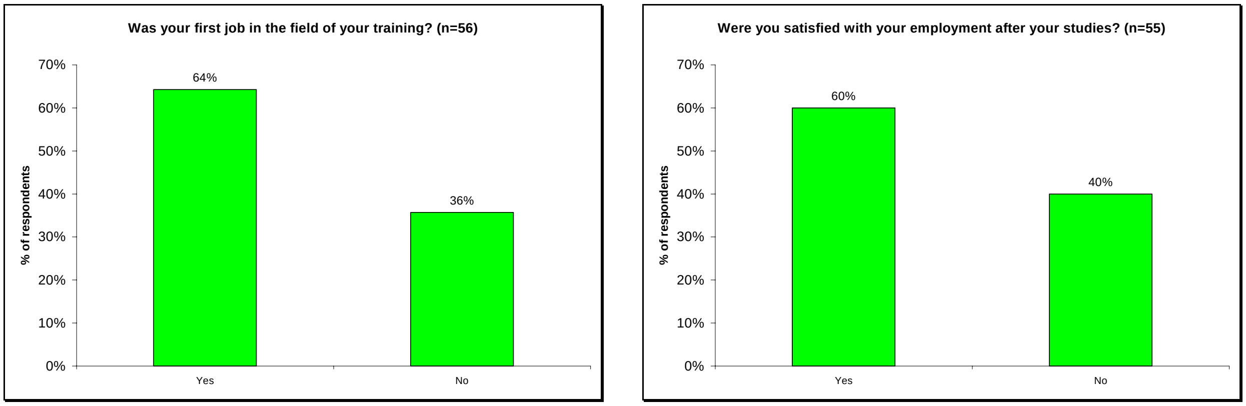
Most employed graduates in the sample are satisfied with their employment after their studies (Exhibit 5.8). Yet there are 40% of the SLS borrowers who are not satisfied with their jobs. In the interviews, it became evident that salary level is the factor that most frequently affects satisfaction with employment for this group. Many students pointed to a difference between expected earnings and actual earnings upon entering or returning to the workforce. For some students, this has meant taking a job in a field that is unrelated to their studies because of the higher earnings potential. "After the completion of studies, it's difficult to find a job in your field of studies that pays what you deserve" (Respondent to the Student/Borrower Questionnaire). In addition, some young graduates were concerned about the need to work for long, unspecified periods as Administrative Cadets before being confirmed to permanent positions in the public service.

More than 60% of the questionnaire respondents were able to find their first job in the field of their training. One-third of these graduates work in Business, Management and related fields.

On the whole (90% of the respondents), SLS borrowers are optimistic about their career prospects as a result of their education and training (Exhibit 5.8).

[13] All of the SLS borrowers in the survey sample had graduated or were currently pursuing their programme of studies. The data required in order to comment on the attrition rates of SLS borrowers is not available through the SL reporting forms.

Exhibit 5.8 SLS Borrowers: Employment in Relation to Training and Satisfaction with Employment



Source: SLS borrower/student questionnaire data.
Note: The "n" does not include the respondents who are currently studying.

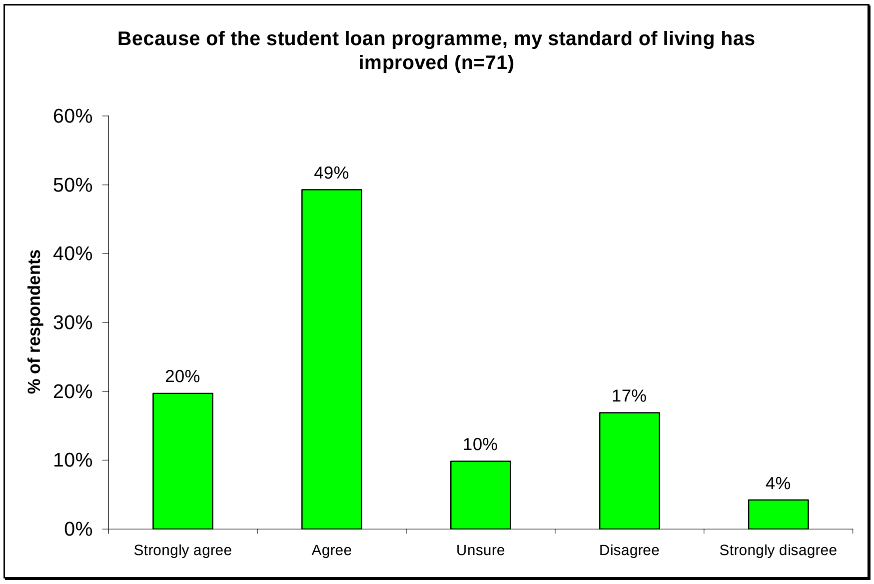
Finding 8: Although SLS borrowers generally agree that their standard of living has improved as a result of their participation in the scheme, they note several factors that limit the positive effects of the SLS on students.

One of the assumptions underlying the pursuit of higher education is that the educational investment will pay a return not only in the gaining of knowledge and experience, but in greater earnings potential over a lifetime. This is what is also known as the "private rate of return" to education. Research from Trinidad and Tobago confirms that university graduates have superior lifetime earnings profiles to secondary school graduates.[14] In other regions as well, people with higher qualifications earn, on average, far more over a lifetime than the less qualified.

It is natural for individuals to expect their standard of living to increase as their level of education increases. There is, however, a short-term character to this expectation that is difficult to meet. Most individuals expect to be better off soon after graduation. In the study sample, most questionnaire respondents agree that their standard of living is better after taking the student loan, yet more than 25% of the respondents are either unsure, disagree, or strongly disagree (Exhibit 5.9).

[14] Bourne, Compton and Dass, Anand. "Rates of Return to Investment in Higher Education in the Commonwealth Caribbean 1986-1999", N.D, p. 7.

Exhibit 5.9 SLS and Improved Standard of Living of Borrowers



Source: SLS borrower/student questionnaire data.

The interviews with recent graduates reveal some of the factors affecting short-term improvements in their standard of living. One of the primary issues for them –more acute in some countries (such as St. Kitts and St. Lucia) than in others-- is the burden of debt upon graduation. This concern is particularly true for students who study at extra-regional institutions. Borrowers interviewed highlight the fact that the debt burden negatively affects their standard of living when they return to work in the BMCs because they have less ability to meet monthly expenses.

Students/borrowers indicate that it is difficult to find employment at salary levels that are high enough to service their student loans and cover their costs of living. Even those who went on study leave, found that the salary increase upon their return was not commensurate with the investment in education and the income now required to make the monthly student loan payments. These difficulties were noted primarily in St. Kitts and St. Lucia, where a sample of students interviewed cited payment amounts that ranged from 15% to 50% of the salary payment they received each month[15]. The percentage of the repayment amount is of concern in looking at some of the lessons learned internationally in financing students through such loan schemes. As noted in a study by The World Bank, "experience shows that no repayment schedule can be sustainable when the monthly debt exceeds 18% of income."[16]

Another factor that contributes to the debt burden is the maximum loan amount that is stipulated by the SLS (USD 35, 000 to USD 45,000) in relation to the costs of education. For those who study at US or other extra regional institutions, the maximum sub-loan is low when compared to overall costs of education. Thus, many of these students borrow from other sources as well (e.g. commercial banks, credit card companies in North America). In St. Kitts, for example, program participants point to the debt burden, coupled with the limited number of jobs that could allow them to service the loan, as the main reason why some friends who have studied overseas choose not to return.

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[15] The student reference was to the salary payment received, which we take to be the post-tax income.

[16] Salmi, Jamil "Student Loans in International Perspective: The World Bank Experience", p. 15.no date. The study does not specify if it is referring to pre-tax or post-tax income.

This situation is largely a reflection of the labour market and economic situation in the OECS countries and the rest of the Caribbean. Nonetheless, the CDB and the DFIs should explore ways to adjust the structure of the SLS as to meet stakeholder needs under these circumstances.

5.1.3 Effects on Poverty

As noted in its HRD Policy 2003, CDB views HRD, and education and training in particular, as playing a pivotal role in poverty reduction. With SDF V replenishment (2001-2004), the CDB introduced a new resource allocation strategy based on the needs and performance of SDF funds, in support of its primary objective – Poverty Reduction. As a result of this strategy, the human resource training supported through the student loan scheme is to be viewed through the poverty prism in order to adapt the scheme to enable greater access to the poorer segment of the population.

In the context of the SLS, people perceive the contribution to poverty reduction in two ways: direct support to the poor and the effects on the poor from having a more educated, better trained cadre of professionals in service to the country.

Finding 9: At a broad level, the SLS is perceived to make indirect contributions to poverty reduction in the participating countries because it facilitates opportunities for education and training and helps build country capacities.

The "poverty prism" was introduced in SDF V to ensure that the Bank's operations are poverty sensitive and focused in ways that are realistic and practical for the Bank's mission to reduce the extent and incidence of poverty in the Caribbean.

One of the stakeholders noted that the SLS is about "preventing poverty, not poverty alleviation." From this perspective, the SLS benefits to students (noted above) in the form of opportunities to further their studies, subsequent employability, and optimism concerning their career prospects, are important in ensuring that poverty does not get worse.

At a broader level, the stakeholders at the country level indicate that the SLS contribution to education supports efforts to reduce poverty. Enhancing the skills base of teachers, doctors, nurses, and other public servants is an integral component of building capacity for poverty reduction. The following statements made by respondents to the Student/Borrower Questionnaire serve to illustrate this dimension:

- "… is a developing nation and needs professional educators in its educational system. Therefore, I believe that [by] becoming better qualified as an educator, I will be contributing partially to the development of my country."
- "I feel we need more qualified personnel to manage our country and properly allocate its resources; hopefully the education I am acquiring will focus on exactly that."

Finding 10: The security and guarantee requirements for obtaining student loans limit the access to the SLS for the poor.

Although the study was not able to establish the socio-economic status of borrowers, there are strong and consistent perceptions about the Scheme's accessibility to the poor. Stakeholders indicated that the SLS does not reach the poorest segment of the population. The majority of respondents to the student/borrower questionnaire (67%) are either unsure or disagree that the loan scheme helps the most needy students get loans. In the interviews and focus groups, they cite the fact that the eligibility requirements are well known and would deter the poorest students from even inquiring about a loan. Government officials, experts in the education sector, and DFI staff tend to share this perspective.

An overview of the requirements for obtaining a loan at each DFI visited is provided in Exhibit 5.10. In addition to the requirements listed, each applicant must provide evidence of personal or family contribution to the costs of the programme of study (this can include scholarship funding in some cases). Most DFIs do not specify the amount of this contribution. In St. Lucia, the BOSL has established a percentage of the family contribution and a policy of annual increments so that the contribution would be a maximum of 20% of the loan amount for applicants in 2005 and thereafter. [17]

Exhibit 5.10 Loan Requirements by Loan Size, by Country (Sample of Five Countries)

DFI	Tangible Collateral	Guarantors	Estimated Future Earnings and Other Requirements	Service Interest during Study/Grace Period
AID Bank	Certificate of Title of property required for loans over XCD16,500	One for loans under XCD6,750 Two for loans between XCD6,750 and XCD 16,300	Applicant's ability to repay based on future earnings is considered in determining exact loan amount.	Must have letter of consent to pay interest from relatives; or can deduct interest from total loan amount. Capitalization of the interest is not encouraged.
BOSL	Land is the preferred form of security	One for loans under XCD4,050 Two for loans under XCD16,000	Affordability policy; estimates made using public sector salary benchmarks Students or their families must contribute 15% of the value of the loan.	Required.
DBSKN	An option, but not required	Two Guarantors is the general requirement	–	Optional. Interest can be capitalized. Student must sign letter indicating preference.
DBVI	A new requirement	Two Guarantors is the general requirement	No assessment of projected income	Required.
DFC	Required for loans over BZD$10,000	One for loans under BZD$ 5,000 Two for loans between BZD$ 5,001 and 10,000	No assessment	Required.

Source: DFIs – personal communication and student loan brochures/applications

[17] The contribution may include financial and other support as well as the commitment to pay interest during study period.

Land is the tangible security that is generally required for loans above a certain amount in four of the five countries visited. (The exception to this is St. Kitts and Nevis, where real estate is an optional form of security.) In some countries there are difficulties with land titling (e.g., family land is not legally parcelled out to sons and daughters and there are lengthy titling procedures), which means that a student's family may own the land but not have the certificate of title that is required for security. In addition to the landless poor, other groups may be excluded because of traditions of collective land ownership, as in the case of the Caribs in Dominica. The percentage of households owning land recorded in the most recent census ranges from 49 – 68% in the sample countries. (Exhibit 5.11).

Exhibit 5.11 Land Tenure in a Sample of SLS Countries

COUNTRY	PERCENTAGE OF HOUSEHOLDS THAT OWN LAND[18]
Dominica	68%
St. Lucia	58%
St. Kitts & Nevis	59%
British Virgin Islands	N/A
Belize	49%

Source: Census Data from each country, for either 2000 or 2001

In the sample of five DFIs, the exception to the tangible security requirement is St. Kitts and Nevis. The DBSKN requires two guarantors, even for obtaining the maximum loan amount. This arrangement would seem to favour individuals and families who do not own land that can be used as security, thus making the loans more accessible to the poor. However, across the islands, the interviews suggest that even finding guarantors is a problem for the poorer segments of the population -- the poor would not know individuals with an acceptable asset base who would be willing to back them.

DFIs also have policies concerning the eligibility of guarantors. In addition to considering the guarantor's income and net worth, some DFIs place a limit on the number of people that any one person can guarantee (usually a maximum of two people). In St Lucia, certain public figures cannot be presented as guarantors: the brochure expressly notes that politicians, Ministers of Government and Religion, and non-resident citizens are not eligible.

Despite the welcome effort to directly address poverty in the SLS, the inherent credit risks in extending student loans still remain. Thus, the requirements for accessing credit are still creating barriers. In some extreme cases, respondents suggested that unless the security and guarantee requirements are removed, the poor would not really have equity of access to the SLS. This, in turn might suggest the need for a small, grant-funded SLS trust fund that allocates funds based on character and academic references to reach out the very poor. This would represent a welfare component that could be covered under the Bank's development mandate, since it does not conform to the strict banking concerns.

[18] This may underestimate the percentage of households that actually have the land title in their possession since the census inquires whether the respondent owns the land, not whether or not he/she has the title to it.

Finding 11: Special windows to benefit the poor have been established in three of the five sample countries in the last three years. At this stage, however, few students have benefited from the special schemes.

Since the adoption of the poverty prism in 2001, CDB programmes have been adapted in order to strengthen their poverty focus. In the case of the Student Loan Scheme, this led to the inclusion of a set proportion of funding set aside for access by the poor under more flexible criteria in every student loan facility. The establishment of this window of funding was reported in the SDF Annual Report (2002).

Three out of the five countries visited have special funding windows identified in the loan appraisal documents. For these loans, the SFR component, or a portion of that component, is to be utilized "specifically for students from poor and vulnerable families who, by virtue of the more concessionary conditions of the loans, will be able to access funding which might otherwise not available to them"[19].

The study found that in the sample countries where special pro-poor lines of credit are available – Dominica, St. Kitts and Nevis, and St. Lucia—few students had benefited through the scheme. The numbers are as small as 1 loan in St. Kitts and Nevis and Dominica and as large as 20 loans in St. Lucia. In St. Kitts and Nevis, the loan resources targeting the poor have been available only since 2003 so the short timeframe is an element that affects the limited credit activity.

In all three countries, there are other factors contributing to the low number of loans provided through these lines of credit. These include:

- Despite the development of special brochures, there is little promotion of these special funds for student loans, partly for fear among DFIs that if they advertise the special window, too many people will try to utilize it. "Everyone is poor" and could benefit from more favorable loan terms, however slight.
- The DFIs have been reluctant to develop more concessionary terms for the loans because of the past performance of their student loan portfolio, and the additional risk to the DFI that these terms imply. The lending institutions cite a general lack of participation from other founders and/or government in backing the additional risk that they take on;
- Internal guidelines or criteria within the DFIs are often not clear in terms of targeting – in defining who is eligible for these funds; there is still some difficulty and often discrepancy in defining who is poor.

In general, security requirements for obtaining these loans are the same as for the regular SLS. Thus, many stakeholders believe that the poor are and will still be excluded. A more favourable interest rate is the principal concession made in the terms and conditions that apply to the loans given under this funding window. Loan applicants must still provide guarantors and be able to service interest during the grace period. (See Exhibit 5.12 for an overview of the requirements.)

Some external stakeholders also question DFI capacity to do means testing or other kinds of poverty screening of applicants for these special lines of credit.

[19] Caribbean Development Bank, Fifth Student Loan, Development Bank of St. Kitts and Nevis – St. Kitts and Nevis, Paper BD 36/03, p. 24

Exhibit 5.12 Characteristics of the Pro-Poor Funding Windows in the SLS

Country	Loan #	Amount Available through Window	Special Criteria	Special Terms and Conditions	Number of Sub-Loans approved
Dominica	VII SLS, 2002	USD 1,000,000 or 14% of the USD 7 million loan	Household income of less than XCD1,000 monthly Preference to study at UWI and local institutions; Bachelors degree only Loan to be insured Usual assessment of guarantee Max. loan size:XCD60,000	5-7% interest during grace period 10% interest after grace	1
St. Lucia	VIth SLS, 2001	25% of the CDB loan, equivalent to XCD 8.1 million or USD 3 million	Special emphasis on low income, where household income is less than XCD24,000 per annum or less than XCD6,000 per capita Guarantees can be for amounts ranging from XCD20,000 – 120,000	Eastern Caribbean Student Loan Guarantee Fund (ECSLGF) can provide Guarantees of last resort Students applying through ECSLGF pay may pay up to 11.5 % interest rate.[20]	20
St. Kitts and Nevis	Vth SLS, 2003	SFR component: USD 500,000	Lower to lower-middle income bracket of XCD12,000-24,000 per annum, taking into account the size of the family	5% interest rate	1

Source: DFIs, personal communication and documentation

Finding 12: There are examples of special mechanisms to assist the poor in accessing student loans, but these are not widespread. Most DFIs indicate that they do not make special efforts to target the poor.

The majority of DFI respondents (66%) report that they do not make special efforts to target the poor. In St. Lucia and Belize, the governments and the DFIs have created special mechanisms to improve the accessibility of the loan scheme. As noted in the appraisal document for VI SLS to St. Lucia (Paper BD 99/01), the major constraints for this group [the poor] are the low and irregular nature of their income, the amount of contribution required and their inability to provide adequate security.

[20] This would depend on the percentage of the loan that is secured through the Fund. The annual recurrent risk charge is 20 basis points (100 basis points is equivalent to 1%) for each 10% or part thereof the loan secured by the Fund. The charge is twice as much for applicants who do not qualify under the low-income category.

The appraisal specified that 25% of the loan was to go to the poor. In response to this condition for the loan, the BOSL initiated the Eastern Caribbean Student Loan Guarantee Fund (ECSLGF), with participation from the Bank and the GOSL. At the time of the evaluation, a second mechanism was being established by the government in the form of a Human Resource Development Credit Facility with funds from the European Union. The emphases of both of these, at present, are the guarantee requirements for accessing the student loans and, in the case of the Credit Facility, the servicing of interest payments.

In Belize, the mechanism established by government seeks to help students meet the interest payments during the grace period for the loan. These efforts are more fully described in Exhibit 5.13.

