KfW Development Bank

Project Information

As at: 08/2016

Student loans – Latin America

An innovative, demand-side financed instrument

KfW Development Bank has been promoting the Higher Education Finance Fund (HEFF) in Latin America since 2011 in order to improve access to vocational colleges and universities for talented but disadvantaged young adolescents. The HEFF is used to issue student loans to qualified secondary school graduates from poor households via micro-finance institutions (MFIs). A complementary component finances supplementary advisory measures and offers appropriate support to students. Acting on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), KfW Development Bank is the biggest donor of the HEFF education fund. By investing EUR 10 million, KfW makes a lasting contribution to strengthen the financial sector and overall competitiveness of the target countries.

Context

Despite the enormous progress over the last decades, most Latin American countries still suffer from social inequality and income poverty. In order to tackle these issues, it is important to give especially underprivileged groups access to vocational and university education. Less than one quarter of secondary school graduates intends to pursue a tertiary degree. Young adolescents from low-income families are less likely to take up studies, and the majority of those that do, attends public universities. A progressing privatisation of tertiary education institutions in many Latin American countries has created a two-class society in terms of education. Many families from the lower social class are not able to afford to send their children to private universities. Due to limited financial resources, the infrastructure at public universities is dilapidated and timeworn. Furthermore, many of the offered courses have little relevance for the labour market. On top, there is a lack of financial instruments at disposal that would facilitate studying. In many cases the combination of the above is severely limiting the opportunities for talented young adolescents from low-income families to gain quality higher education.
Project approach

The Higher Education Finance Fund (HEFF) was set up in 2011 with the goal of providing support for young adolescents for the development of their talents. The fund is used to issue student loans to talented young people from low-income families. A complementary component finances various advisory and training measures. Furthermore, tutoring programmes provide a close support for scholarship recipients. Since this project is transnational, the HEFF also assumes the role of the project-executing agency. Omtrix Inc., which is based in San José, Costa Rica, acts as fund manager and contributor to the fund. The loans are issued via micro-finance institutions (MFIs) in the target countries. Participating MFIs not only introduce student loans as a new product category, but also make a lasting contribution towards the development and expansion of Latin America’s financial systems. The lifespan of the HEFF is limited to no more than twelve years. The first five years comprise a phase of investment directly followed by a repayment phase.

Impact

The fund has a total volume of around USD 34 million, of which EUR 10 million are contributed by the BMZ. MFIs in the target countries have exhibited a strong interest in student loans as a product from the very start. Due to the high demand, Costa Rica was added to the target countries in 2013. Currently, eleven MFIs from seven Latin American countries are participating. Thus far, the concluded credit agreements amount to USD 29 million. As part of a complementary component, all participating MFIs are receiving a special training, which they have either commenced or already completed. During the first quarter of 2016, loans were issued to 3,000 students (compared to 1,391 during the same period the year before). To date, none of the students who received a HEFF-student loan have dropped out before finishing university with a degree.

Interest rates are lower than the usual conditions offered by MFIs due to economies of scale and target group selection. Thus far, indicators suggest that, due to low interest rates and flexible repayment modalities, the credit default rates will be lower than for MFI loans to small and medium-sized businesses. Socio-economic data further reveal that around 53% of borrowers are female and approximately three quarters are under the age of 25. Moreover, 40% of the borrowers are from families in which both parents either did not finish school or only completed primary education.

The numbers show that the target group is effectively reached. The fact that there has been no single drop-out thus far should encourage MFIs or other financial service providers to integrate student loans into their portfolios as a demand-side financed instrument. In particular, the project contributes to the improvement of educational opportunities for talented yet underprivileged young adolescents and to the development of the financial sector in the target countries. Overall, the project reduces social inequality and income poverty.

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