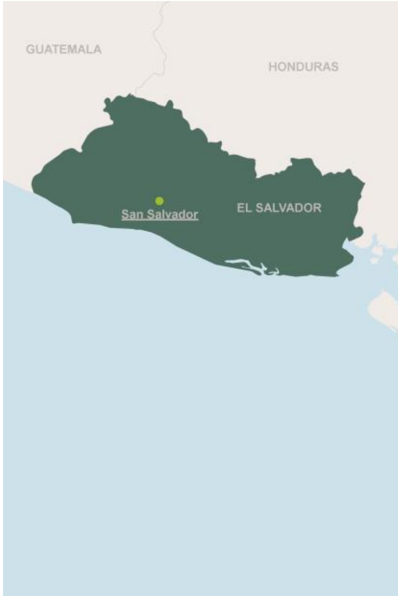
Ex post evaluation – El Salvador

Sector: 1133000 Vocational training
Project: Vocational training (Credit Guarantee Fund to Secure Educational Loans); BMZ No.: 2003 65 726
Implementing agency: Banco de Desarrollo de El Salvador (BANDESAL)



Ex post evaluation report: 2016

		Project (planned)	Project (actual)
Investment costs (total)	EUR million	33.00	51.10
Counterpart contribution	EUR million	27.50	45.60
Funding	EUR million	5.50	5.50
of which budget funds (BMZ)	EUR million	5.50	5.50

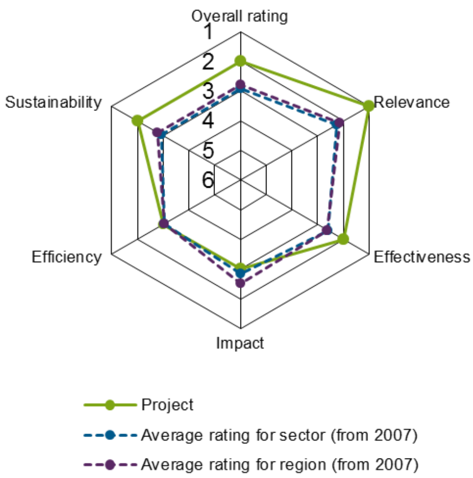
Summary: The measure comprised the establishment of a credit guarantee fund for educational loans from FC funds as well as the provision of funding for the long-term refinancing of a self-funded educational loan of the state-owned development bank *Banco Nacional de Desarrollo de El Salvador* (BANDESAL). The credit guarantee fund *Fondo de Garantías para Estudiantes Salvadoreños* (FONEDUCA) was designed to secure default risks of educational loans disbursed by commercial banks to young people from low-income families. Almost all national education alternatives and foreign studies at qualified universities could be financed from this.

Objectives: The project objective (outcome) of the FC measure was to improve access to vocational and higher education for young people from low-income groups of the population. The ultimate development policy objective (impact) was to contribute to improving the income and employment situation of these young people. This was designed to offer them medium to long-term economic and social prospects and help alleviate poverty as well as enhance the competitiveness of the country. Additionally, it was to contribute towards deepening the financial system by establishing long-term financial instruments for vocational and higher education.

Target group: The target group of the programme was 16 to 29 year-olds from the lowest-income parts of the population (monthly family income < USD 600), who had an intermediate school-leaving qualification. The family income threshold was dropped from the beginning of 2010, meaning that the fund guarantees since then are available to borrowers from all groups of the population and all education institutions.

Overall rating: 2

Rationale: In light of the insufficient public funds available, the introduction of both the credit guarantees and the refinancing of the educational loans by BANDESAL is encouraging in terms of giving poor groups of the population access to education. Both the guarantee and loan components were improved with adjustments, and set up for the long run. The impact of the project might be enhanced through closer cooperation with institutions in the education sector.



Highlights:

In spite of the difficult economic and political situation in the country, the fund enjoys very low default rates due to the securing of the educational loans.