Exhibit 5.13 Examples of Mechanisms to Increase Access to the Poor

EASTERN CARIBBEAN STUDENT LOAN GUARANTEE FUND (ECSLGF), ST. LUCIA
Incorporated in 2002 as a subsidiary of the East Caribbean Financial Holding Company (ECFHC), the Fund was created by the BOSL and the GOSL --with contributions of XCD300, 000 each-- to assist borrowers who want to pursue tertiary level education, but who lack access to the collateral required. The Fund provides full or partial guarantees to qualified and otherwise eligible people. The Fund is leveraged in a ratio of 1 to 5, enabling it to guarantee loans totalling up to 5 times the size of the fund. Other institutions are expected to contribute to the Fund in the future. The Fund is governed by its own Board of Directors composed of representatives from the BSOL, Ministry of Education, Ministry of Finance, Social Security Board, and the Resident Representative of the ECCB. In addition to the normal criteria for a student loan, the primary criterion for the Fund is that the borrower should be from low-income households (less than XCD24,000 or per capita or household member income of XCD6,000). The students who receive a guarantee are required to pay an initial flat fee (2% of the portion of the loan guaranteed by the Fund or a minimum of XCD1,000, whichever is higher). This fee can be capitalized. In addition, borrowers effectively pay a higher interest rate that incorporates an annual recurrent risk charge based on the portion of the loan secured by the guarantee. This charge is twice as high for applicants to the Fund who do not qualify under the low-income category. The loans must also be secured by 2 guarantors who are liable for the entire debt in case of default. As of July 2004, nearly 20 loans had been guaranteed through the ECSLGF.
HUMAN RESOURCE DEVELOPMENT CREDIT FACILITY, GOVERNMENT OF ST. LUCIA
The Facility, announced in 2004-2005 Budget Address in April, has been established with funds from the Special Framework of Assistance with the European Union. It is expected to begin operations in September 2004 with XCD1.5 million, a portion of the XCD10 million that will be allocated. The Facility makes grant funding eligible to low-income individuals (monthly family income below XCD3,500) wishing to pursue a tertiary education, whose loan has been approved by a financial institution. Two financial institutions are involved at this time: BOSL and the credit unions. Grant support can be provided for up to 50% of the loan amount, up to XCD25,000. At this stage, the grant funding is to be used as security/collateral for the loan or to service the interest payments during the grace period. Eventually, a third modality will provide direct support to the beneficiaries so that they can reduce their loan amount. Two-thirds of the grant resources are to be used to fund vocational/technical programmes of study, especially at Sir Arthur Lewis College. To ensure alignment with priority needs for training, the Ministry of Education will be responsible for the screening process. Prospective students apply to the Ministry after the bank has approved their loan applications.
INTEREST RELIEF PROGRAM, GOVERNMENT OF BELIZE
In Belize, for the past 3-4 years there has been a government interest relief program that makes the monthly interest payments expected from students during the grace period on their student loan. Applicants apply directly to the Ministry of Education, once the DFC has approved their loans. Approximately 250 borrowers are now receiving this support, amounting to BZD$600,000-700,000 per annum. Most of these funds are going to people who are studying overseas. Financial need is one of the criteria.

Sources: Personal communication; St. Lucia Budget Address 2004-2005, East Caribbean Student Loan Guarantee Fund *Guidelines and Procedures for Loan Officers.*

In countries without guarantee facilities, most stakeholders – including student borrowers—flagged the need for them. Yet other stakeholders raised a few words of caution and potential risks with respect to these mechanisms, especially:

- the risk of politicization when there is government involvement in such schemes;
- when government is involved, there is also the risk that the programs primarily benefit people in the public service because they are not widely promoted;
- the perception among some stakeholders that if borrowers know that the loan is guaranteed by government, they will consider it essentially as a grant, thus will be more likely to default;
- the liability incurred by government through its involvement in guarantee schemes could negatively affect its economic standing and assessment by the international financial institutions.

At this stage, as the CDB and the BMCs look for ways to improve the SLS's "pro-poor" focus, it is clear that these guarantee and interest-relief mechanisms warrant further monitoring to identify the advantages and disadvantages of using them to improve the access to student loans for the poor.

5.1.4 Gender Equity

Finding 13: The majority of SLS borrowers are female. The disparity in the number of female and males accessing loans for tertiary education from the DFIs reflects the broader trends in education in the Caribbean.

The assessment of the SLS does not look in depth at the gender question. There are many dimensions to be analyzed, such as the fields of study pursued by men and women, or whether women or men are as likely to return from overseas study programmes. Given the resources and scope, the study focuses on the gender composition of the borrowers, the gender concerns emerging from stakeholders, and the existence of special strategies to draw women and men to the SLS.

About 53% of the sub-borrowers in the study's sample are female, which compares to 46% of sub-borrowers reported in the 1988 evaluation (p. II-9). There are some differences in the gender ratio among the five sample countries, with BVI (69%) and St. Lucia (60%) having the highest proportion of female borrowers. In Belize and St. Kitts and Nevis, the percentage of females is between 42% and 44%.

The overall prevalence of women entering tertiary education, which also was noted by government officials and local educational institutions, corresponds with trends at the secondary and tertiary levels throughout the Caribbean. Data available on secondary completion rates for the BMCs shows that women are more likely to complete secondary education and thus have the option to go on to tertiary levels. (Exhibit 5.14) The fact that fewer males move on to tertiary is also reflected in registration data from the University of the West Indies, where the registration of females exceeded 72% in 2003. [21]

[21] CDB, Vth Student Loan, Development Bank of St. Kitts and Nevis – St. Kitts and Nevis, Paper BD 36/03, May 12, 2003.

Exhibit 5.14 Gross Completion Rates for Secondary Education by Gender for Sample Countries

Country	Gross Completion Rate	Females	Males
Belize	37	40	33
Dominica	56	65	46
St. Kitts and Nevis	67	76	59
St. Lucia	72	77	66

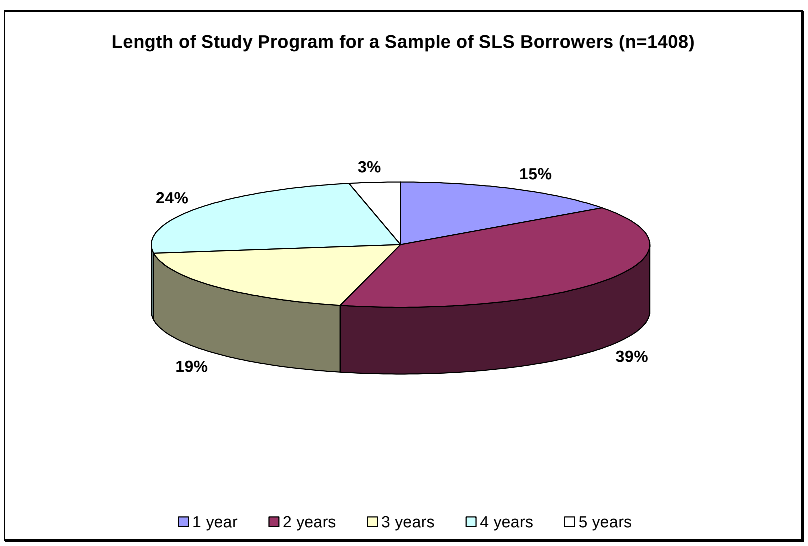
Source: di Gropello, Emanuela, *Monitoring Educational Performance in the Caribbean*, World Bank Working Paper No. 6, 2003, p.87.

Thus, the disparity between females and males as sub-borrowers in the SLS is not surprising and reflects a complex social phenomenon that is beyond the scope of the SLS. At the same time, there is no evidence in the SLS of specific strategies to address the gender imbalance through specific policies on promotion, outreach, or other aspects of the Scheme. One of the considerations for the CDB and the DFIs is whether or not the SLS can or should implement specific strategies for increasing the access of males to tertiary education.

Some of the DFI management, and other stakeholders interviewed, expressed concerns about the disparity between men and women and offered ideas for increasing the participation of males. These ideas focused on the length of study programmes and promotion of vocational-technical training opportunities. For example, the SLS has generally focused on financing longer degree programs, which some people indicate would not be as attractive to males because income generation is postponed. In a sample of loans reviewed, close to 40% of the loans were used for study programs of 3-4 years and another 39% for 2-year programs.

In looking at the fields of study for the sub-loans sampled, only a small portion (5%) indicate that loans are taken for vocational and technical training. Thus, as some interviewees noted, the earmarking of loan funds for vocational-technical education is one potential mechanism for addressing the gender gap in borrowing funds through the SLS. These stakeholders anticipate that males would prefer shorter training courses that provide more immediate returns in terms of employability.

Exhibit 5.15 Length of Study Programme Pursued by a Sample of SLS Borrowers



Source: SL-4 Forms for a sample of loans from the 5 sample countries

5.2 Relevance

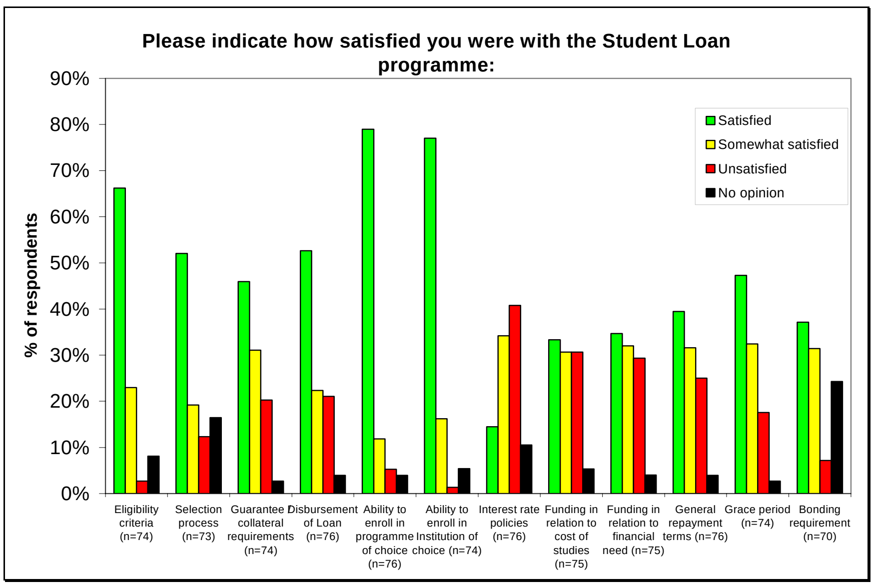
In this section, the study's findings assess the extent to which the SLS is relevant to the target groups and to regional and country needs. It also looks at the relevance with respect to CDB policy and SDF objectives, as well as CDB comparative advantages in this context.

5.2.1 Client Needs and Satisfaction

Finding 14: The student borrowers are generally satisfied with the SLS and recognize the opportunity that it provides them to pursue their post-secondary studies. However, there are some terms and conditions of the loans that could be improved to better meet their needs.

As noted earlier, students/borrowers unanimously recognize that the SLS provides an opportunity to access post-secondary education. Responses to the questionnaire demonstrate the generally strong level of satisfaction of student borrowers with most of the dimensions of the loan program, including eligibility requirements, selection process, security and collateral requirements.

Exhibit 5.16 Student Borrower Satisfaction with Different Aspects of the SLS



Source: SLS borrower/student questionnaire data

Some of the issues that affect the SLS effectiveness with respect to the impact on students emerge again in relation to relevance. In Exhibit 5.16, there are two areas where the percentage of respondents who are unsatisfied is higher or almost as high as the levels of satisfaction: interest rate policies and level of funding. These are further assessed in separate findings.

Other factors affecting level of satisfaction with the SLS include:

- Delays in the approval and disbursement process
  (Note: The concerns about the timeliness of approval and disbursement are further addressed in the section on Efficiency.)
- Communications and client relations
  Students and graduates noted that DFI staff and management did not spend enough time explaining the terms of the student loan, responding to their queries, and listening to their concerns.
- Availability of funding for graduate study
  Some of the DFIs give preference to people who are applying for their first degree program. Students indicated that they would need more funding available in order to pursue graduate studies as well.
- Availability of funding for overseas studies
  In Belize, both the government and the DFI have prioritised funding for study at local institutions. This has meant that there is no funding – or very limited funding—available to study at extra-regional institutions. Students note that this is a limitation, especially for fields of study that are not offered locally or regionally.

Finding 15: Students raise some concerns about the interest rate charged by the DFIs and the policy of servicing interest during the grace period. These characteristics limit the relevance of the SLS to their needs.

About 40% of the respondents report dissatisfaction with the interest rate policies for the SLS. There are two dimensions to this issue – one is the rate itself and the other is the policy of servicing the interest during the grace period.

The interest rates being charged to students range from 8% to 11% on reducing balance. Some of the students and other stakeholders interviewed stress that the rates are too high (referring to a rate of 10%), yet if coupled with the other conditions such as grace and repayment period, the package is better than what students can obtain at the commercial banks. A few students interviewed have found ways of refinancing their loans at a lower rate. For example, in one case, after graduation, the interviewee refinanced his 10-year, 10% student loan as a 25 year, 7.5% mortgage loan at a local commercial bank. An overview of the general terms (interest rate, grace period, repayment period) of the loans under the SLS is provided in Exhibit 5.17.

This study did not have the data to calculate private rates of return to higher education. However, the rates of return calculated by C. Bourne and A. Dass for the period 1986-1999 show that the rates of return in all the programme areas reviewed (agriculture, natural sciences, engineering, education, and social sciences) exceeded 10% each year. However, in four of the five programme areas, the rates of return decreased over this period, coming very close to the interest rates being charged to students. For example, rates of return in education fell from 17% in 1986 to 12% in 1999.

Exhibit 5.17 DFI Terms for Student Loans in Eight BMCs

DFI	Interest Rate to Students	Grace period	Repayment Period
Dominica Agricultural Industrial and Development Bank	10%	Study period + 3 months	12 years
Anguilla Development Board	8%	Study period + 3 months	10 years
Grenada Development Bank	10.5%	3 months	15 years
Turks and Caicos Investment Agency	8%	Study period + 3 months	12 years
Development Bank of St. Kitts and Nevis	9%	3-6 months	10 years
Development Bank of the Virgin Islands	8%	Up to 4 years	10 years
Bank of St. Lucia	9.5%	Study period + 3 months Grace period can be extended to one year after the completion of studies if the borrower is unable to gain employment.	10 years
Development Finance Corporation, Belize	10%	One to three years depending on course of study.	10 years

Source: DFI questionnaire and promotional materials

In the interviews with students, many expressed their concern about servicing interest during the grace period. This presented particular challenges for them and it meant that they had to:

- rely on their families for help;
- work during the study period;
- use all of their savings to pay the interest;
- or have the interest amount deducted from the total amount of the loan.

The payment of interest is a complex policy issue. On the one hand, there is the extra burden that the interest payments place on students during a phase when they are not earning an income. The obligation to service interest during the grace period makes the loan less affordable to students while they are in school.

At the same time, however, the DFIs indicate that capitalizing the interest is not a sound option because of the size of the debt the students face once they graduate, which can be particularly daunting given the job market situation and expected earnings. The accumulation of interest makes the repayment process seem eternal for student borrowers. For example, one student interviewed borrowed XCD54,000, had already paid back XCD112,000, and continued to service the loan.

Thus, all of the DFIs visited are moving towards a policy of requiring the payment of interest during the grace period, which also contributes to DFI cash flow. One of the requirements that many have put in place is a commitment letter from the family, indicating their willingness to make this monthly payment.

The CDB Guidelines (1997, Section 7) give flexibility to the Executing Agencies on this matter, indicating that the interest chargeable during the grace period may be included in the amount of the sub-loan or, if accrued and not paid, it should be capitalized at the end of the period.

There is a need to assess SLS interest rate policies in light of their relevance to the target group. In this case, the relevance is determined by the affordability of student loans on the one hand and the expected rate of return on private investment in education.

One alternative is to make this an optional condition rather than DFI policy. Alternatively, interest relief programs could provide assistance to students who are not able to make these payments.

Finding 16: Student borrowers indicate that often the level of funding of the SLS is too low in relation to the cost of their studies and their financial need, especially for those who study extra-regionally. This characteristic of the SLS has had implications for the students' financial situation and ability to service the loan after graduation.

In most countries, stakeholders expressed concern about the maximum loan amount that can be approved for students under the SLS. The CDB SLS Policy (1997) indicates that the maximum sub-loan limit will be set at time of appraisal and may be varied by CDB Management in appropriate cases. The SLS Guidelines (Section 6) stipulate that the amount of each sub-loan should be determined by taking into account seven variables:

- cost of the programme of study;
- location of the educational institution;
- student and his/her family's financial position;
- adequacy of security;
- amounts required for interest payment during grace;
- ability of the student to repay the sub-loan from expected income on completion of study;
- and repayment options offered.

A review of a sample of CDB Loan Appraisal reports indicates that the maximum amounts of subloans range from USD 35,000 to 45,000 (the higher amount is for studies in law or medicine.) This is also the range that is promoted by the DFIs at the country level.

Exhibit 5.18 Maximum Loan Amount Under SLS at a Sample of DFIs

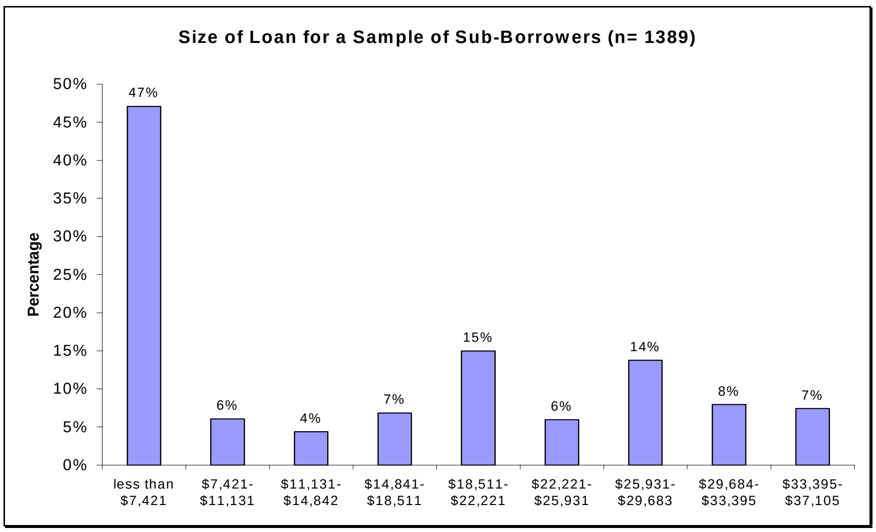
DFI	Maximum Loan Amount in USD
AID Bank, Dominica	$35,578 or $45,689 for persons wishing to pursue studies at UWI
Bank of St. Lucia	$44,940 for Architecture, Medicine and Law $37,450 for professional courses $35,2282 All others $22,470 for Associate's Degree $14,980 for certificate and diploma
Development Bank of St. Kitts and Nevis	$ 25,000 for 3 or 4 year programs $15,000 for 2-year programs $ 10,000 for 1 year programs

DFI	MAXIMUM LOAN AMOUNT IN USD
Development Bank of the Virgin Islands	$ 35,000 for regular degrees $45,000 for medicine or law
Development Finance Corporation[22]	$20,000 for studies outside Belize $4,000 for local institutions

Source: DFIs personal communication and promotional material.

In practice, however, the DFIs may give larger student loans, making decisions case by case. The EAs in Belize, St. Lucia, and BVI, for example, draw on other resources (Social Security Board or their own) for covering the amount approved that is beyond the limit established in the loan appraisal document. A review of a sample of loans in five countries shows that almost half of the loans are for less than USD 7,500. (Exhibit 5.19) The largest loans are on the order of USD 35,000, representing only 7% of the sample.

Exhibit 5.19 Loan Size for a sample of sub-borrowers in Five Countries



Source: SL-4 reporting forms submitted by the DFIs to CDB in 1999 (Belize), and 2003 or 2004 for Dominica, St. Lucia, St. Kitts and Nevis, and British Virgin Islands.

The maximum sub loan has remained the same for the past several years, yet the costs of tertiary education have changed. Universities and colleges adjust the cost of tuition and fees each year. These increases are not accounted for when approving the loan amount. An example of the costs of programs in the US and Caribbean is provided in Exhibit 5.20.

[22] These amounts are taken from DFC's promotional material, which they indicate is out of date. Actual loan amounts are higher, but determined at the time of appraisal of each student loan.

Exhibit 5.20 Examples of the Costs of a Post-Secondary Education at Selected Institutions

INSTITUTION	FEES	ANNUAL COSTS IN USD
UWI – St. Augustine Campus	For students sponsored by their governments, fees for Undergraduate Programmes in the Social Sciences were TT$ 12,195; for students who are not sponsored by their governments, the tuition fees were TT$19,640 Living expenses estimated at TT$28, 590 (for 2002/2003 Academic year) Estimated total of TT$ 40,785	6,814 for students sponsored by their government 8,058 for students who are not sponsored by their government
University of Belize	Tuition, fees and books for one year of Bachelor Degree programme estimated at BZD$ 4,340; Room and board estimated at BZD$ 4000 Estimated total of BZD$ 8,340 per year (2004/2005 Academic year)	4,170
Sir Arthur Lewis Community College, St. Lucia	Approximately XCD1,000 for full time enrolment (tuition and fees), per academic year; however the costs vary by department	375
University of South Florida	Cost for 30 Credit Hours for Non-residents is USD15,966 (2004/2005 Academic year)	15,966 (does not include living expenses)
Florida International University	Total matriculation and fees for the Academic Year 2004 – 2005 for Out-of-State students is USD 15,664[23] (2004/2005 Academic year)	15,664 (does not include living expenses)

Source: University web sites, brochures, or Personal Communication with these institutions.

As noted earlier in Section 5.1.2, the limit on the loan amount has implications for students and their debt burden after graduation. The students interviewed used the following variety of strategies to close the gap between cost of education (including the fees, tuition, books, living expenses, etc.), their own or their family's financial contribution, and amount of the loan:

- take a personal loan at the commercial banks in the Caribbean;
- apply for scholarship funding at the educational institution;
- work during the programme of study;
- apply for credit cards to use for buying books, food, etc. in the US; and
- take out loans from commercial banks in the US.

[23] FIU, Office of Admissions, http://www.fiu.edu

5.2.2 Regional and Country Needs

Finding 17: Regional and local institutions for tertiary education are playing an important role in the SLS in some countries. There are still some limitations in the offerings and cost for programmes in the region, however, that make extra-regional study attractive to borrowers.

Since its inception, the SLS has stressed that student loans should be used primarily to fund programmes of study at regional institutions. During the first decades of operation, the CDB's policy and guidelines set limits on the proportion of the loan to the BMCs that could be used to fund study at extra-regional institutions. The limit for extra-regional studies ranged from 25% (1982-1985) to 50% (pre-1982 and 1982-1995). In the 1997 revisions of the guidelines, the CDB states its preference for regional educational institutions, but does not set a fixed proportion of the loan. The limit to be used at extra-regional institutions is to be determined on a case-by-case basis at the time of appraisal.

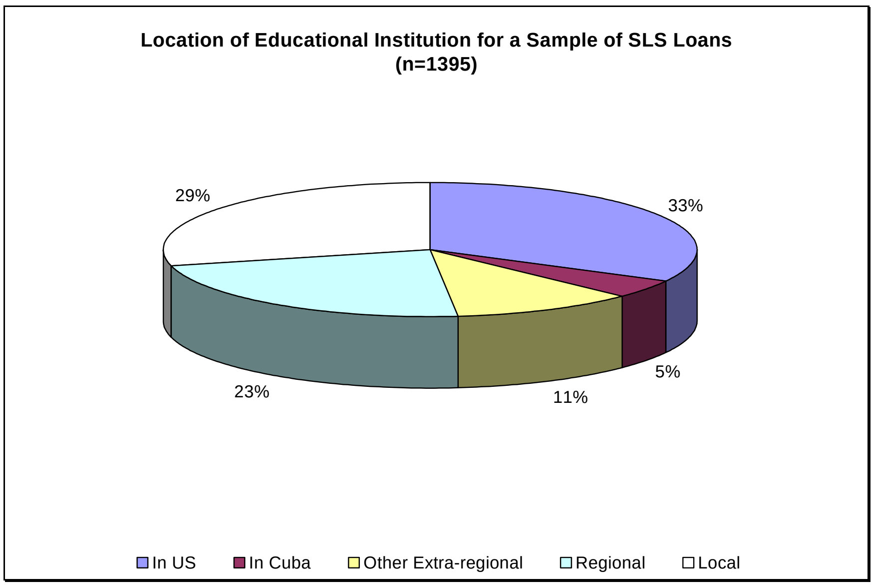
In their promotional materials, the DFIs state their clear preference for programmes of study at local or regional institutions. The trends in the programmes funded by SLS illustrate some of the differences between countries. BVI, for example, has traditionally had a majority of the loans approved for study in the US. In Belize, it is now widely known that the DFI is no longer approving loans for overseas studies—a shift that reflects government and DFI policy to prioritise local institutions in a context of limited funding.

During the past 20 years, the supply of locally-based tertiary education in the Caribbean has increased. Expansion of local post-secondary education and training programmes have provided students with the opportunity to economize on total costs for higher education by pursuing studies or part of their studies at home. There are options for pursuing post-secondary education at community colleges and, more recently, national universities in each of the countries visited as part of the study, as well as distance learning through UWI's Centres for Continuing Studies. Many stakeholders agree that development finance for education in the Caribbean must favor regional institutions. Nonetheless, students and other stakeholders indicate that there still are a number of factors that motivate students to look outside the region. These factors, which have been noted by the 1988 evaluation and CDB's reviews of the SLS guidelines, include:

- the offerings of these institutions are still not broad enough or deep enough to meet the demands of the students; this is true for undergraduate programs, and is even more acute at graduate levels.
- there is a perception held by many that regional programmes (UWI) are expensive and difficult to get into; the perception of costliness may increase as governments are increasingly unable to contribute the "economic costs";
- young people want to have a different experience, away from home;
- students in the Caribbean often have friends or family in the US, for example, who can give them room and board, thus helping to bring down the overall costs of their education.

An analysis of a sample of SLS borrowers from 5 countries taken from the last reporting forms submitted to the CDB shows that 29% of the borrowers studied in their own country, 23% carried out their studies in the Caribbean region, and 43% attended extra-regional institutions (in the US and other countries) (Exhibit 5.21). The proportion of students being trained outside the region in this sample, is the same as it was in the 1988 evaluation. There are important differences between countries, however, with BVI and St. Kitts and Nevis having the highest proportion (87% and 60% respectively), and Belize the lowest proportion (25%) of students pursuing studies overseas. In the sample of student respondents to the questionnaire, the majority studied in the region, except for in the cases of St. Kitts and BVI, where extra-regional programmes of study prevail. In the sample from Belize, all but 2 of the 17 respondents had used the loan to study locally at junior colleges or at the University of Belize.

Exhibit 5.21 Location of Study for a Sample of SLS Borrowers



Source: SL-4 reporting forms submitted by the DFIs to CDB in 1999 (Belize), and 2003 or2004 for other countries.

There are some countries in which the trend in the last 5 years has been to move to a greater number of loans for study outside of the Caribbean. Comparative data for three countries –St. Lucia, St. Kitts and Nevis, and British Virgin Islands--in two time periods (1998/99 and 2003/04) shows that in two of the three, there has been an increase in the percentage of loans approved for study in the US. In St. Lucia it increased by 8 percentage points, while in St. Kitts and Nevis it increased by 24 percentage points. BVI stayed relatively constant over this same period of time.

Finding 18: Cuba continues to play a complementary role to the SLS because it provides scholarships to students in the region, giving them a low-cost opportunity to pursue studies at the tertiary level.

As reflected in Exhibit 5.21, 5% of a sample of sub-borrowers pursued programmes of study in Cuba. For the last decades, the Government of Cuba has made full-tuition scholarships available to students from the Caribbean. These scholarships are awarded through bilateral agreements, though CARICOM, and through the political parties. Our interviews focused on scholarships provided through bilateral agreements, which are in place in 4 out of the 5 countries visited (BVI is the exception).

Today, scholarships to study in Cuba are given to about a dozen students a year in these countries. Government officials indicate that these numbers are much lower than they were several years ago. The government has traditionally provided a living and travel stipend to complement the full tuition scholarship given by the Government of Cuba. In some countries, the level of complementary assistance is not enough, so the students will take a loan from the DFI to complete the financing. However, a shift from grant to loan assistance is now being tested in St. Lucia. For the 2004-05 academic year, Cuban scholarship recipients must cover travel/living expenses with BOSL student loans.

Many of the students who go to Cuba study in the field of medicine. This is a long course of study (5 years) and thus is of concern to the DFIs because of the delay in repayment. However, the sizes of the loans taken by students studying in Cuba are generally smaller, especially if there is still some stipend funding from their own governments.

Finding 19: CDB is the principal source of funding support for countries to meet their HRD needs through the financing of tertiary education. The SLS is seen as part of government's efforts to increase the access of their citizens to tertiary education.

In 2000, the "Caribbean Education Strategy" accepted by the 20 Member Countries of the Caribbean Group for Economic Cooperation and Development (CGCED) articulated the common goals for reform of education and training systems. The strategic objectives identified for the Region are an internationally competitive labour force and equitable, effective education systems.[24] In the area of Access and Coverage, the Strategy notes the need for countries to meet the increasing demand for post secondary education, particularly in the areas of science, technology and management.

A World Bank review of <u>indicative</u> commitments for 1999-2003 of the donors for the OECS countries shows that the CDB is the largest source in the education sector with planned investments of close to USD80 million. The World Bank's indicative commitments for that same time period are just under USD60 million.[25] Most of the projects funded by the donors in the education sector are for primary and secondary education. The SLS stands out as one of the few projects targeting tertiary education that is listed in this review.

Loans will need to continue to be part of the strategy for financing tertiary education in Caribbean countries. The rationale for student loans is based on the notion of sharing the burden for the costs of an educational system. A study conducted by the World Bank in the 1990s, notes that "since developing country students attending higher education represent an elite group with income-earning potential significantly higher than that of their peers, it is appropriate that the major form of student financial assistance offered by government is in the form of government-guaranteed student loans rather than grants."[26]

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[24]Caribbean Group for Cooperation in Economic Development (Caribbean Education Task Force), A Caribbean Education Strategy, p. xiv

[25] World Bank, OECS Redbook CY99/01, OECS:1999-2001 External Financial Assistance Indicative Commitments, Disbursements and Projections, p. i "Indicative Commitments for 1999-2003 Top Sectors and Donors."

[26] The World Bank, Development in Practice, Higher Education: The Lessons of Experience, Chapter 3 "Diversifying the Funding of Public Institutions and Introducing Incentives for Their Performance", 1994.

Furthermore, student loans can be seen as mechanism that promote greater equity in the tertiary educational system, in that they are intended to create and expand access and opportunities for disadvantaged students. For the World Bank, the transformation of scholarships into student loans is seen as a first generation of reforms in tertiary education in developing countries.[27]

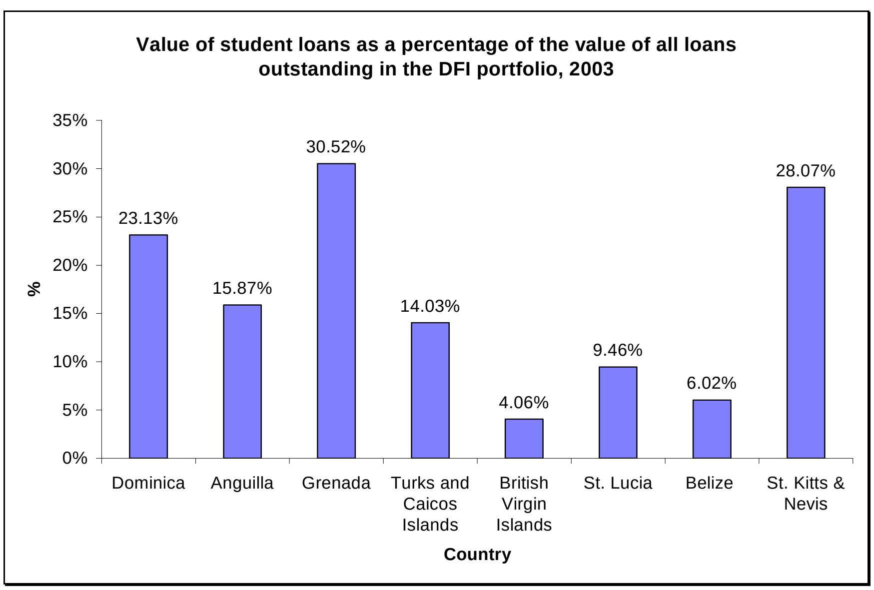
In this context, the SLS is relevant to government and regional strategies. In order to ensure continued relevance, the SLS would need to pay additional attention to some of these issues, such as linkage to labor force competitiveness, and particularly to issues of equity.

Finding 20: Student loans are an important component of the portfolios of the DFIs/Executing Agencies and the primary source of their funds is the CDB. Despite concerns about the performance of the student loan portfolio, most of the DFIs plan to maintain or increase activity in this area.

In most countries in the region, there are limited options for young people looking to finance post secondary education. Although credit unions and, in some cases, commercial banks offer lines of credit for education, the DFIs are the point of reference for student loans.

Of the executing agencies that responded to the study questionnaire, student loans represent from 4% to 30% of their overall portfolio. Almost all of the DFI respondents (89%) indicate that they plan to expand their offering of student loans. There are, of course, concerns about performance of the SL portfolio. These are further discussed in section 5.4.1 on Financial Viability of the SLS. Only one of the DFIs in our sample of five countries suggested that poor performance could be a motive for ending lending activity in that area in the future.

Exhibit 5.22 Student Loans as Part of the Overall Portfolio at the DFIs in Participating BMCs



Source: DFI Questionnaire.
Note: Antigua and Barbuda provided data only for 2004, where the value of student loans as a percentage of the value of the total portfolio was 66. 19%.

[27] The World Bank, Constructing Knowledge Societies: New Challenges for Tertiary Education, Chapter 5: World Bank Support for Tertiary Education, 2002, P.111

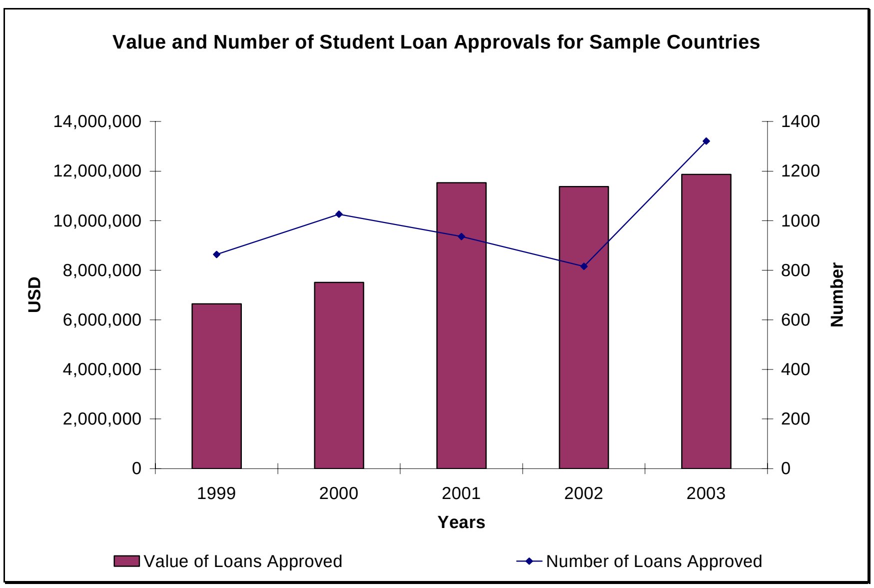
Finding 21: In most countries in the sample, the demand for student loans is expected to remain steady in the future. The limited funding available from CDB and other sources affects DFI capacity to respond to the demand for loans.

Most of the DFIs did not provide information on the number of applications for student loans that they receive. This would have been a stronger measure to determine how many people are seeking student loans (assuming that not all of those who apply would get the loan). In the absence of this data, approvals can also be an indication of demand, but with the limitation that approvals figures are also determined by the resources available for loans. In the sample countries, the level of approvals has increased since 1999, both in the number and value of the loans (Exhibit. 5.23). The value of approvals has remained relatively stable for the past 3 years, while number of loans has increased. This means a decrease in the average loan size in 2003.

This decrease was confirmed by several of the DFIs, who indicated they were providing smaller loans either because of more stringent appraisal process (St. Lucia) or because of the limited resources available.

In some cases, the levels of CDB funding are inadequate for meeting the demand for loans. This is especially the case in Belize and BVI where the CDB loan funds have been fully or almost fully committed. The DFIs note that they have particular difficulties in meeting the demand for certain programmes of study that exceed the maximum loan amount established by CDB. In these cases, they must draw on their own resources to fill the gap between the amount required by the student and the maximum allowed on CDB funds.

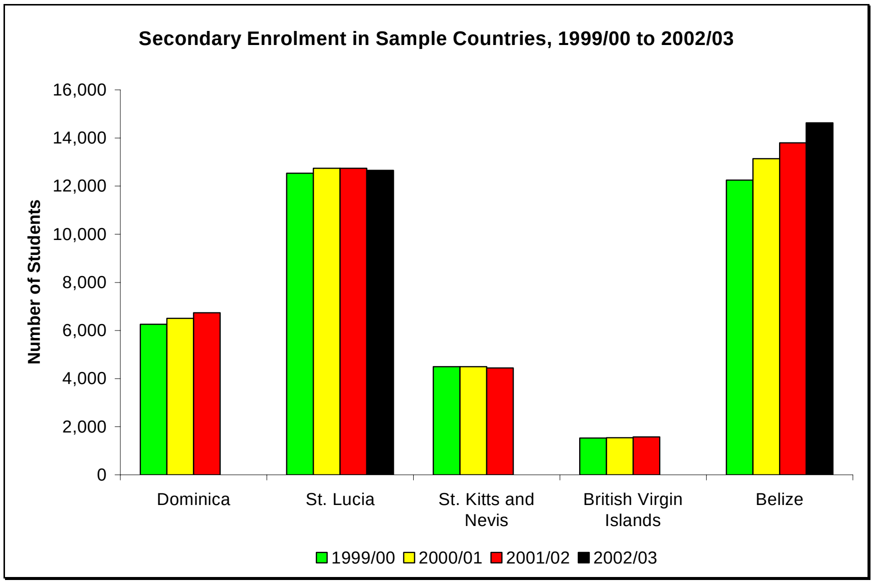
Exhibit 5.23 Value and Number of Student Loan Approvals for Sample Countries 1999-2003



Source: Approvals data for DFIs in Dominica, St. Lucia, St. Kitts and Nevis, British Virgin Islands, and Belize

DFIs expect that activity in this sector will continue to appreciate as the numbers of high school graduates increase, and as students continue to seek tertiary level education. Secondary enrolment figures in the five sample countries also forecast steady demand for tertiary enrolment (see Exhibit 5.24).

Exhibit 5.24 Secondary Enrolment Figures for Sample Countries



Source: Central Statistics Office or Educational statistics profiles for each country

5.2.3 Policy Relevance

Finding 22: Although the SLS makes an important contribution to HRD in the BMCs, CDB's HRD policy makes only indirect links to student loans as part of its strategic actions and areas of intervention. The alignment between the two needs to be strengthened.