Rating according to DAC criteria

Overall rating: 2

Relevance

The education sector in El Salvador is characterised by huge disparities. On the one hand, there is a significant gap in terms of offerings and quality between urban and rural areas. On the other hand, access to education within urban areas is also very dependent on financial backgrounds. According to a recent study, there were 145,749 graduates with a university degree in 2010 (total population in 2010: 6.2 million). Of these, 143,293 were classified as non-poor, 2,456 as poor and only 420 as extremely poor.

The education sector for higher education in El Salvador is very much shaped by private education institutions. Public options and support services, especially for poorer population groups, are very limited. There is only one public university, and it charges fees of USD 100 per year (2014): an amount significantly lower than the fees charged by the 23 private universities in the country. Many of the private universities charge course fees amounting to several thousand dollars per year. With up to 11,000 new students starting each year, however, the number of study places offered at the public university (25,000 in 2014) falls far short of demand. Study places are allocated based on academic tests, and financial needs are not taken into account. Due to poorer educational backgrounds and limited opportunities to prepare for the admission tests, poorer students who aspire to higher education are often left with the more expensive private education as their only option.

Annual fees for non-university training and courses (not including the cost of living) are between USD 500 and USD 830 on average, which is a significant hurdle for the students from the poorest populations who are increasingly using these services.

According to the latest household survey data (2014), the inactivity rate amongst 16 to 24-year-olds is around 51%. This means that more than half of the country's youth are no longer in a form of education and are not currently in (or actively seeking) employment. The low growth rates of the Salvadoran economy (around 2% p.a. in recent years) mean that there are insufficient employment opportunities for new workers on the labour market. Accordingly, the small number of vacancies available go to the best-qualified new workers. The lack of prospects, especially for young people from poorer educational backgrounds, is one of the main reasons for the existence of youth gangs in the country and the related violence and crime problems.

With the dominance of private providers in the education sector and the inadequate public support for poorer population groups, the relevance of an adjusted private support programme offering educational loans is high. Prior to the establishment of the Fondo de Garantías para Estudiantes Salvadoreños (FONEDUCA), there was hardly any adequate funding from banks for the target group. High demands on collateralisation (mortgages) and the dependence of funding commitments on family income and assets made access to education loans for poorer population groups virtually impossible. Short-term consumer loans as an alternative offered no long-term support. The project was consistent with the BMZ sector strategy in the priority area of "sustainable economic development", as well as with the Salvadoran national strategies for poverty reduction and the national education plan.

For these reasons, the relevance of the project is assessed as very high.

Relevance rating: 1

Effectiveness

The project aims to improve access for young people from low-income populations to vocational and higher education through the provision of guarantees for educational loans by the newly established FONEDUCA and the parallel provision of long-term funding for educational loans by the Development Bank of El Salvador, BANDESAL. Funding can be provided for everything from short language courses through technical training and doctorate-level courses both at home and abroad. Up to the time of the ex-post-evaluation, i.e. over a period of nine years, 3,191 FONEDUCA guarantees were awarded for educational loans. At the time of the evaluation, 3,290 educational loans which had been awarded without guarantees were outstanding from BANDESAL's funding (volume of both components together: USD 48.6 million). However, the information obtained only allows a direct conclusion to be drawn in relation to target group coverage in the case of educational loans which are secured by a guarantee. This is because educational loans without guarantees are granted only with proof of sufficient income or assets, and thus normally to borrowers from more affluent families. Moreover, the statements made by the banks involved show that, because of the associated costs, guarantees are only applied for if borrowing would otherwise be impossible. This is confirmed by the family incomes of borrowers with FONEDUCA guarantees, as reported by a credit union. These averaged USD 610[1]. In addition, interviews conducted as part of an interim evaluation from 2012 show that approximately 90 % of the borrowers of FONEDUCA-guaranteed educational loans analysed at the time had a family income of less than USD 1,000.