CDB views HRD as a critical enabler of social and economic development, and the foundation for human capital formation. The HRD Policy states need to create an "ever-expanding pool of productive Caribbean citizens with the knowledge, skills, attitudes and values necessary to lead purposeful and productive lives in an internationally competitive environment."[28]

Through its policy on HRD, CDB aims to strengthen a range of its programmes, including those that help improve the cadre of technicians, technologists, professionals and academics in the BMCs. This suggests a direct link to the SLS. The data gathered from students and from other stakeholders in the BMCs indicate that the SLS clearly contributes to meeting country HRD needs. From this perspective, the SLS is a key component of the CDB's lending to strengthen HRD.

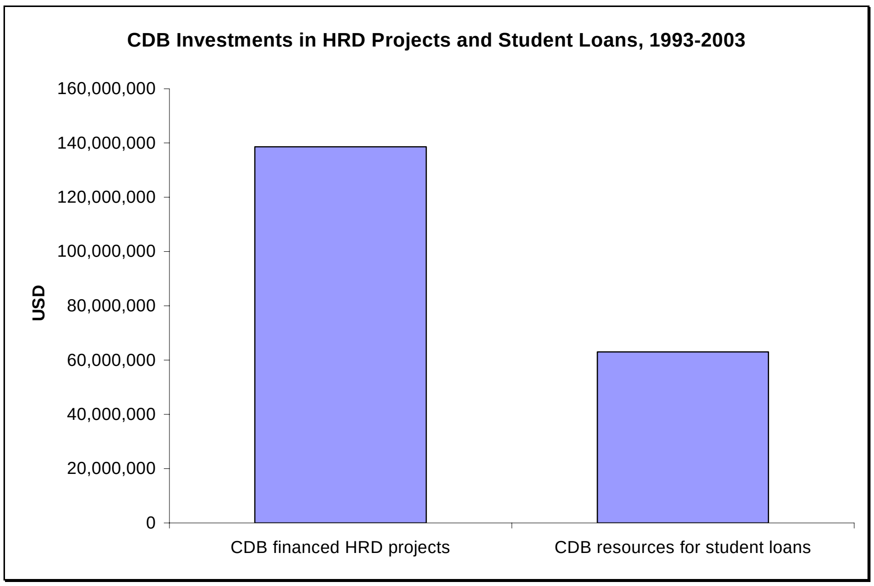
The SLS is one of several CDB initiatives that are important channels for assistance to BMCs, although they are not integrated in the HRD sector. The SLS, along with the Technical Assistance program (TAP) (including the Caribbean Technological Consultancy Services (CTCS) programme), the Basic Needs Trust Fund (BNTF), and the Project Cycle Management Training (PCMT), are directly or indirectly related to HRD and have provided resources to countries since the early years of CDB activity, when its development assistance focused more on the productive sectors and on infrastructure.

[28] CDB, Human Resource Development Policy – 2003, November 2003, p.iii.

As a result of this distinction, the SLS is not included in the list of CDB-funded HRD projects, but is noted separately. The value of SLS resources invested from 1993 – 2003 for on lending to students through local development finance institutions was USD 63 million. This represents close to 50% of the capital invested in HRD projects during the same period, which amounts to USD 138.6 million.

As a financial instrument, the SLS clearly makes a contribution to the HRD objectives. However, that contribution and the evidence supporting it would be much greater if the SLS adopted a programmatic approach. A more in-depth discussion of the concept of the programmatic approach to the SLS is included in Appendix I.

Exhibit 5.25 CDB Investments in HRD Projects and in the SLS, 1993-2003



Source: CDB, HRD Policy 2003, Appendix 2 and 4.

Both the priority areas for HRD investments and cross-cutting issues in the 2003 policy are summarized in Exhibit 5.25. In several of the areas listed, the SLS has the potential for making contributions, but the linkages between the Scheme and the Policy need to be strengthened.

Exhibit 5.26 SLS Potential Contribution in Key Areas of CDB's HRD Policy 2003

Priority Areas for HRD Investments	SLS Potential for Contribution
Early Childhood Development (ECD)	Low. It lies outside the realm of the SLS, except to the extent that loans are provided to help develop a cadre of professionals in ECD.
Secondary Education	Low. It lies outside the realm of the SLS, except to the extent that loans are provided to teachers and administrators.
Post-secondary/Tertiary and TVET	High. The SLS can provide greater funding for skills building or vocational/technical training.
Planning and Management	High. The SLS will likely continue to support training opportunities for the public service. This could be made more strategic by giving priority to studies in the sectors required for good governance.
Regional Initiatives	Medium.For the SLS to make a stronger contribution, the SLS itself would need to evolve more as a regional initiative (now it is anchored at the country level).

PRIORITY AREAS FOR HRD INVESTMENTS	SLS POTENTIAL FOR CONTRIBUTION
Cross-Cutting Themes	
Increasing and broadening access	High. The SLS can do more to ensure that populations who are needy and/or in remote and difficult areas can access concessionary loan funding for pursuing higher education. It can provide support for distance education modes.
Improving efficiency and effectiveness	Medium. At the tertiary level, the SLS can help make links between the competencies required for successful performance in the workplace and those that graduates possess. SLS funding can be used to support further education and training in curriculum and pedagogical reform.
Strengthening institutional capacity	High. HRD policy expresses the need for sector leaders to be strengthened in critical areas such as: management theory, pedagogy and andragogy. CDB;s SLS funds support the development of appropriate technical, planning, leadership, and managerial capacity at ministries, agencies and institutions.
Enhancing technological capability	Medium. The focus of the HRD policy is on financing programs that infuse technology at the primary and secondary levels. However, SLS can support the financing of further education and training in the development and use of cutting-edge technology.

Source: CDB HRD Policy, 2003.

In the sub-sector of post-secondary/tertiary TVET education, for example, a number of the HRD strategies (Matrix 4.23 in the Policy) focus on the strengthening the capacities of tertiary institutions (staff capabilities, infrastructure, curricula and programme development, systems, modes of delivery, etc.). CDB would assist BMCs or private sector stakeholders requesting financial support in these areas. The enhanced capacities would lead to outcomes such as increases in general enrolment in traditional and non-traditional disciplines as well as "increased participation of persons of lower socio-economic status, mature students and marginalized groups."[29] The question is whether or not student loans have a role in facilitating outcomes specified in the Strategy. In looking at the desired outcomes for the sub-sector (Exhibit 5.27), can SLS be one of the tools for achieving them? If so, there may be a need to make the linkages more explicit.

Exhibit 5.27 Desired Outcomes in HRD Policy for the Post Secondary/Tertiary TVET Education Sub-sector

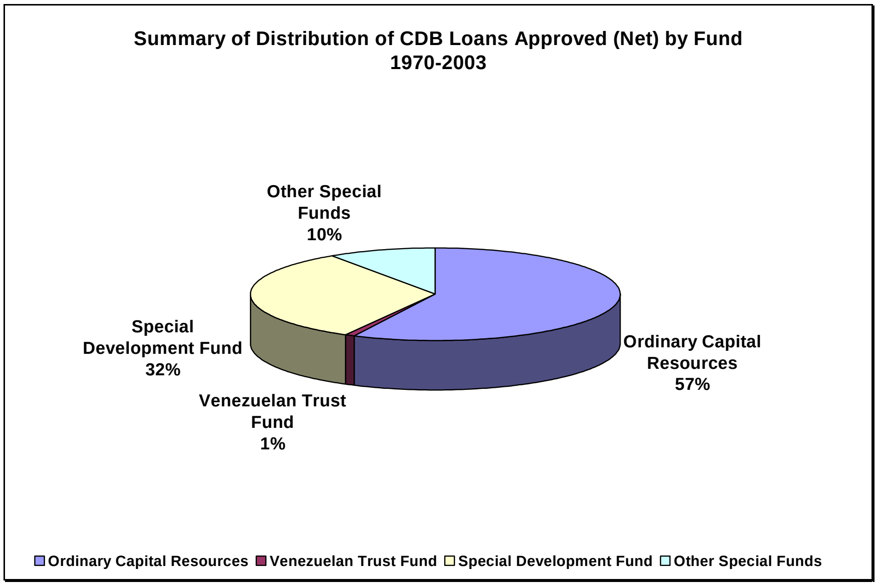
DESIRED OUTCOMES
1. Overall increase in general enrolment in traditional and non-traditional disciplines
2. Increased participation of persons of lower socio-economic status, mature students and marginalized groups
3. Graduates possess the skills and competencies required by business and industry or fo self-employment
4. Legislative and regulatory frameworks are updated and planning management systems support timely and efficient decision-making
5. Graduates of regional institutions skilled in technological areas and/or in the use of technology for networking, research and problem solving.

[29] CDB, Human Resource Development Policy – 2003, Matrix 4.3, p. 4.

Finding 23: While the SLS has broad policy relevance to SDF objectives and priorities, its potential contribution can be enhanced. In particular, the SLS would need to improve the pro-poor focus in its lending operations.

The Special Development Fund is the joint instrument of the Caribbean Community and its regional and non-regional partners in addressing critical development needs and the core objective of poverty reduction.[30] As presented in the 2003 Annual Report, for the 1970-2003 period, 32% of all CDB loans approved (net) draw on SDF resources.

Exhibit 5.28 Distribution of CDB Loans approved to all sectors by Fund (1970 – 2003)



Source: CDB Annual Report 2003, Appendix II-C, p. 129

The SLS is one of the Special Development Fund (SDF)-supported programmes in the BMCs. As early as 1996, in the SDF performance assessment, there were calls for an evaluation of the SLS, to help determine the effectiveness of the use of SDF resources. There have been special concerns about use of concessionary resources in providing loans, especially when those loans are more accessible to people who are better off.

The data indicates that between 1972 and 2003, 57% of the Student Loan Scheme financing was from soft funds (SFR) and 43% from hard funds (OCR) (See Exhibit 5.28 above.) Initially, during the period 1972 – 1989, the Scheme was financed exclusively with soft funds. With the relative unavailability of such resources, since 1990 it has been financed with a mix of hard and soft funds. At the same time, the resources have been used to finance SLS primarily in the least credit-worthy countries (mainly the SDF Group 3 countries.) This is consistent with the over-arching current focus on poverty reduction.

[30] CDB, Resolution of Contributors to SDF V and Report of Negotiations for SDF V (2001), p. 31.

Exhibit 5.29 SLS Gross Approvals and Sources of Funds (OCR), by Country

Country	SDF Classification	Gross Approval	OCR	% OCR
Anguilla	2	1,500	250	17%
Antigua and Barbuda	2	1,841	1,000	54%
Belize	3	5,632	2,600	46%
British Virgin Islands	2	2,782	750	27%
Cayman Islands	1	497	0	0%
Dominica	3	14,953	6,100	41%
Grenada	3	5,801	3,100	53%
Montserrat	3	969	0	0%
St. Kitts/Nevis	3	18,899	7,642	40%
St. Lucia	3	27,713	14,500	52%
St. Vincent and the Grenadines	3	5,951	2,000	34%
Turks and Caicos Islands	3	1,900	0	0%
Total		**88,438**	**37,942**	**43%**

Source: CDB, Corporate Planning data

The Cayman Islands, was the only Group 1 country financed by soft resources under the SLS, but even this allocation could be justified on the basis of the extreme vulnerability of small island economies. Despite the high level of per capita income, as Hurricane Ivan has recently highlighted, one catastrophic event could utterly demolish the veneer of development in an instant and set the country back considerably.

At the time of negotiations of SDF V (2001), which replenished the resources of the SDF for the period 2001-2004, the partnership identified three priorities for the use of SDF V funds:

- Enhancement of the capabilities of people who are poor or vulnerable to poverty;
- Reduction of the vulnerability of deprived groups to economic volatility, natural disasters and other risks such as HIV/AIDS; and
- Good governance, to support and facilitate poverty reduction and broad-based economic growth that is environmentally sustainable.

The partnership made a number of recommendations and endorsements. Among those, they emphasized that SDF operations should be viewed through a poverty and vulnerability prism. The “Poverty Prism” goes beyond financing the social sector or specifically poverty-targeted programmes, and extends to the whole of the Bank’s operations; whether financed from SDF or from OCR resources, to ensure that CDB programmes are poverty sensitive and focused in ways that are realistic and practical for the Bank’s mission to reduce the extent and incidence of poverty in the Caribbean.[31] The contributors endorsed a target of 60% of SDF V resources to be directed to the poor and the poorest communities.

“Contributors [to SDF V] emphasized the importance of careful selection of SDF interventions, and encouraged the Bank to maximize its comparative advantage and impact, and to strengthen its partnerships with other agencies.”[32]

[31] CDB, Special Development Fund (Unified), Annual Report 2002, p. 13.

[32] CDB, SDF (Unified), Annual Report 2002, p. 5.

As noted in earlier findings, the SLS contribution to poverty reduction, which is the overall objective of the SDF, can be assessed at two levels. SLS has made a difference in the broader context for reducing poverty, but has been unsuccessful to date in facilitating access to loan resources for the poor. In looking at the Scheme's alignment with the Fund's Core Priorities, there is evidence that it has contributed to all three of the areas (Exhibit 5.30). There is potential for even greater contributions, especially in the two dimensions of enhanced capability and good governance.

Exhibit 5.30 SLS Alignment with SDF Core Priorities

SDF PRIORITY	SLS CONTRIBUTION	SLS POTENTIAL FOR CONTRIBUTION
Enhanced Capability	Satisfactory. SLS has contributed to the strengthening of the skills base of the labour force and to raising productivity	High. The SLS can do more to ensure that poor people benefit from the scheme. In addition, the SLS can provide greater funding for skills building or vocational/technical training that enhance capabilities.
Reduced Vulnerability	Satisfactory. The SLS has very little direct relation to disaster preparedness, management or HIV/AIDS. However, vulnerability also refers to economic volatility and in this regard the SLS has contributed to student's increased mobility (via increased training and skills) and ability to respond in times of economic shock.	Medium. The SLS has little potential to contribute to HIV/AIDS and disaster preparedness, except to the extent that it does fund the education of professionals who work in these two areas. The SLS contribution to improved resilience vis-à-vis economic volatility can be enhanced by (a) flexibility in repayment schedules and (b) providing loans for short-term training, vocational-technical education, etc.
Good governance	Satisfactory. SLS borrowers are employed throughout the public service, including areas that are key to social and economic planning; As an example, the Chief Statisticians in 2 out of the 5 countries visited are SLS borrowers.	High. The SLS will likely continue to support training opportunities for the public service. This could be made more strategic by giving priority to studies in the sectors required for good governance.

5.2.4 CDB Comparative Advantage

Finding 24: CDB's lending of SDF resources, which has low interest rates, grace period, and a longer repayment period, gives it a comparative advantage for funding student loans in the region.

CDB is the preferred source of funding for DFIs because of its favourable terms. It is appropriate for the CDB to have low interest rates, longer grace periods, and a longer time frame for repayment because of its dual banking and development functions.

The DFIs indicate that even when you are blending the soft and hard resources from CDB, they have a reasonable cost of funds (weighted average cost of the funds). The grace period provided by CDB gives a lot of flexibility to repay.

Exhibit 5.31 CDB Interest Rates Charged to the DFIs (1999-2003)

COUNTRY	OCR RATE (VARIABLE)	YEAR	SFR RATE (FIXED)	WEIGHTED AVERAGE
Dominica	5.5%	2002	2.5%	4.8
St. Lucia	7.0%	2001	2.5%	5.5
St. Kitts and Nevis	5.5%	2003	2.5%	5.2
British Virgin Islands	6.4%	1999	4.0%	5.2
Belize	6.4%	1998	2.5%	6.0

Source: DFIs and Appraisal Reports.[33]

Eight out of the nine DFIs responding to this item on the questionnaire indicated that they have access to alternative funds for lending to students, either their own resources, re-flows generated by the SLS sub-loans, or funding or from the Social Security Boards/National Insurance Corporations.

In the absence of CDB funds, some of the DFIs have borrowed from the Social Security Board to continue meeting the demand for student loans. This is presently the case for DFC in Belize, where CDB funds were fully committed about three years ago. The AID Bank in Dominica has also accessed SSB funds at times when the CDB funds are fully committed. From the DFI perspective, the terms offered by the SSB (particularly the interest rate) are not as favourable as the terms offered by CDB loans. For example, interest rates charged by the SSBs are 6.5% in Dominica and 8.5% in Belize.

CDB's experience and know-how in the funding of student loans could ostensibly be part of its comparative advantage, but it is not clear that this has been brought to bear on the SLS implementation in country.

Finding 25: While some lending institutions outside the SLS provide funds for education, there are few that target student loans. Some of the institutions that provided student loans in the past have abandoned them because of the poor performance of the portfolio.

The DFIs that responded to the questionnaire note that there are other institutions offering student loans in their countries. The list includes the larger commercial banks such as First Caribbean International Bank and Scotia Bank. It also includes national banks and credit unions. Only in the BVI and Grenada is the offer limited exclusively to the DFIs.

In the sample countries visited by the study team, most of the commercial banks do not offer student loans per se. The commercial banks do advertise personal loans that can be used for studies or any other activity. Sometimes these are called education loans. The terms of the loan, however, require that the borrower begin repayment immediately and, in some cases, pay a higher interest rate than the rate offered at the DFIs. (See Exhibit 5.32)

[33] The OCR Rates taken from the year of appraisal may have increased slightly since they are variable rates. Also, these represent the rate for one line of credit. Some countries have more than one line of credit that is active at this time.

Exhibit 5.32 Examples of Interest Rates Charged by Alternative Sources of Educational and/or Student Loans

COUNTRY	BANK	EXAMPLE OF THE INTEREST RATES BEING CHARGED A
Dominica	Roseau Cooperative Credit Union	11% pa
Dominica	First Caribbean International Bank	7.5% pa
St. Lucia	St. Lucia Cooperative Bank	9.5% pa
St. Lucia	Credit Unions	10% pa
Belize	First Caribbean International Bank	11% pa

Source: Key informants in each country

Credit unions are another source of loans for education that is available only to their members. One credit union that used to offer a special line of credit for student loans (Roseau Cooperative Credit Union, Dominica), no longer does so because of the poor performance of the student loan portfolio.

5.3 Efficiency

Efficiency refers to the way in which resources are used to achieve results. In the context of the SLS, an assessment of efficiency includes a review of the institutional arrangements for implementing the SLS, and the extent to which they contribute to efficient and effective use of the resources provided. In the following sections, the study will look at the oversight and management of the scheme at the CDB and the country levels to identify strengths, weaknesses, and possible areas for improvement.

5.3.1 Governance

Finding 26: The CDB Board and the SDF's governance structure provide adequate oversight for the SLS as well as the other lending programmes. On-going supervision is carried out in the Private Sector Development Division of the Projects Department

CDB's Board of Directors provides oversight for the SLS. The Board approves loans, changes in policy and guidelines for the Scheme, and monitors its performance through CDB's annual review of the portfolio. The Board-appointed Audit and Post Evaluation Committee has oversight responsibility for the financial reporting process, system of internal control, the internal and external audit functions, and the project evaluation process. This committee reviews the plans and reports submitted by external auditors, the Internal Audit, and the Evaluation and Oversight Division.[34] The Board provides oversight on key policy and strategy issues, in addition to the financial performance of the CDB.

The SDF has a supplementary governance structure that was agreed when the Unified Special Development Fund was created in 1983. This includes an Annual Meeting of Contributors and the participation of non-member contributors as observers in meetings of the Bank's Board of Directors and Board of Governors.[35]

[34] CDB, Annual Report 2003, p.40

[35] CDB, SDF (Unified) Annual Report 2002, p. 1.

On an on-going basis, the SLS is under the direct supervision of the Project Officers in the Private Sector Development Division of the Projects Department. The responsibility is allocated among the various Officers, with no coordinating function being allocated below the level of the Division Chief.