The conditions of the project are, in principle, suitable for supporting the target group effectively. Sufficiently high credit amounts (up to USD 20,000), long loan periods (up to 15 years, with up to 8 years without repayment instalments), the high coverage of risks offered by the guarantees (up to 90 % of the loan amount) and the low guarantee fees for smaller loan amounts (1 % up to a loan amount of USD 9,000, 2 % up to USD 20,000) are in line with segment requirements. The average ultimate borrower interest rate was a reasonable 7.3 % p.a. At this comparatively low interest rate, it can be seen that the subsidies provided through the project in the form of guarantees actually reach the ultimate borrowers. In addition, the banks also benefit from the favourable and comparatively high hedging.

These data and statements show that borrowers with guaranteed loans come from the target group of low-income population groups. Their share, however, accounts for less than half the total number of borrowers. This means that despite the long period, the figure is slightly below the pre-defined number of 4,000 borrowers.

Indicator	Status PA, Target value PA	Ex post evaluation
(1) A minimum of 4,000 educational loans are allocated to the target group during the project period.	Status PA: - Target value at PA: 4,000	Not achieved. A total of 3,191 loans with FONEDUCA guarantees have been granted since FONEDUCA was established in 2009. In addition, there were 3,290 loans without guarantees outstanding at the end of 2015[2]
(2) The proportion of educational loans in arrears is less than 10 %.	Status PA: - Target value at PA: 10 %	Achieved. The proportion of loans with FONEDUCA-guarantees which are in arrears is 0.95 %. The default rate on loans with FONEDUCA-guarantees is 1.16 %.
(3) A minimum of 3 regulated financial intermediaries participate in the programme.	Status PA: - Target value at PA: 3	Achieved. Eight financial intermediaries participate in the programme.

[1] The family incomes of borrowers at other partner banks were not communicated.

[2] A total of 4,000 guarantees with a total credit volume of USD 26.8 million have been allocated to the target group of poorer population groups since the start of the programme. However, only 3,191 of these were recorded as regular guarantees by BANDESAL. The guarantees granted were either not renewed due to the severely deteriorated credit score of the borrower or were prematurely terminated for other unknown reasons. No precise data was available for these prematurely terminated guarantees. Therefore, these were not taken into account during the evaluation in relation to the achievement of objectives. Of these 3,191 loans, 1,534 have already been repaid.

(4) Female applicants for educational loans are not disadvantaged in the selection process.	Status PA: - Target value at PA:	Achieved. 55.02 % of the total number of guarantees and 52.01 % of the guaranteed volume were allocated to women (September 2015).

On the whole, however, despite the difficult circumstances and the complexity of the product, the target group was reached to a certain extent, which was not the case before the start of the project. The borrowers benefit effectively from the subsidies provided through low interest rates and adjusted loan conditions. The effectiveness is therefore assessed as good overall.

Effectiveness rating: 2

Efficiency

The contract concerning the FC grant amounting to EUR 5.5 million was signed on 21 December 2006. However, the first guarantees for educational loans were not granted until 2009 (seven guarantees). 356 guarantees were granted in 2010, with this figure increasing in 2011 (1,051) and 2012 (1,166). The reasons for the delays were the attempt to outsource the granting of guarantees to a local bank, the time-consuming checks on the family incomes of borrowers (< USD 600) and personnel changes within BANDESAL. The inadequate preparation of the administration of the fund thus prevented the FC grant from being used effectively over a period of several years. Since the beginning of 2010, educational loans have been granted to borrowers with sufficient creditworthiness regardless of their family income. This has made it possible to simplify the granting process and to significantly increase the volume of loans granted.