Finding 27: At the country level, the DFI Board of Directors generally provides adequate oversight for the loan scheme.

In most of the countries visited, the Board of the DFI is responsible for oversight of the SLS. They approve policies, are generally responsible for final approval of sub-loans, and monitor the financial performance of the student loan portfolio. The extent of their involvement in credit-making decisions varies by country. In some cases, staff or an internal credit committee are able to approve loans up to a certain amount. This is presently the case, for example, in the Bank of St. Lucia. In other countries, the Board approves loans given under the SLS, based on the appraisal of the Bank's staff and the recommendations of the SLAC, when it exists.

The exception to this arrangement is in the British Virgin Islands, where the Scholarship Trust Fund Board is responsible for making the credit decision and the Bank administers the loan program on its behalf. The governance of the Scheme is the responsibility of the STFB. This arrangement in BVI is different because it combines the role of that is played by the SLAC with the role that is played by the DFI Board of Directors in other countries. This arrangement is more fully described in Exhibit 5.33.

Exhibit 5.33 Governance of the SLS: The Case of the BVI

SCHOLARSHIP TRUST FUND BOARD, BVI
Established by law in 1972, the Scholarship Trust Fund was created to provide assistance in higher and further education for British Virgin Islanders. Its Board of Trustees, known as the Scholarship Trust Fund Board, is responsible for the administration of the Fund. The Governor, acting on advice of the Minister, appoints a maximum of 7members of the Board. The Board can make gifts or loans for scholarships. At this time, the Board oversees the execution of the SLS in the BVI. It approves loans for financing, based on the recommendation of the staff of the DBVI. It also monitors the financial performance of the portfolio. The Committee is composed of three business people (private sector), Ministry of Education, a retired educator, and the General Manager of the Development Bank. The STFB has no direct relation with the Board of the DBVI, except through the General Manager, who participates in both bodies. The STFB recently submitted a proposal to Government on the Rationalization of the Functions of the Scholarship Trust Fund Board, the Scholarship Committee, and the Training Division of the Government of the Virgin Islands to create the Education Financial Assistance System. The initiative would bring together the resources of these entities into one board for educational finance.

Source: Personal Communication and STF Ordinance No. 22 of 1972

Finding 28: The Student Loan Advisory Committees are not fully operational in all countries. There are some concerns about the Committee's responsibilities, its relation to the DFI Board, its composition, and its effects on the efficiency of the loan approval process.

Since the 1980s, the CDB guidelines for the SLS provide for the existence of a Committee (known as the Student Loan Advisory Committee or SLAC) to assist the Borrower or Executing Agency (EA) in the administration of the Lending Programme. The 1997changes to the guidelines aimed to clarify the role of the SLAC, EA and Government and place the credit management function with the EA. The SLAC is to act as a resource in matters relating to the educational aspect of sub-loan appraisal. As of 1997, the CDB no longer specifies the composition of the Committee, except for recommending the inclusion of representatives from both the public and the private sector.[36]

In two out of the five countries visited as part of this evaluation, there was an operational SLAC.[37] For two other countries – St. Lucia and Belize – the SLAC is non-existent or "defunct." Out of the DFI respondents to the questionnaire, close to 60% agree that the SLAC adequately support the management of the lending scheme. The remaining 40% per cent either strongly disagree or are unsure about the support of the SLAC.

The general responsibilities for the SLAC, as per CDB Guidelines, are noted in Exhibit 5.34.

Exhibit 5.34 SLAC Responsibilities (1997 Guidelines)

RESPONSIBILITIES OF THE STUDENT LOAN ADVISORY COMMITTEE
1. Monitoring the establishment, publication and updating of the Priority List
2. Monitoring the non-credit performance of the SLS programme; and
3. Making recommendations to the Executing Agency and to the Government as necessary

Source: CDB Guidelines (1997), p. vii.

In Section 5.1.1, this report identifies some of the concerns with the priority list. SLAC members indicated that in some cases it was not used at all, and in others, it provided limited guidance. They generally cite government responsibility in developing stronger, more strategically formulated priority lists for HRD. In this area, the SLAC has played a weak role in most of the countries visited.

The SLAC was also charged with monitoring non-credit performance. The study finds, however, that the SLAC's focus is on the appraisal and approval process. After the SLAC has given recommendations for loan approval to the DFI, there is little communication with the Board and staff of the DFI. As one Committee member noted, "we don't have feedback afterwards [after submitting their recommendations for loan approvals]; we don't know where people go." Furthermore, the study finds that the SLAC does not demand or receive the reports that could allow it to monitor the non-credit performance of the scheme. As advisors on loan approvals, they have little input into the development of policy and guidelines for student loans. Some of the SLAC members signalled their interest in becoming more involved in the discussion of policy. They also stressed the importance of establishing communication between the Board of the DFI and the SLAC. The SLAC could play a greater role in tracking the SLS contribution to development effectiveness if it had clearer functions/responsibilities in monitoring non-credit performance that

[36] CDB, Student Loan Scheme – Revision of the Policy and Guidelines, Paper BD 31/76 Rev. 1

[37] This does not count BVI, where there is the STFB, a similar body, but with a broader mandate.

were validated and then supported by the DFI (by providing timely information required for monitoring these aspects).

There are three other issues that emerge regarding the SLAC – the compensation of members, the efficiency implications of their participation in the approval process, and the composition of the Committee. Compensation of SLAC members emerges as a concern in Dominica, where there have been differences between DFI and the SLAC members on the payment of a stipend to members for each SLAC meeting (XCD40.00).

Some of the DFIs and the students expressed concerns about the efficiency of SLAC involvement in the approval process. The difficulty in convening or achieving quorum for SLAC meetings can delay approvals and students are the ones who suffer as the process is more drawn out

The 1997 CDB guidelines specify that the Committee is to consist of persons that the Government considers suitable for carrying out its functions. This is a change from the earlier guidelines that listed the ministries and other stakeholders that should be involved. The composition of SLACs, where they exist, includes representatives from: Permanent Secretary, Education; Permanent Secretary, Establishment, Private Sector, the Training Board/HRD Division, and the DFI. The UWI Resident Tutor is part of the Committee in St. Kitts and Nevis, but not in Dominica. There is a need for a greater mix of public and private sectors. From within the public sector, the Ministry of Labor might also be an important addition to the Committee.

Above all, the composition needs to ensure that the SLAC is as isolated as possible from political interference, to ensure that students get their loans based on technical appraisal, merit, etc. The challenge for the SLS is to keep an advisory role for the SLAC, yet deepen engagement with the Committee to make it a more strategic entity.

5.3.2 CDB Management of the SLS

Finding 29: While loan management is adequately provided for the SLS, there is a lack of a programmatic approach, which has had implications for the SLS in terms of results achievement, greater integration with CDB strategy and policy, and CDB's development effectiveness.

As noted above, the Private Sector Development Division is responsible for the SLS, which is seen as a line of credit within CDB. The portfolio of SLS loans to BMCs is divided geographically among 5-6 investment officers who also oversee CDB credit operations in housing, agriculture, industry, and commerce, and other sectors in their assigned countries. Some of these officers have 2 or 4 countries in their portfolio. There is no centralized coordination for the Scheme, which means that there is no specific unit or individual that monitors its implementation across the region.

The Scheme operates with a clear policy and guidelines, constituting the primary reference or strategic document for the SLS. These guidelines (1997) determine the operating arrangements, eligibility criteria (programme of study, educational institution, students, and expenses to be financed), as well as other details about the loan scheme. All of the DFI respondents to the study questionnaire agree that the SLS Guidelines provide adequate guidance for decision-making on loans.

The management of the SLS focuses primarily on the credit/financial performance of the loan (often part of a consolidated line of credit to the BMC), rather than on the particular issues and characteristics of student loans.

Student loans differ from loans in other sectors in a number of ways. First, there is the motivation for a loan scheme. A student loan is part of a broader national and regional strategy for financing tertiary education that emerges from the need to share the costs of education. Second, in the appraisal of loans you are "betting" on the future earnings potential of the student, which is uncertain in any environment, but a particularly sensitive issue today in the economies of the Caribbean. A third group of factors refer to the features of the loans (disbursement in several tranches; long grace periods) and special criteria for assessing financial performance and viability (such as interest rate subsidy). Finally, there are the needs to illustrate the development effects of such financing and the concerns about equity and targeting mechanisms to ensure that the poor have access to loans.

The SLS has encountered recurring difficulties in these areas at the country level that have limited its potential results. At the same time, it has accumulated rich and innovative experience nationally, but little has been done to share the experiences across the region. Without a programmatic approach, it will be difficult for the SLS to fulfil and demonstrate its contribution to poverty reduction.

A programmatic approach is more fully described in a special appendix to this report (Appendix I).

Finding 30: In the absence of a programme approach, there is no overall strategy, performance measures, or annual work programme for the SLS.

The SLS does not have an overall strategy or results framework to guide its development. Although there is a Logical Framework included in the SLS Policy and Guidelines (1997), this has not been adapted or used for planning and monitoring. In the data collected from CDB, there was no evidence of a strategy or an annual workplan for the Scheme. Because of the way it is structured, planning takes place at the individual level, where the investment officers include SLS appraisal or supervisory activities in his or her individual work program, or at the country level with the Executing Agencies. The EAs do set objectives for improvements in collections, cleaning up non-performing loans, and loan approvals, for example.

Finding 31: There are several mechanisms in place for monitoring and reporting, including the CDB's PPMS. These mechanisms need to be further strengthened and integrated in a way that could enhance their use and usefulness to a programme management approach.

Monitoring of the SLS is the responsibility of each investment officer. The sources of information for monitoring include the supervision visits at least once per year (although in one country in the study sample, about 2 years had gone by since the last supervisory visit), periodic updates/phone calls, quarterly management reports on the portfolio sent by the DFIs, and the SLS reporting formats that are included in the appraisal document (SL-1 and SL-4). Although there is no specific forum for meeting about the SLS, the investment officers meet bilaterally as needed to discuss emerging issues in their countries.

The SLS appraisal, DFI quarterly reports, and supervisory visits, all form the basis for generating the performance-rating summary for the Project Portfolio Management System (PPMS). This system, which has been in place since 2000, provides data for the annual performance review of the CDB portfolio. Each Line of Credit is rated against the CDB's 6 core evaluation criteria: Strategic relevance, poverty relevance, efficacy, efficiency, sustainability, and institutional development impact.

Our own assessment identified several limitations in the type of information generated by the system. The quality and depth of the information provided in the reports is too superficial to have a clear understanding of the situation for the DFI and for the SLS in country. The PPMS reports and SLS supervision tend to emphasize the monitoring of financial/credit indicators. As one CDB staff member noted, "to do a different kind of monitoring, we would need an education specialist, and we don't have control of their work program". This points to the need for a greater sharing of skills across departments of the CDB.

In addition to the PPMS, there are the reporting forms that are requested from the DFIs. Each year, they are to submit SL-1 and SL-4 forms to the CDB. In practice, the forms are submitted more irregularly (for some countries), with formats that vary slightly from one country to another.

The SL-1 form, which is due quarterly, provides a list of all applications for student loans approved by the DFI and recommended for CDB approval. The SL-4 form is submitted annually and includes almost all the same information as SL-1, but adds the details of the status of the sub-loans as of December 31. The categories of information requested include:

- Name and gender of borrower
- Programme of Study
- Country of study
- Duration of study
- Loan Amount
- Principal outstanding
- Principal arrears
- Date of completion of study
- Date Employment Commenced
- Country of Employment

These forms are sent to the PSDD. After the investment officer reviews the forms, they are forwarded to the Claims section. The form is used in the Claims section as a control tool to check disbursements against approvals. At the time of this study, no one person in the PSDD was charged with gathering and compiling all the non-financial information on the SLS that is provided through the SL-4 forms.

Finding 32: The DFIs are generally satisfied with the CDB's loan management of the SLS. However, they raise concerns about reporting requirements, disbursement procedures, and the inclusion of student loans in consolidated lines of credit.

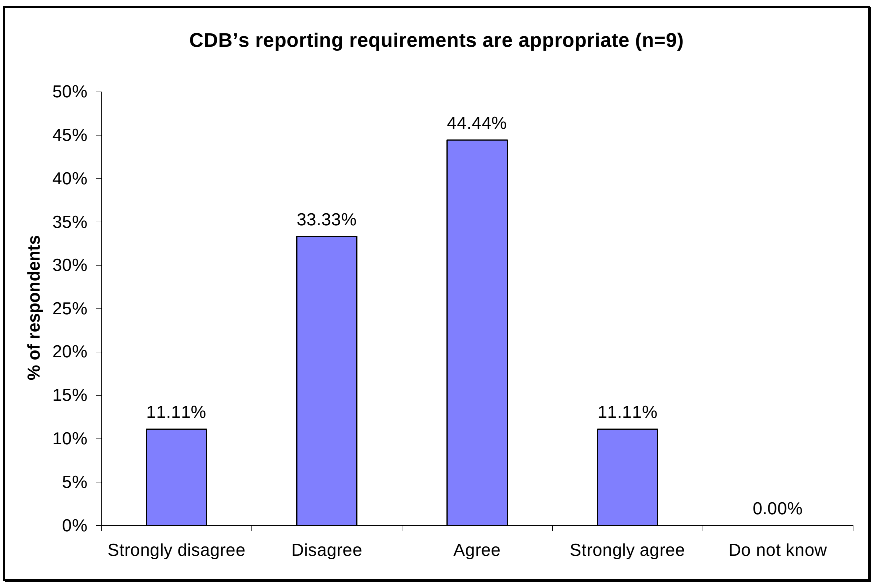
On some of the key issues of management efficiency, the CDB is well rated by the DFIs. All of the respondents either agree or strongly agree to the statements about CDB reimbursements – these are done both on time and according to plans. Several of the DFIs, however, noted the excessive paperwork of the claims process because of the receipts that must be presented to justify the disbursements for each sub-loan. Examples of the receipts that DFIs say they must submit include transportation, registration fees, and other expenses in excess of a certain amount that will be covered by the loan. One of the DFIs noted that it was even difficult to get university bursars to send receipts. The claims process is important because the DFIs use their own resources to pay for the student's expenses under the loan and then request reimbursement from the CDB.

The reporting requirements have been a continuous source of tension for CDB and the DFIs. In recognition of the additional burden this presented, CDB reduced the reporting requirements in the revision of the 1997 Guidelines. CDB staff indicates that the reporting requirements are less intensive now than 10 years ago and that the DFIs have much more leeway to manage the program.

The DFIs visited during the mission still find that the reports are tedious and they do not see how CDB is using the information. "CDB requests a lot of information, a lot of reports, but [we] don't see the benefits." This finding is also reflected in the responses to the DFI questionnaire, where respondents are evenly split on the appropriateness of the reporting requirements. The quantity and type of reporting required from DFIs will need to be addressed by the CDB. Moreover, CDB needs to demonstrate how that information is being used for decision-making.

In the interviews, some of the DFIs explicitly indicate that claims and reporting add to the overall costs of administering the program, although they have not done the calculations.

Exhibit 5.35 DFI Perception of CDB Reporting Requirements



Source: DFI Questionnaire data

Over the years, CDB has developed two modalities for providing resources to BMCs and EAs for on-lending to students. These include consolidated lines of credit, with a proportion of funds for students, and dedicated lines of credit for student loans. The majority of countries today have SLS-specific loan agreements with the CDB. DFIs note that one of the limitations of the consolidated lines of credit is that although the student loan funds may be fully committed, they cannot access additional resources from CDB until the amounts for all sectors in the loan are drawn down. In addition, poor performance in one sector may affect the overall line of credit. When SLS is mixed into a consolidated line of credit, it is also more difficult to focus on the particularities of student loans. CDB's supervision looks at all the components of the line of credit.

5.3.3 DFI Management of the SLS

Finding 33: Although there is not enough data for a definitive assessment of administrative efficiency at the country level, the data available suggests that this is an indicator that requires some monitoring in the DFIs.

The ratio of administrative cost to the overall SLS loan portfolio, gives an indication of the efficiency with which SLS resources are managed. In general, the more efficiently run SLS programmes would be expected to have lower ratios. Unfortunately, DFIs were not able to provide this data in a number of cases. The ratios over the period 1999 – 2003, are shown in Exhibit 5.36 below. The data set is incomplete, but suggests that rates of less than 4% are attainable, and therefore higher rates might need to be reviewed. Given that the DFIs use different inputs to calculate the administrative costs of their lending program, comparisons are difficult to make. However, for several countries reporting there is a general trend in 1999-2003 of increasing administrative costs relative to the overall portfolio. This is an area that the CDB should pay more attention to because it is a critical factor in the financial viability of the SLS.

Exhibit 5.36 Administrative costs as a percentage of the value of loans outstanding

Administration costs as a percentage of the value of student loans outstanding					
Countries	**2003**	**2002**	**2001**	**2000**	**1999**
Dominica	2.76%	3.02%	2.82%	2.78%	2.74%
Anguilla	4.09%	3.11%	3.42%	2.32%	2.17%
Grenada	6.09%	5.39%	5.20%	3.67%	n/a
Turks and Caicos Islands	2.32%	2.34%	2.15%	n/a	n/a
British Virgin Islands	3.35%	3.00%	3.12%	3.12%	3.04%
St. Lucia	n/a	n/a	n/a	n/a	n/a
Belize	n/a	n/a	n/a	n/a	n/a
St. Vincent & Grenadines	n/a	n/a	n/a	n/a	n/a
St. Kitts & Nevis	n/a	n/a	n/a	n/a	n/a

Source: DFI questionnaire
Note: Antigua & Barbuda provided data for August 2004 only (11.87%).
Note: DFIs considered different variables in calculating administrative costs.

Finding 34: There are a variety of approaches to staffing the SLS at the country level. For some DFIs, the stakeholders indicate that the staffing is insufficient to adequately manage the portfolio. The link between staffing and administrative efficiency is also an area in need of closer monitoring.

About 60% of the DFIs that responded to the questionnaire, indicated that they have staff dedicated exclusively to student loans. However, in most of the DFIs visited during the field missions, student loan officers attended more than one sector, but during the peak period of applications and disbursements for student loans (December - January and May – August), they would focus exclusively on students. The student loan officers are involved in promotional visits (if these visits are part of the DFI strategy), and they coordinate the appraisal and disbursement process.

The number of staff involved depends on staff resources, the volume of the portfolio, and the geographic scope of the institution (existence of district branches, for example). Staff ranged from one project officer in DBVI and DBSKN to three project/loan officers in the other DFIs visited.

For some DFIs, current staffing may be insufficient given the volume of loans and the fact that loan activities are concentrated in peak periods during the academic year. For example, DBSKN, which has a relatively high level of approvals also has one of the smallest staff complements. This places limits on the amount of time that the student loan officer can spend with any one applicant. The relation between staffing and approvals has also been used as a measure of administrative efficiency. Exhibit 5.37 presents the relation between staffing and approvals for the DFIs in five sample countries.

Exhibit 5.37 DFI Staff Complement and Loan Approvals, 2003

DFI	Number of Loans Approved 2003	Staffing[38]
AID Bank	290	3 project/loan officers for SLs and other sectors;
BOSL	166	3 dedicated SL officers, 2 disbursement officers
DBSKN	239	1 project officer focusing on SLs during peak periods only
DBVI[39]	4	1 SL officer, but not dedicated exclusively
DFC, Belize	622	3 officers that work substantially, but not exclusively on SLs at HQ and branch offices

Source: Personal Communication, DFIs.

In St. Lucia, there is a different kind of arrangement. There, the BOSL has separated student loans from other lines of credit and created a Student Loan Centre as a fairly autonomous unit, with its own staff, and a single focus on extending and managing student loans. Additional details about the approach in St. Lucia are presented in Exhibit 5.38.

Exhibit 5.38 Example of a Student Loan Centre, St. Lucia

BOSL Student Loan Centre
Soon after the merger with the development bank, the BOSL made the decision to separate the student loans because of the special characteristics of the portfolio. In 2002, they created the position of Student Loan Coordinator and established the Student Loan Centre (SLC) in Castries. The SLC centralizes the application and disbursement functions. The Center is staffed by a Supervisor,3 loan officers, and 2 disbursement officers. During peak periods, the SLC handles about 4-5 appointments per day per loan officer, in addition to walk ins. One important note is that the overall number of staff looking at student loans has remained the same. Before, when the SLS was part of the development bank, the student loan officers were project officers (paid higher salaries) who also looked at credit operations in other sectors. Now, the SLC can have a lower level of staff person doing the loan appraisals.

[38] Staffing numbers reflect only those staff that coordinate the loan application and manage the relationship with students. There may be others involved in the supervision/approval process (supervisors, branch managers, etc).

[39] DBVI figure includes only the approvals that were funded under the CDB loan.

Further analysis of the approach to resourcing the SLS at the country level could be useful to the CDB and all of the DFIs. The St. Lucia approach also warrants a closer look in order to share some of the lessons learned in managing the SLS through a specialized centre. In all of the DFIs, further analysis of staffing capacity and the efficiency of the loan process is required in order to determine the most efficient and effective configuration.

Finding 35: The DFIs report that information systems in place are adequate for managing the SLS, although there are gaps in their abilities to track non-credit information about borrowers and loan denials.

Although the DFIs have information systems in place to manage the Student Loan Scheme, these are mainly focused on key financial indicators. More than 70% of the DFI respondents confirm that their information systems do not track non-credit indicators about the applicants (course of study, graduation, drop out, subsequent employment).

Furthermore, only 3 of the DFIs responding to questionnaire were able to provide information on number of applications denied. In the interviews, stakeholders at the DFIs confirmed the difficulties in systematically tracking denials, especially since often there are no formal "denials" or "rejections", but inquiries that never materialize into applications because the applicants do not meet the basic criteria. In most cases, the information on the client enters the computerized system at the time that they submit an application.

These gaps in the information system make reporting more difficult. However, it is important to note that the entity responsible for oversight of the scheme also sets the parameters for reporting. The DFI Board of Directors generally focuses on the financial performance of the portfolio and has not expressed a need to track the effects of the scheme on students. The non-financial indicators could be the purview of the SLAC, but as noted earlier, reports on these issues are not demanded by or generated for the SLAC on a regular basis.

Finding 36: DFIs have difficulties in maintaining communication and strong relations with their student loan customers, which has affected the performance of SLS.

Many of the DFIs recognize their limitations in maintaining communication with students during the period of studies and, more importantly, in tracing the student after graduation. When the students have gone overseas, this poses a particular challenge. During the study period, the DFI communicates with the parents or other relatives in the country.

Examples of the poor communications between DFIs and students include:

- Students who indicate that they never received a letter from the DFI telling them that the grace period was over and repayment of loan was due to begin;
- Students do not receive regular statements on their account from the DFI; in some cases the statements are easily available upon request, in others the student must pay to receive them;
- The limited interaction between students and the DFI during the period of study, which occurs only for loan disbursements (these usually require the submission of transcripts);
- DFIs are often not notified when the student completes a program and immediately begins another study program (graduate studies, for example); the loan begins to enter into arrears when in fact, the grace period for the loan could have been extended due to continuing education;

- Students indicate that they did not and still do not fully understand the terms and obligations of their loan; this would need to be explained on more than one occasion. Several of them raised concerns about what “reducing balance” means, when in practice the “balance of the loan just seems to keep increasing”.

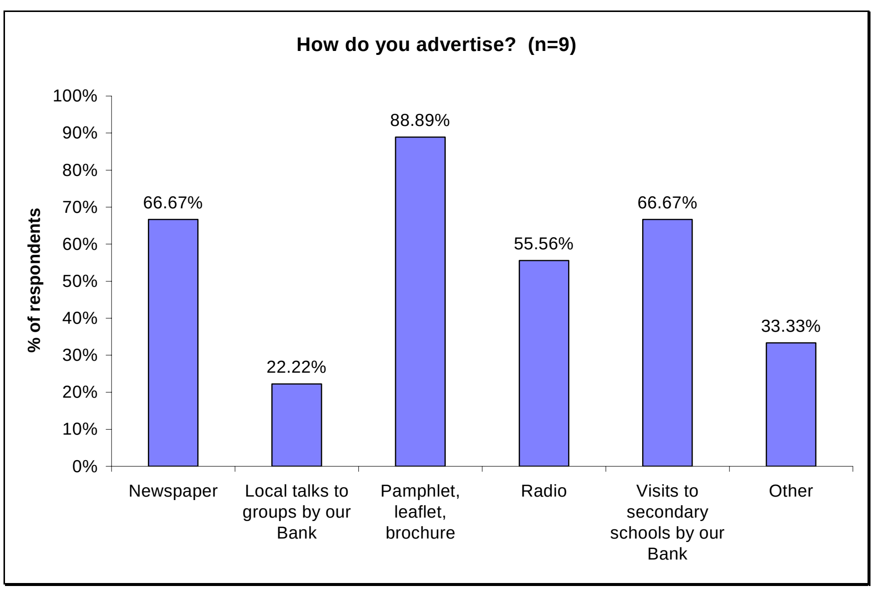
The lack of strong customer relations and communication has limited the DFIs in several ways. One of the most serious implications is the fact that their loans go into arrears. But the DFIs themselves also indicate that they are missing opportunities to expand their markets. Some recognize that they have not been able to service the student loan client – offering them packages of financial services upon their return, possibilities of refinancing their loans, etc. BOSL and DBSKN are now introducing these kinds of packages.

Finding 37: The DFIs have been successful in generating awareness about the existence of the programme.

The DFIs responding to the questionnaire all engage in some kind of promotion of their student loans. The most common media are the student loan pamphlet or brochure, the radio, the newspaper, and visits by the DFI to secondary schools (See Exhibit 5.39). In our interviews, the DFIs noted that they are doing fewer visits to secondary schools than in the past. The visits to secondary schools in both rural and urban areas can be an effective way to promote access to special windows for student loans that target the poor.

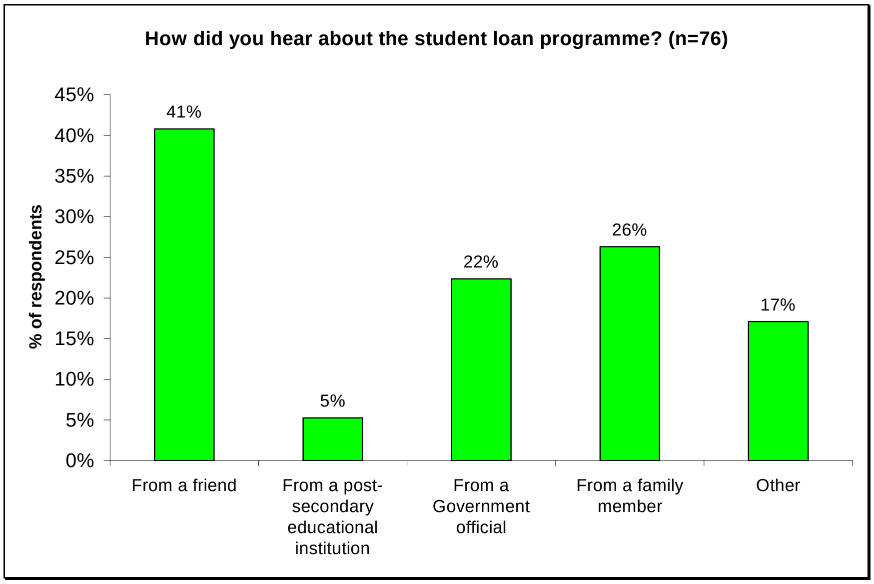
As shown in Exhibit 5.40, the primary way that students have learned about DFI student loans is by word of mouth.

Exhibit 5.39 DFI Promotion of the SLS in Country



Source: DFI questionnaire data

Exhibit 5.40 Student Awareness of the DFI Student Loan Programme



Source: Student/Borrower Questionnaire data

Finding 38: Loan approval and disbursement are often subject to delays at the DFIs. In addition to the uncertainties that this can cause, it also has financial implications for students.

According to estimates provided by the DFIs, the time frame for loan approval in country ranges from 1 –6 weeks (Exhibit 5.41). This reflects the time from the submission of the loan application to the formal notification of loan approval.

There are several actors involved in the approval process. One of the reasons for delays that were cited among DFI stakeholders is the need to wait for a meeting of either the SLAC or the STFB (in the case of BVI). If the meetings are postponed or there is no quorum, then the approval decision-making does not move forward. During the peak season for applications, this can generate a backlog of applications. Another factor that causes delays are the incomplete applications submitted by students or DFI requests for additional information from the students.

Almost all of the students interviewed noted significant delays with their loan. In the extreme cases, the delays took up to a year. A more common delay was 3-6 months. Student applicants often are not informed of how long their approval might take and are not given the reasons for the delay. On the one hand, this creates a high degree of uncertainty about whether or not the financing for the educational program will come through. In many cases, however, it also creates financial strife for students.

A number of students were finally notified of their loan approval days before leaving for school or once they had begun the semester. Because of this delay, the students had to come up with bridging finance to meet the payments of the first semester. The alternative sources for bridging finance included: loans from family and friend, using up personal savings, and taking out a loan from a second source, such as commercial banks or credit unions.

Exhibit 5.41 DFI processing time for student loans

DFI	ESTIMATED PROCESSING TIME
AID Bank	4-6 weeks
BSOL	1-2 weeks
DBSKN	Up to 2 weeks
BVI	Up to 1 month
DFC	Up to 1 month

Source: DFIs, Personal communication

Similar problems have come about with disbursements in some countries. One of the characteristics of student loans is that there is a longer disbursement period than for other sectors. The first disbursement is given either to the student or directly to the educational institution. This practice varies depending on DFI, educational institution, and expenses covered by the loan (tuition only, living expenses). Subsequent disbursements of the loan are not provided unless copies of the university transcripts are provided to the DFI. The uncertainty felt during the approval process is often repeated for each disbursement—delays mean that the students have to seek alternatives in order to keep their studies on schedule.

Finding 39: Most of the DFIs visited are making concerted efforts to improve performance of the student loan portfolio by increasing repayment and engaging in more aggressive collections.

One of the persistent challenges of student loan schemes is to maintain sustainable arrears and default ratios. The DFIs visited during the field mission are giving priority to "cleaning up" the student loan portfolio. This means going after delinquent borrowers in order to get repayment back on track or initiating collections processes where necessary.

As one stakeholder described, delinquent borrowers fall into two categories "unable and willing to pay and able and unwilling to pay." Some students come back to the country and don't get the salary level needed to service the loan (unable and willing). Others just don't feel the moral obligation to pay (able and unwilling), because they have nothing to lose – it is the parents or other relatives who will pay in the end—or because their perceptions of the funding provided through the DFI. "People saw loans as government assistance; [they] figured that since it is coming from a development bank that is backed by government, it is government aid."

As noted in an earlier finding, one of the reasons that students fall by the wayside and the loans end up in arrears is because of the limited communication between the DFIs and students during the study period and immediately thereafter. This has been particularly acute in the relations with students who go overseas. Thus, as the DFIs noted, one of the first steps in improving performance is to do a better job in tracing the students upon graduation and, if necessary, rescheduling the loans.

Discussions about repayment, also noted important concerns and recommendations about the repayment system in some countries. If payments require going to the bank and waiting in long lines, there is one more incentive not to pay. Students in some of the countries recommended that repayment should be easier, moving towards the ability to make payments electronically.

One of the primary changes in the SLS at the country level is in the area of collections. As one DFI noted, "we are much more aggressive than before." The measures that are being implemented, include:

- Intensifying efforts to go after guarantors (legal action);
- Seizing properties that were provided as security (legal action);
- Blank salary deduction orders at the time of loan approval (students and guarantors must sign these when signing the legal papers);
- Exploring the possibilities to put in place "ganshee" orders so that they can deduct payments from salary, regardless of where the student is working; and
- Generally tightening up on security requirements.

In St. Lucia, for example, the BOSL has determined that "lawyers don't pay." As a result, the Bank has decided not to make any more loans to lawyers. Furthermore, it has begun sending the list of delinquent lawyers to the Bar Association, where the president makes periodic statements on this problem.

The legal framework or conditions for collections is also weak in some countries. For example, the legal system doesn't facilitate taking over people's properties. DFI stakeholders have noted that the courts are often not sympathetic to the banks. Credit bureaus in some cases are at incipient stages. In St Lucia, a credit bureau was just being established in July 2004.

5.4 Sustainability

In this section, the Assessment looks at the potential for the SLS to be sustained over time. This is captured primarily in the analysis of financial viability for the SLS, both for the CDB and the DFIs.

5.4.1 Financial viability

The implicit financial objective of the SLS is full cost recovery for both CDB and the DFIs. By achieving this objective, the SLS would generate a self-sustaining level of re-flows to implement the programme over time.

Finding 40: For CDB, the SLS is a sustainable initiative because of the minimal risk of default ensured by direct or indirect government guarantees of the loan funds.

The risk of default facing the SLS in CDB is minimized by the existence of direct or indirect Government Guarantees that ensure loan repayment even in cases where students default in meeting their debt service obligations.

Based on the nature of public sector support for its loans, CDB could therefore continue to lend for the SLS without directly eroding the sustainability of the Scheme. In fact, with respect to the SLS, the development objectives tend to supersede the financial objectives and provide an abiding justification for maintaining the SLS.

Finding 41: The biggest challenge to the viability of the SLS is default by students in the payment of their debt service obligations.

The financial viability at the country level is affected by lack of repayments by students who are in arrears and likely to default on their borrowings. The arrears situation under the SLS loans, during 1999 – 2003 is presented in Exhibit 5.42.

Exhibit 5.42 Student Loans in Arrears at the DFIs

Value of principal and interest in arrears for student loan portfolio as a percentage of the value of student loans outstanding					
Countries	2003	2002	2001	2000	1999
Dominica	6.61%	5.31%	4.90%	4.62%	4.26%
Anguilla	5.94%	3.44%	2.02%	1.44%	3.47%
Grenada	7.59%	10.36%	24.34%	11.69%	n/a
Turks and Caicos Islands	1.36%	1.38%	3.42%	6.68%	7.97%
British Virgin Islands	7.44%	6.79%	6.51%	6.08%	7.67%
St. Lucia	n/a	n/a	n/a	n/a	n/a
Belize	16.18%	18.11%	8.85%	4.85%	4.56%
St. Vincent & Grenadines	n/a	n/a	n/a	n/a	n/a
St. Kitts & Nevis	5.73%	11.29%	5.46%	5.12%	3.74%

Source: DFI Questionnaire.
Notes: Antigua & Barbuda provided data for 2004 only, which indicated 5.45% as the principal and interest in arrears as a percentage of total loans outstanding. (August 2004)

The situation in Belize deteriorated in 2002, when the level of arrears increased to above 18%, but there was a sign of improvement in 2003, when the level of arrears declined to roughly 16%. The situation in Grenada was poor in 2001, but has been improving. The cause of the weak arrears situation needs to be fully analyzed, since there is a sense in which arrears tend to foster more arrears. When graduates see that their friends getting away with not paying the loans, they may be tempted to follow suit. Caution should be used in comparing across countries since DFIs use different methodologies to calculate arrears. Furthermore, some countries may have changed methodologies over this period of time, which would also affect the ratios.

The arrears sometimes deteriorate into default, where the debt servicing by the borrowers actually stops. The extent of default among the DFI during the period 1999 – 2003, is indicated in Exhibit 5.43.

Exhibit 5.43 Default on SL as a percentage of SL portfolios at the DFIs

Value of default student loans as a percentage of the value of student loans outstanding					
Countries	2003	2002	2001	2000	1999
Dominica	5.61%	1.87%	1.87%	1.31%	1.39%
Anguilla	39.02%	29.09%	18.69%	9.79%	19.43%
Grenada	9.20%	12.89%	15.37%	21.59%	n/a
Turks and Caicos Islands	16.48%	16.47%	16.47%	16.47%	16.47%
British Virgin Islands	5.89%	3.00%	6.00%	6.05%	6.10%
St. Lucia	n/a	n/a	n/a	n/a	n/a
Belize	41.00%	20.65%	14.32%	13.49%	n/a
St. Vincent & Grenadines	n/a	n/a	n/a	n/a	n/a
St. Kitts & Nevis	n/a	n/a	n/a	n/a	n/a

Source: DFI Questionnaire.
Note: Antigua & Barbuda provided data for 2004 only, which had default at 27.65% of total loans outstanding (August 2004)

Among the DFIs, the situation in Belize, Anguilla, and Turks and Caicos poses some concern, and should be addressed by the management of the DFIs. Default robs the SLS of the re-flow of resources and deprives future generations of students the benefits of the SLS.

Finding 42: While there is evidence that SLS interest rates have some degree of subsidy in some countries, it is not a critical factor in the viability of the Scheme.

The interest rates on student loans charged by DFIs in the countries surveyed are listed in Exhibit 5.44. These range from 8 % to 10.5%. The data on market rates for student or educational loans at other financial institutions shows that these are either the same or only slightly higher, representing a difference of 1 percentage point. (For example, bank rates in Dominica and Belize are about 11% compared to the 10% DFI rate noted below.) The SLS rates are closer to market rates than schemes in other parts of the world. There are examples of student loan schemes with interest rates as low as 1% when the market rate is 7%.[40]

Exhibit 5.44 DFI Interest Rate Charged on Student Loans

Countries	Interest Rate
Dominica	10.0%
Anguilla	8.0%
Grenada	10.5%
Turks and Caicos Islands	8.0%
British Virgin Islands	8.0%
St. Lucia	9.5%
Belize	10.0%
Antigua & Barbuda	10.0%
St. Vincent & Grenadines	8.5%
St. Kitts & Nevis	9.0%

Source: DFI questionnaire and personal communication

Although students were concerned that the rates are high, an international analysis of student loans undertaken by the World Bank[1] suggests that the real SLS rates of interest in the Caribbean countries are likely to be low.

For example, the real rate for Jamaica was shown at –5.6% and for Barbados it was shown to be 4.1%. Usually, the real lending rate (after inflation) includes elements to cover the cost of capital, the administrative cost as well as the risk premium to cover the cost of default. From a private point-of-view, students would still find it profitable to borrow the SLS as long as the present value of their expected incremental earnings after graduation exceeds the cost of the study programme. This is the rational situation facing the student.

Interest rate subsidy is usually proposed as an attempt to promote immediate social equity by transferring benefits to the poor. However, it is not clear that this is absolutely necessary to promote access to post-secondary education among the poor, if other mechanisms (e.g. guarantee schemes) are in place. It is possible that with adequate levels of expected future earnings, even the poor could face market rates on par with other students.

Another point of concern regarding the level of interest rates is the spread between the costs of funds for the CDB as compared to the final cost for the students. With SDF funds entering CDB interest-free, and fairly low cost equity funds combined with market resources, the weighted average lending to the DFIs ranged from 2.5 to 5.5%. In turn the on-lending rate from the DFIs to the students ranged from 8% to 10.5%.

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[40] Ziderman, Adrian, Student Loans in Thailand: Are they Effective, Equitable, Sustainable?, Policy Research and Dialogue Student Loan Schemes in Asia Series, Vol. 1, No. 1, p. 125

The important variable to track is whether the spread between these rates is enough to cover the costs of administering the Scheme. Furthermore, if the SLS were to be managed more programmatically, this could have additional cost implications that should be contemplated.