The secured loan portfolio currently totals approximately USD 5 million with fund assets of around USD 9 million. According to the original design (project appraisal), a guaranteed loan portfolio of up to EUR 27.5 million was to be issued. This would have meant the credit guarantee fund leveraging the loans by a factor of five. Accordingly, the fund is currently underutilised and the allocation of resources is still not very efficient, even in comparison with other guaranteed funds and in view of the very low default rates.[3]

As regards operational efficiency, the feedback from the partner banks shows that addressing the target group through guarantees and adapted credit ceilings is effective and, compared to the time-consuming verification of family income, is a relatively efficient form of control in poorer sections of the population. According to experience and data from BANDESAL and the partner banks, more affluent population groups take on debt mainly in order to attend very expensive educational institutions or to study abroad, while poorer sections of the population ask for much lower loan amounts and are more cautious with regard to (higher) debt. As a result of the self-selection, the limitation of the loan amounts is therefore sufficient for the far-reaching and thus efficient control of target group membership.

The rate of educational loans with FONEDUCA guarantees which are in arrears is estimated to be very low at 0.95 %.[4] This is particularly true against the background of high youth unemployment and the difficult economic situation in the country. The default rate for FONEDUCA is low at 1.16 %. This shows that moral hazard (e.g. through emigration to the USA), amongst other issues, can be avoided by having the loan agreements co-signed by close relatives.

The guarantee fees are 1 % for loans below USD 9,000 and 2 % for loans below USD 20,000, and are thus lower than the fees in other BANDESAL projects. The guarantees cover up to 90 % of the loan amount of the educational loan. This appears comparatively high, however, this level can be justified based on the usual trend towards over-collateralisation in the sector and the difficulties involved in reaching the poorer population groups in a difficult economic and political environment. The guarantees are re-

[3] BANDESAL has prompted the reallocation of a portion of the fund's assets to hedge energy efficiency investments. At the time of the evaluation, however, no corresponding guarantees had been granted.

[4] This is particularly true given that 1,534 loans with FONEDUCA guarantees had already been repaid at the time of the evaluation at the end of 2015.

newed annually. Only in cases where the borrower has already been declared insolvent by the partner bank does renewal not occur. Through this mechanism, the financial institutions are encouraged to make claims against guarantees in a timely manner. This means the Fund generally extends the risk of default by one year as a rule.

In April 2014, BANDESAL transferred the management of the guarantees to an online system which can be used by partner banks online for the annual renewal of guarantees. This also made it possible to speed up the processing of guarantees. However, according to FONEDUCA's statutes, processing still takes 30 days. This appears inefficient in view of the technical improvements and incurs unnecessary costs for the partner banks. Implementing the project through partner banks allows the loans to be offered efficiently via the country-wide branch networks of the partner institutions and to be processed using existing structures. This means that BANDESAL will incur only negligible additional costs. The additional costs for partner banks are low. The increased costs of advising – in particular for borrowers from educationally-deprived population groups – are subsidised by higher and higher-yield loans without guarantees. Overall, the efficiency of the implementation is still considered satisfactory despite the delays caused by the continual improvements in operational efficiency thanks to BANDESAL.

Efficiency rating: 3

Impact

According to the interim evaluation conducted in 2012 by an external consultant, 52 % of borrowers with FONEDUCA guarantees come from families with a monthly income of less than USD 500, 36 % from families with an income between USD 500 and USD 1,000, and 8 % from families with an income between USD 1,000 and USD 1,500.

Based on current portfolio data from 220 borrowers at the aforementioned co-operative financial institution, 50 % come from families with a monthly income of less than USD 500, 40 % from families with an income between USD 500 and USD 1,000, and 6 % from families with an income between USD 1,000 and USD 1,500. Measured against this data, FONEDUCA succeeded in reaching the poorest social groups of El Salvador to a certain extent, and the poorer population groups in the country to a large extent, and thus reached the predefined target group. However, the data from the banks has not been provided for further verification. This had not been transmitted at the time the evaluation was concluded.

According to the impact analysis conducted by the external consultant, 60 % of borrowers from the sample at the time (230 borrowers) obtained a degree in higher or vocational education and found a job which paid a salary higher than the minimum wage. A further 25 % had received at least one employment offer, but these had not been accepted for various reasons. However, the investigation took place at a time when only a few borrowers had already completed their training (only 1,660 guaranteed loans had been granted before 2012; see above). According to information provided by four partner universities, the dropout rate was relatively low at 9.5 %. It is therefore assumed that the number of graduated borrowers in employment which pays above the minimum wage has further increased over the course of the project. Neither BANDESAL nor the financial institutions collect data on qualifications or the uptake of employment. Due to the security situation in the country, it was not possible to conduct any verification during the evaluation.

The educational loan portfolio of just under USD 50 million (secured and unsecured) represents a significant improvement compared to the previously insufficient provision of loans and would not have been established without the project. However, there are also weak points that have limited the impact of the project. The inadequate networking of communication amongst the banks (between headquarters and branches) on the one hand and between banks and educational institutions on the other, meant that the impact of the project was limited in the administrative departments outside of San Salvador and La Libertad (headquarters of the banks). From the start of the project until October 2015 some 80 % of the guaranteed volume of lending was confined to the two departments of San Salvador and La Libertad, although these only make up 39 % of the country's total population according to the 2014 national household survey. With respect to the funding line, the share of the two departments is even higher at 88 %.

The success of the partner bank with the largest student loan portfolio rested on the conclusion of an arrangement between this bank and one of the largest private universities. This provided the basis for effective communication between the university and potential students, who could then contact the bank directly for further advice. The high share of this bank in the overall portfolio demonstrates the success of the cooperation.

Overall, the project contributes to the global objective of poverty reduction in that it improves opportunities for the beneficiaries on the labour market by improving access to education. However, this applies primarily to the two central regions of the country. No functioning mechanism was implemented to measure the success of the instruments which could have given valuable information on possible optimisation potential in view of the comparatively long results chain. The educational institutions following up the students could provide information about the employment effects. Therefore, and based on the above-mentioned arguments, the overall developmental impact is assessed as satisfactory.

Impact rating: 3

Sustainability

The project is anchored in the Guarantees Department of the Development Bank of El Salvador (BANDESAL). Within BANDESAL there are several employees responsible for the guarantee programmes. The guidelines for the procedures concerning the granting of guarantees is regulated by the internal “Manual de Garantías”. The activities of the programme are regularly controlled by a Supervisory Board. The funding line for partner banks is managed by the Department of Bank Financing parallel to further funding lines. The project is thus integrated into the structures of BANDESAL over the long term.

The increase in fund assets as a result of interest and fee income as well as low default rates allows for the revolving and thus sustainable use of the guaranteed funds. Thanks to some improvements made on its own initiative (including the transfer to online processing), it was possible to make use more efficient and thus more attractive for the banks. The full utilisation of the initial line of credit amounting to USD 27.5 million demonstrates both the level of interest amongst banks and the level of demand amongst students. By increasing the line, BANDESAL was able to contribute to the further rise in the volume of business at banks, as well as to the sustainable anchoring of the product.

BANDESAL’s limited strategic planning has a limiting effect. The bank does not have a medium- or long-term business plan, but plans future volume of guarantees and the provision of funding shortly before the end of the year based on the annual renewal of guarantees by the banks.

Due to the good integration into the structures of BANDESAL and the continuous improvement of the project, the sustainability of the project can be considered good despite the limited planning scope.

Sustainability rating: 2

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance**, **effectiveness**, **efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's development effectiveness**.** The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The development effectiveness of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The development effectiveness of the project (positive to date) is very likely to decline only minimally but remain positive overall (this is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The development effectiveness of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive development effectiveness.

Sustainability level 4 (inadequate sustainability): The development effectiveness of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall development goal ("impact") **and** the sustainability are rated at least "satisfactory" (level 3).