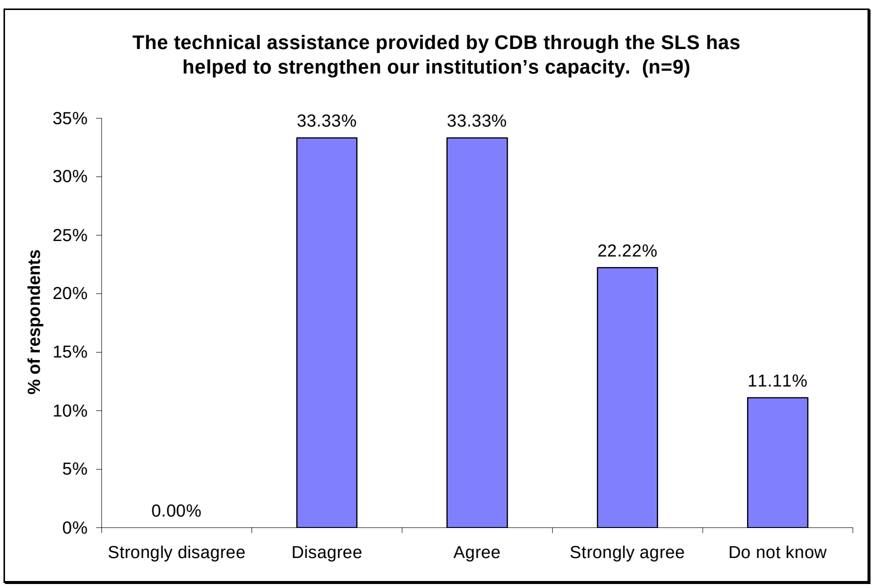
5.4.2 Promoting Capacity Building and Learning

Finding 43: Among DFIs sampled, the CDB is not recognized as a source of technical assistance and capacity building for managing student loan programmes; improvements can be made in this area.

About half of the DFI respondents indicate that the technical assistance provided by CDB through the SLS has helped to strengthen the institution's capacity. The remaining respondents disagree or do not know. In the interviews conducted, DFIs indicated that beyond the lending resources, there was little value added by the CDB. For some, this was natural since the DFIs are the institutions that have accumulated the on-the-ground expertise in student loan programmes. Most DFIs had participated in general training programmes about the project cycle, credit appraisal, etc, but these programs did not usually draw on examples from student loans.

One of the loans in the five sample countries–the Vth Consolidated Line of Credit for Belize—included a component for institutional strengthening that was not fully drawn down. These resources were used by the DFI for training staff and developing computerized information systems. Institutional strengthening is not a common element of the SLS.

Exhibit 5.45 DFI Perception of CDB support for Capacity Building



Source: DFI questionnaire data

Finding 44: As the SLS is currently implemented, there are limited mechanisms in place for learning. The CDB is missing the opportunity to learn from the way the Scheme is implemented across countries and strengthen its development effectiveness.

CDB's monitoring and evaluation focuses on the financial performance of the DFI. The PPMS reports on their own do not provide sufficient insights to the scheme (the capacities of the DFIs and where these need to be strengthened, the development contributions of the scheme, etc.).

There are also no mechanisms for identifying issues and different approaches across the countries. Can one DFI learn from another in the ways that they strengthen the collection process, set up guarantee funds, develop guidelines for targeting the poor, facilitate loan payment on-line, etc.? The Bank of St. Lucia provides an interesting case because its student loan program shifted from a development bank to a commercial bank context. Several changes were made in the program as a result and the lessons from this experience could be useful elsewhere in the region. The experience of St. Lucia is presented as a case study in Appendix III of Volume II.

The SLS has set the foundations for identifying regional best practices and for learning, but this potential has not yet been tapped.

6. Lessons Learned in Implementing Student Loan Schemes

About 50 countries around the world have student loan schemes in place, with a wide variety of organizational arrangements for their implementation. Depending on the country, loans may be given to students by universities, government, specialized agencies, commercial banks, or a combination thereof. A review of the literature on these schemes draws out some common themes and concerns regarding student loans as the preferred strategy for financing tertiary education. This section of the report draws primarily on a World Bank study *Student Loans in an International Perspective* (undated) that was prepared by Jamil Salmi and on the documents produced by UNESCO-sponsored regional comparative policy review on student loan schemes in Asia[41].

From these reviews, two principal areas of concern about student loan schemes emerge: their financial viability on the one hand, and their effectiveness in targeting the poor, on the other. The following sub-sections explore some of the lessons in these two areas and how these lessons relate to the CDB's SLS.

Financial viability of student loan schemes

1) **High default rates, subsidized interest rates, and high administrative costs of running the program negatively affect the financial viability of SLS.** As noted in this study, for the CDB's loan scheme the issues that require attention are the performance of the SL portfolios and the administrative costs of the schemes at the country level.
2) **Maintaining the repayment burden at a relatively low level for students decreases the probability of repayment default.** Thus, it is important to assess the type of repayment schedule that is most appropriate for student borrowers by:
   - Establishing the maximum repayment burden that is feasible for borrowers and then looking at interest rate, repayment period, repayment and inflation;
   - Recognizing that the repayment burden is heavier in the initial years when the salary is lower (noting that an increasing payment schedule may help to lessen the extra burden on young graduates during the early years, but a greater total amount of debt will be accrued as a result);
   - Recognizing that flexible payment conditions improve the potential for repayment.

[41] UNESCO, Policy Research and Dialogue Student Loans Schemes in Asia Series, 2003.

The concern about repayment burden emerged from interviews with students, especially in St. Kitts and Nevis and St. Lucia. It is a viability factor that should be monitored in this next phase of the SLS.

3) **The existence of effective collection mechanisms helps reduce the probability of default.** These mechanisms should be based on:
   - an efficient management information system;
   - a philosophy of personalized relations with loan beneficiaries;
   - an appropriate legal framework;

   The study illustrates the need for strengthening the first two areas in many of the participating DFIs. Some of them are already adopting measures to improve client relations with borrowers and keep better track of students' whereabouts.

4) **Introducing positive and negative incentives and raising credit awareness contributes to a culture of responsibility that enhances the probability of repayment.** This has been identified in countries where providing credit to individuals is a relatively new phenomenon (such as China), yet it has also been identified as necessary by some of the staff and management in the DFIs.

5) **A carefully designed interest rate and subsidy policy protects the long-term financial viability of the schemes.** Subsidies such as grace periods for repayment, below-market rates of interest and repayments in current rather than real terms will result in only a partial recouping of loans, overall. That part of the loan that is not repaid may be seen as a "hidden grant" to the borrower.

6) **The risks shouldered by the banks are high in the absence of a perfect individual credit system where punitive measures can form an effective restraint on those customers with bad records**. This suggests the need for sharing the risk in the delivery of SLS. The DFI stakeholders also indicated the need for risk sharing, especially when targeting the poorest students.

Targeting the poor in Student Loan Schemes

Many SLS share a social objective of providing equal access to education. They are guided by the principle that financial assistance should ensure that no student is denied a university education because of a lack of means. Thus, limited resources must be distributed among students who really are in need. The first difficulty with such targeting is in establishing who qualifies as a person that is "in need." To do this, student loan agencies have developed criteria and systems of means testing. In these efforts to focus on the poor, the literature illustrates that:

1) **Some eligibility criteria, including overly stringent guarantee conditions, can work against measures taken to benefit marginalized groups including the poor.** The stringent guarantee conditions have been a source of critique for CDB's SLS for some time. The introduction of the special funding windows are accompanied by screening criteria, although there are some concerns about the clarity of the criteria and how discriminatory they will be in screening applicants.

2) **To be effective in increasing the education access of the poor, loans need to be offered at attractive rates**. In the context of the SLS, the attractiveness of the rates begins with the requirements for security and collateral. This has been noted several times in this study.

3) **The equity aim of a SLS is affected not only by the design of the scheme, but also by the efficiency of the operating agency**. As noted in the assessment, students have been affected by delays in the loan process. Delays in disbursement, for example, have forced some students to seek alternative funds to bridge the gap, often turning to commercial banks for additional loans.

4) **In order for a loan to be helpful to a student, it has to be provided to the level that is appropriate given the full costs of the study programme.** This also became evident in the assessment of CDB's SLS. Interview data reveals some of the implications of funding caps on the SLS that have been insufficient to cover the costs of studies, including the need to seek second loans, work while studying, use credit cards, etc.

Furthermore, in this assessment of the CDB's experience with the implementation of the SLS, another set of lessons emerges with respect to the approach to structuring and managing student loan schemes for greater development effectiveness. These lessons include:

1) **It is necessary to monitor both the financial and the non-financial aspects of the SLS in order to assess outcomes and impacts of student loan schemes.** In the absence of consistent data on the various dimensions of the SLS, it is difficult to periodically assess progress towards outcomes and impacts. Monitoring information is critical for evidence-based decisions on the directions of the program.

2) **Student loans that are managed with a programmatic approach offer greater potential to focus on strategic issues such as poverty reduction and economic development.** A programmatic approach to the design and management of student loans provides a long-term horizon, facilitates linkages to broader corporate objectives, and enables the use of a mix of tools to achieve results. A line of credit is one part of the mix. Other tools include capacity building for the DFIs and the advocacy and leveraging work that CDB can do to promote enabling environments and the creation of mechanisms for sharing the risk of lending to the poor. The concept of a programmatic approach is described in greater detail in Appendix I.

3) **In order to be effective, a programmatic approach requires increased capacities of the DFIs.** DFIs would need additional technical and financial support from the CDB in order to develop the monitoring and reporting systems that would underlie a programmatic approach.

7. Conclusions and Recommendations

The SLS was designed to respond to the need for improving access to post-secondary education and training among citizens and residents in the target group of twelve Borrowing Member Countries (BMCs) of the Caribbean Development Bank (CDB). At the time the SLS was launched in 1972, the CDB was still in its infancy. Its poverty agenda, although evident in its Charter, had not been operationalized in the way that it has been in recent years. Over a 32-year period, the SLS has evolved with interesting differences in models and approaches among the BMCs.

Overall, the SLS is deemed as an important tool in CDB's development effectiveness. The study finds that the SLS has been effective in improving the access to tertiary education in the region. In doing so, it has generally contributed to the HRD needs of the BMCs. Although it is not clear that the poorest segments of the population are benefiting from the loans, the Scheme has helped a group of students who would not otherwise have been able to finance their studies. Its support for education complements other investments to reduce poverty in the region, particularly by helping to increase the skills of a cadre of individuals serving in a variety of fields.

Although the SLS is effective, it still needs to sharpen its pro-poor focus. Security requirements for student loans are the primary barrier for the poor. Fortunately, there are now some regional examples of mechanisms to facilitate the accessibility of the SLS, such as guarantee schemes and interest relief programs. These warrant closer study and monitoring. The factors that limit the effectiveness of the SLS are not new – in fact, many of them were also cited when the SLS was last evaluated in 1988. These factors are also not exclusive to the SLS; they are evident in other student loan schemes in the region and around the world.

The SLS responds to the needs for education financing of its clients – the students— at a time when other funding sources are diminishing. However, the terms and conditions of the student loans, although better than most alternatives, generate a series of hardships for students, both during the study period and in the years following graduation. In this regard, key operational issues for further consideration by CDB and the DFIs are: maximum loan amount, interest rate, servicing interest during grace, and repayment strategy. The SLS is also relevant at the strategic level, although its explicit links to the HRD strategy and SDF objectives can be strengthened.

CDB's comparative advantage includes offering DFIs low interest rates, grace period, and a longer repayment period. Commercial banks and credit unions are not aggressively entering the market for student loans, thus DFIs remain almost the only game in town. Students continue to take loans for study outside of the Caribbean, but there is also a steady number that study locally and regionally.

In terms of SLS management, CDB has not paid enough attention to the country-specific and regional successes and challenges of the Scheme. Opportunities have been missed because of the absence of planning, monitoring and reporting systems that foster learning across the entire group of loans and countries. In part, this is due to the lack of a programmatic approach, which would require a strategy and regional coordination of the SLS. At the country level, the DFIs have adopted a number of approaches for staffing and managing the SLS. The students cite a series of problems that reflect on the efficiency of management with regard to: the approval process, on-going communications with clients, and disbursements. The lack of data on administrative costs provides some uncertainty concerning the administrative efficiency of the scheme. Again, this is an area worth monitoring in the future.

Stakeholders shared their concerns about the financial viability of the scheme. And, in fact, the proportion of student loans in arrears and default is worrisome in some countries. However, all of the DFIs interviewed during the study, are sharpening their pursuit of clients for repayment and collections in efforts to clean up the student loan portfolio.

Finally, as part of its analysis of sustainability, the Assessment found that the current approach to implementing the SLS provides limited mechanisms for learning. The CDB is missing the opportunity to learn from the way the Scheme is implemented across countries and, as a result, strengthen its development effectiveness.

7.1 Recommendations

The potential areas for recommendations emerging from the assessment were discussed with CDB stakeholders at a workshop on October 29, 2004. Those discussions have enriched these recommendations.

7.1.1 Strategic Level

Recommendation 1: CDB should develop a programmatic approach to providing student loans where there is clear responsibility, within the institution, for coordinating and managing a programme for results.

In order to improve the performance of the SLS in a number of the areas noted in this study (for example, the pro-poor focus, the links with CDB's HRD policy, the administrative efficiency and financial sustainability of the SLS in the DFIs), CDB should strongly consider developing a programmatic approach to student loans.

A separate note in Appendix I provides a broader discussion of the concepts and issues to consider in developing a programmatic approach. A programmatic approach refers to the way in which such an initiative is designed and managed. Such an approach must consider the different components of a programme's design and implementation as summarized in the table below. In addition, the programme management must continually draw linkages between the programme's results and broader institutional objectives, mission, and mandate.

Exhibit 7.1 Programme Components

PROGRAMME COMPONENT	ISSUES FOR CDB TO CONSIDER
Objectives, results, and theory of change	• Determine the overall objectives and planned results for the programme • Define performance measures • Articulate the ways in which the changes occur at the programme level
Primary tasks	• Identify the key activity areas and tasks of the programme coordinator
Monitoring and Evaluation	• Develop the M&E Framework and monitoring plan in collaboration with DFIs
Structural arrangements	• Define staffing, institutional home, coordinating mechanisms, etc.

As a student loan programme, this initiative would play a significant role in the overall institutional framework at the CDB, becoming a more explicit contributor to overall institutional performance and effectiveness. This shift will require a change management process that requires:

- The support of the President and Senior Managers for a programmatic approach
- Modest financing to support the change
- A process to develop ownership and support in BMCs
- Transparent communication with all the stakeholders
- The selection of staff with the required competencies
- An action plan and continuous monitoring and learning during the change process

In launching this transition, there will be a need for CDB, DFIs and country stakeholders to get together to agree on the design and implementation of the programmatic approach and identify the TA required by countries/DFIs in order to implement the programme.

Recommendation 2: CDB should strengthen strategic and operational linkages between the SLS and CDB's HRD strategy, as well as sector work in education, poverty reduction, and other areas.

The SLS linkages to corporate strategies (such as HRD) are an integral part of a programmatic approach. Some of the strategic linkages do exist. For example, in the CDB's Results-based Management Cascade, the Strategic Objective of "Fostering more rapid economic growth of the economies of the BMCs" is linked to the Corporate Priority of improving the quality of, and ensuring equality of access to, vocational training, and secondary and tertiary education. One of the first steps in developing the programmatic approach is to further clarify the ways in which student loans contribute to broader corporate strategies.

The staff person who coordinates the programme would have a broader coordinating function with other departments to ensure that strategic linkages are taken into account and facilitate a broader sharing of skills that could benefit the student loan programme.

Some of the areas for collaboration include:

- Supporting countries in developing HRD strategies based on market research. In some countries, there is a need to develop an HRD strategy because it doesn't exist, or make an existing strategy more strategic in nature (long term, based on data from various sectors). Countries may require specific funding and technical assistance for conducting the market research necessary to inform an HRD strategy.
- Supporting the supervision or monitoring of implementation of the student loan programme. At the appraisal stage for an SLS or Consolidated Line of Credit with student loan component, different specialists (e.g. education) are brought in to the country. In the future, a similar approach could be taken in monitoring the implementation of the programme. In other words, sector specialists would play a role in monitoring.
- Designing poverty targeting mechanisms and criteria for student loans and monitoring their implementation. Collaboration is already underway with CDB social analysts in the development of pro-poor windows in some countries.
- Developing a gender strategy for the student loan programme. By working with gender specialists, the student loan programme could articulate how it will address issues of gender equity, even if the disparity between men and women accessing loans is a reflection of a broader trend in education. The programme should still articulate how it will address this.
- Developing earmarked funds for certain fields or types of training, such as technical and vocational education. Here the educational and TVET specialists could work with the programme to articulate if and how there is a way that the programme could support students seeking a technical or vocational training.

Recommendation 3: The CDB should actively collaborate with the DFIs, Governments, and other donors to establish complementary mechanisms (such as guarantee funds) that will increase accessibility of loan funds to the poor.

The assessment concludes that pro poor focus of the SLS needs to be strengthened. This will require developing alternative ways of sharing the risk of lending to the poor. The DFIs cannot bear all of the risk. In this regard, the assessment team urges CDB to play a greater role in leveraging resources to finance tertiary education for poorer populations. It could, for example, facilitate the establishment of guarantee funds to support qualified loan applicants who do not have the collateral required. One of the first steps is for CDB to assess the special programs that are in place in St. Lucia, Belize, and in other contexts.

One of the primary tasks of the coordinator of the student loan programme would be to ensure that countries have access to the technical assistance required to assess and establish this type of mechanism. The coordinator would also support countries in their efforts to bring other donors to the table.

Recommendation 4: The CDB should explore alternatives with the DFIs to help make the SLS more sustainable and pro-poor.

This recommendation has a number of dimensions that should reflect the stage of implementation and the needs of each of the countries and DFIs.

For those countries that already have a pro-poor window of funding, CDB could work with the DFIs to make it operational so that loans are in fact given under that window. This may require identifying ways of spreading the risk of lending under this window.

Furthermore, there is a need to analyze alternative approaches for the interest rate, grace period, repayment formula, and repayment period at the country level. Additional flexibility in this area could be beneficial to the sub-borrowers (poor and non-poor) and also help to improve repayment.

Of special note is the fact that in some countries, graduate salaries may not be enough at the outset to support a substantial monthly payment. It may be necessary to look at ways of sharing the burden. Options for repayment include graduated payments, where monthly payments increase over time, or income contingent payments. In either case, the CDB or DFI could establish a policy in which the debt payment would not exceed 10-12% of the monthly after-tax salary. This, however, would require accurate and timely information on incomes, especially in the case of income-contingent payment schemes.

Another option would be to introduce some flexibility for students to skip payments or make smaller payments (without the loan entering into arrears) during crisis periods. Again, this would need to be established in a way that would not jeopardize the DFI, possibly by establishing a way of sharing the risk.

The CDB and DFIs could analyze other potential measures for improving repayment and reducing default (raising the credit awareness of borrowers, providing incentives for repayment, increasing efficiencies in the collections process). In this regard, it is critical to ensure that relevant SLS staff at the DFIs are confident in calculating and explaining the repayment schedules to clients.

One of the key areas to be addressed is the pro-poor focus of the SLS. Loan programs around the world, including the Caribbean region, have faced the same challenges: how to provide subsidies to needy students and at the same time make programs financially sustainable. The Student Loan Bureau in Jamaica managed to increase the distribution of loans to students in the lowest quintiles by about 28% in two years. However, in setting its initial targets, it underestimated the level of demand for tertiary education and for loans from the poorest groups. This is an issue that may affect the SLS efforts to increase its poverty focus. It requires greater analysis and careful target setting. It may also signal the need for additional outreach to encourage students of lower income to pursue higher education.

Recommendation 5: The CDB should support initiatives that help to create an enabling environment and improved institutional framework for student loan programmes in the BMCs.

This recommendation responds to the concerns raised in the countries visited as well as the issues that have come up in other contexts. The enabling environment includes aspects of the "rules of the game", meaning the institutional and legislative frameworks that regulate and track credit transactions. One of the success factors for loan programmes noted by the World Bank is the existence of proper legal frameworks that support collections processes, thus reducing default on loans. The existence of institutions for tracking repayment in society (such as credit bureaus) can be critical to the implementation of student loan schemes.

At the country level, there is also need for BMCs to build their capacities for developing HRD strategies. This includes generating labor market research and other data to support HRD decision-making. The lack of such strategies has meant that the "priority list" used in student loan appraisal is a less useful and forward-looking tool. There is a role for CDB to play in providing technical assistance funds for the development of these capacities.

7.1.2 Operational level

The following recommendations are independent of the decision to adopt a programmatic approach. Such and approach would nonetheless facilitate implementation of these recommendations.

For policy, guidelines and future appraisals, the CDB should consider:

- Providing lending for student loans only through SL schemes (instead of consolidated lines of credit), which could help countries to access additional loan funding for students. Under consolidated lines of credit, the possibilities of accessing fresh loan resources are tied to the performance of the entire line of credit.
- Targeting a proportion of the loans for vocational- technical education and training, which would help link it to HRD policy. An assessment of students' financial needs and the funding currently available for this type of training would be the first step in determining if targeting is appropriate. The targeted lending for vocational-technical training was also noted as an option for broadening the access of student loans to males (thus addressing current disparity between males and females). However, further research and analysis would be required to understand the gender differences in the demand for vocational-technical training and for education finance.
- Allowing more flexibility for the maximum loan amount to be given with CDB's SLS funds, leaving the final decision to the DFI after their own appraisal process. Although the CDB sets maximum loan amounts in consultation with DFIs, there is a need for on-going flexibility with this figure during the loan period. DFIs have given loans that exceed the maximum of USD 45,000 because they have drawn from their own resources to complete the loan amount required by the student. The decision about the loan amount should be informed by an affordability assessment (how much debt can the student bear, given his or her potential future earnings).
- Analyzing with the DFIs the policy that requires students to service interest during the grace period. This policy should be reviewed with each EA and consider the cash flow implications for the DFI, possibilities of establishing interest relief programs in the country,

and other alternatives that could alleviate the student's payment of interest during the period of study.

For monitoring, evaluation and learning, the CDB should consider:

- Developing an M&E framework for the SLS that is linked to the SLS strategy and performance measures. The M&E framework and system would need to be jointly owned by the CDB and the DFIs. The framework should include the planned results, indicators, sources of information, method of collection, frequency of collection, and responsible unit or individual. The users of M&E information should be consulted on the key indicators to be included.
- Performance indicators that include different dimensions in order to provide a more complete picture of the SLS. An example of potential programme management and financial indicators adapted from the work of The World Bank (2002)[42] is noted in Exhibit 7.2.

Exhibit 7.2 Example of indicators to monitor in Student Loan Programmes

PROGRAMME MANAGEMENT INDICATORS	FINANCIAL INDICATORS
• Proportion of beneficiaries from low income families obtaining loans • Gender distribution of students and beneficiaries • Distribution of students and beneficiaries by academic program/location • Coverage (number of beneficiaries over student population) • Academic results of beneficiaries (compared to general student population) • Management indicators (measuring the efficiency and quality of internal processes) admin ratios, processing time, etc. • Satisfaction of beneficiaries • Turnover of personnel • Indicators of promotion of the student loan program (e.g. awareness of the program and understanding of the terms and obligations)	• Arrears & default rates (by socioeconomic group, gender, tertiary institution, academic discipline, and amount of loan) • Interest rate subsidy level • Loan recovery ratio • Administrative costs compared to overall portfolio (and distribution of main expense categories) • Cash flow projections • Evolution of real value of assets • Distribution of funding sources • % private, government loans • Mobilization of non-government resource • Return on investment (public, private)

- Prioritizing the information required for M&E and assisting DFIs with data collection. M&E will necessarily require data from the DFIs. This has been a source of tension in the past and the DFIs would therefore need to be convinced of the worth of the system to their own needs. Furthermore, if the DFIs see little evidence of how the information is used, they are also less willing to provide it.

[42] Salmi, Jamil "Student Loans in International Perspective: The World Bank Experience", p. 22 no date

- Given that the completion of forms and data collection is a point of concern for the DFIs, the SLS will need to prioritize the information, frequency, and methods to be used. The CDB may also be prepared to provide technical assistance and/or funding to the DFIs in order to facilitate the gathering of data.
- Building opportunities for learning in to the SLS. This could be achieved through electronic or print media and/or face-to-face fora. The exchanges could share what is being done in terms of guarantee schemes, improved collections processes, and other areas of "best practice".

In the management of the SLS, the DFIs should consider taking measures to:

- Assess the role and contribution of the SLAC and develop clearer terms of reference for the Committee, making it a more strategic body.
  An advisory committee can play a role in monitoring the development effectiveness of the SLS. This committee could pay attention to variables that are not generally tracked by the DFI, such as the socio-economic background of students, loans approved and areas of study, attrition rates of students, and post-graduation whereabouts. Although the SLAC can be a much more strategic entity, the change in role can only take place if the DFI also sees it in that way. Thus, the first step is to assess on a case-by-case basis the SLAC, its current role and contribution, relation to the DFI, and other variables. A subsequent step would be to redefine the responsibilities of the committee.
- Assess the requirement to service interest during the loan period.
  This issue was noted above in a recommendation to the CDB. The alternatives should be analyzed on a case-by-case basis, recognizing that such a change does affect the cash flow.
- Improve the communication of terms and implications of the loan with applicants; there is a need to spend more time with applicants at the front end, but it may be even more important to stay in touch directly with them (not only their family). It might be useful to periodically remind students of the terms and conditions and what these imply throughout the loan cycle. Many of the questions come up when they begin repayment. (For example, what does the reducing balance mean? What can you expect to see on your statements?)
- Increase efficiencies in the loan cycle, especially in approval and disbursement. At the same time, the DFIs should notify students of any delays in a timely fashion so that they can arrange alternatives.
- Adopt a policy of providing regular statements to borrowers on the status of payment of interest and principal on the loan. This is not a common practice in the DFIs. Some provide it upon request and others only provide it upon payment of a fee.
- Depending on size/value of portfolio, the DFIs may want to consider having a dedicated staff person year around, not only during peak periods. This would ostensibly improve the approval and disbursement processes. But it could also help in staying in touch with the students, which in turn increases the probability of repayment.

- Improve communications with student loan clients and marketing of complementary financial services to this group. There is a critical need to build relationships with the student borrowers as clients. Some DFIs are beginning to market new financial services to their student loan clients. Several creative approaches to packaging services could be explored (one example is the conversion of an outstanding 10-year student loan into a 25-year mortgage).
- Continue to make improvements in information systems that track the financial and non-financial indicators that are important for decision-makers about SLS at the country and CDB level. This is related to the recommendation on improved M & E for the SLS. As noted above, there is a role for CDB to play in providing support to DFIs for developing information systems and data collection capacities.

Appendix I Developing a Programmatic Approach to the SLS: A Concept Note

The purpose of this note is to present the definition, rationale, and other issues to consider in developing a programmatic approach to student loans in the CDB. Many of these elements were discussed at a CDB stakeholders' workshop in Barbados on October 29, 2004. The feedback from that workshop has been integrated into this document.

I. Definition of a programmatic approach

In most organizations, a programme is a set of activities (development intervention) designed to contribute to specific short, medium, and long-term results. Programmes are an explicit part of an organization's strategy, which means that there should be clear links between the programme's intended results and the organization's strategic objectives. The distinguishing feature of a programme, in contrast to a project or a line of credit, is its long-term perspective. In other words, a programme is not bound by a particular time frame or source of funding. Because of these characteristics, programmes tend to play a more strategic role in organizations than other types of intervention strategies, such as individual projects or lines of credit. Projects and lines of credit could form part of a programme.

A programmatic approach refers to the way in which such an initiative is designed and managed. Such an approach must consider the different components of a programme's design and implementation (identified below in section III). Moreover, the programme must draw linkages between the programme's results and broader institutional objectives, mission, and mandate.

In the case of the SLS, a programmatic approach does not imply a "one size fits all" strategy at the country level. The programme would need to show flexibility and be relevant to a diversity of country contexts and EA models.

II. Rationale for a Student Loan programme at CDB

The CDB has been operating the Student Loan Scheme as a line of credit to the BMCs. Although, the SLS has a sound track record and has been successful in several areas, this study concludes that there are a number of ways in which the development intervention of providing student loans could become more strategic for the CDB and have greater contributions to the BMCs. The primary recommendation is that the CDB adopt a programmatic approach to student loans.

The rationale for creating a student loan programme includes:

- the ability to provide stronger support for the region's desire to build human and economic capacity;
- the amount of the investment -- USD 87 million-- that warrants programme oversight;
- the CDB's Strategy, which supports the shift to a pro-poor programme;
- the ability to provide stronger support for CDB's HRD Policy;
- and donors expressed interest in having the SLS become a pro-poor component in CDB's portfolio.

III. COMPONENTS OF A PROGRAMME

Objectives, results, and theory of change

One aspect of the design of the SL programme is to articulate the objective and results. The overall objective of the programme could encompass the current aims of increasing access to tertiary education and improving HRD in BMCs. This would be supported by series of results at the outcome and output level, with corresponding performance measures.

In developing the results framework for the programme, some attention should be paid to enhancing the capacities of the executing agency to implement the loan programme. For example, capacities of the DFIs/EA to:

- Provide or support provision of adequate educational loan funding to meet the HR requirements of the country;
- Ensure that the poor and vulnerable populations who can use the educational loan funds have access to it;
- Manage their student loan programme in a way that is financially and programmatically successful.

The articulation of the results of the programme should help to identify an explicit theory of change for the programme. This theory would explain how and why changes happen in leading to the programme's planned outcomes.

Primary tasks

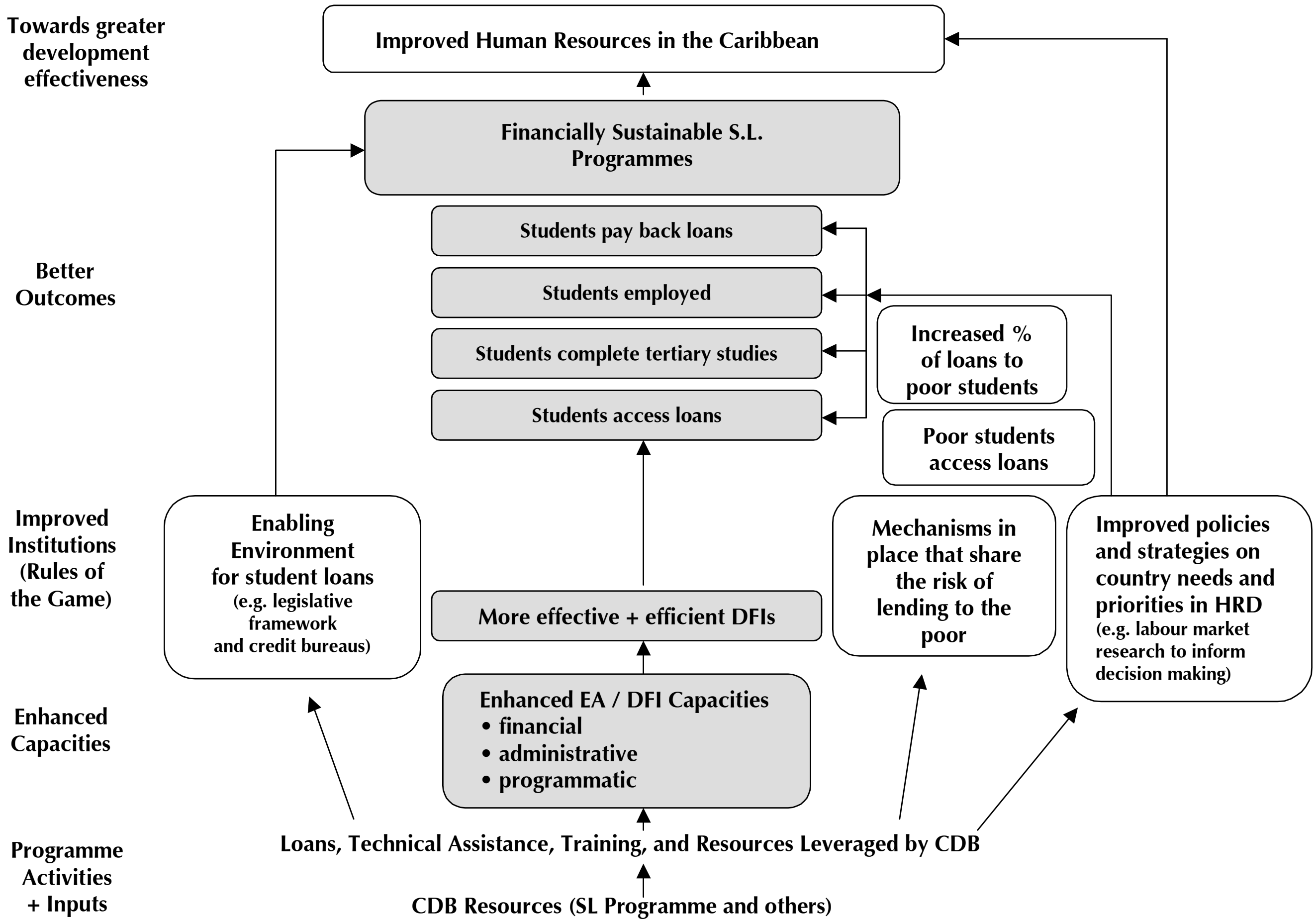
Some of the major tasks of a student loan programme would include:

- Support for management of the USD 87 million towards objectives and results (plan, supervise, monitor, report)
- Build partnerships with the DFIs/EAs
- Adopt and use the PPMS to meet the requirements of a programme information system
- Engage technical assistance to build programme capacity at CDB and at the DFIs/EAs
- Support the development of resources to ensure adequate loan availability for BMCs
- Support the development of mechanisms (in conjunction with governments and other funding institutions) to help facilitate access to loan funds by the poor.
- Coordinate among different actors (sector specialists, evaluation unit, etc.) in CDB
- Document and share lessons learned among BMCs and internationally

In addition, the programme could work with other actors to support an enabling environment for student loans at the country level. This could include leveraging the support of other donors, or providing technical assistance, to strengthen the legal framework and establish institutions such as credit bureaus, where they don't exist. These aspects of the institutional environment, or rules of the game, shape the consequences for individuals of not paying back student loans.

The figure below presents a schematic illustration of an SL programme. It shows activity and corresponding result areas at different levels. The essence of the programme, which focuses on the DFIs and the student borrowers, is in the center of the diagram.

Schematic Illustration of a Potential Student Loan Programme



Monitoring and evaluation

An emphasis on monitoring and evaluation is integral to the programmatic approach. The key to both of these functions is to make them useful to management. Stakeholders should be able to take evidence-based decisions regarding the programme.

Structural arrangements

Participants at the stakeholder workshop assessed several dimensions of the structural arrangements such as: location of the programme/unit, level/expertise of the senior staff required, minimum size of the unit, necessary coordinating mechanisms (for examples, with HRD).

CDB would need to decide on the best way to structure the programme given the resources available. The option suggested at the stakeholder workshop is to keep the SLS programme in the PSDD, create a programme manager position, and ensure that the programme manager plays a coordinating function. In addition, the participants recommended the formation of a committee to link PSDD and HRD group within the Bank.

We believe that these alternatives are viable. A programmatic approach does not imply restructuring. The issue is that the structure should serve the purpose. As CDB clarifies the purpose of the programme, the structure will follow. There are already examples in the CDB of coordinating functions and positions in the projects department, such as the social analyst who is designated as poverty coordinator.

IV. Resource implications for the CDB

At a minimum, the programmatic approach will require dedicated staff resources in the form of a coordinator and some support. Again, it will be useful to look at the existing examples in CDB, such as the poverty coordinator. An overview of some of the other resources required is provided below.

FINANCIAL	HUMAN RESOURCE	SYSTEMS
• Additional resources would be required to provide technical assistance, training, and carry out other programmatic activities • Additional resources required for monitoring and evaluation	• Senior staff person as coordinator • Contributions from other units (HRD, Education for example) in advisory capacity • Potentially a greater role for other units (Education for example) in supervision and monitoring	• Adaptation of the PPMS

V. The potential benefits and limitations

CDB

A number of the benefits to the CDB are noted under the section on the rationale for the programmatic approach. The greatest benefit, however, is that the SLS would have a more significant role in the overall institutional framework, becoming a key contributor to overall institutional performance and effectiveness.

The disadvantage is that the effective implementation of a programme will require some change at various levels; these changes are noted in the section below on Change management. There are also some financial and human resource implications to be considered.

Countries

The BMCs demand the loan funding from the CDB. They will benefit as a result of programmatic approach because it aims to leverage greater developmental results. Furthermore, the SL programme could help leverage the technical and financial resources required not only for the student loans themselves but for improving the environment for student loans (through technical assistance that looks at the legislation, for example) and making improved linkages with country HRD needs (which could mean supporting the development of HRD strategies based on market research, for example).

Donors

Donors would be able to report on the development effects of the funds contributed to the CDB. They should be able to see how their funds are being targeted to the poor. Part of their funding, however, would also be directed at technical assistance to enhance DFI capacities or improve country conditions for lending to students and creating sustainable student loan initiatives.

DFIs

As the executing agencies, the DFIs will be the implementers of the programmatic approach at the country level. In the short term, the DFIs may feel that the programmatic approach brings additional work in terms of data gathering and reporting. However, the programme would support the DFIs in doing this work. The CDB would discuss and agree a monitoring and reporting framework with each of the DFIs and make efforts to streamline the CDB's information demands from a financial/administrative and the programmatic point of view.

Loan recipients

Finally, the students who take out the loans should also benefit. They will benefit from efficiency gains, alternative payment schemes, increased communications with DFI, and other changes implemented at the DFI. Improved targeting and mechanisms to help guarantee loans would also mean that a greater number of poor students would also have access to educational financing. As student loans become more sustainable, both financially and programmatically, you also help to ensure that students 10-20 years from now can also access this source of funding.

VI. Managing change

This recommendation requires some changes in the CDB and in the DFIs/EAs. In order to facilitate the change, several issues must be addressed, including:

- Gaining the support of the President and Senior Managers for a programmatic approach. There involvement is crucial for two primary reasons. First, this approach requires stronger linkages between the student loans and corporate strategy and objectives. Second, the potential for donors' replenishment of SL funding could also be enhanced through the greater contributions of this initiative to development effectiveness. Senior management should be engaged early on in the discussions of the purpose of the programme and the implications for the other components such as the key activities or the structural arrangements.
- Providing modest financing to support the change
  The CDB may need to provide some resources into consulting with BMCs, organizing planning workshops, and other activities required to design the programme.
- Creating a process that develops ownership and support in the BMCs
  The BMCs would need to be involved from the outset since the programme must respond to their needs.
- Ensuring transparent communication
  All of the stakeholders within CDB, in the BMCs, and among the donors need to be informed of developments during the transition.
- Selecting staff with the required competencies
  There are several competencies that should be considered, such as experience with programme planning and management. These could be found in house, developed in-house through training, or hired externally.
- Facilitating monitoring, evaluation and learning in the change process.
  This requires developing an action plan for the change process, monitoring its implementation, and making necessary adjustments.