Comparing Student Loan Programs in Latin America and Beyond: Key Indicators
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Despite the many student loan programs in Latin America and the Caribbean, there is scant information regarding their functioning. Student loan programs are increasingly used as an important policy instrument to promote equitable access to higher education. However, student loan programs require strong institutional capacity, sophisticated technology, and highly qualified financial personnel to be effective and sustainable.

Despite the numerous experiences in this field, there is lack of comparative information and dissemination of best practices in the Latin American and Caribbean context. Sharing experiences from Latin America and the Caribbean and discussion of best practices from outside the region was the objective of the first Pan-American Student Loan Conference celebrated in Lima in March 2007.

This note brings some comparative information regarding student loan programs in Latin America and the Caribbean within a global context. The note assembles information derived from the World Bank's technical assistance to several student loan programs in Latin America and the Caribbean and other readily available information from loan programs elsewhere. It presents key indicators and touches upon the factors influencing the indicators, but stops shorts of drawing lesson learned, since this requires a deeper discussion of each loan scheme. The note presents four key indicators for student loan programs: penetration rates, administration costs, delinquency rate, and default rates. Although being very important, information regarding socio-economic composition of student borrowers was only available for a very small set of programs. It is therefore not shown. The note was constrained by lack of information. Therefore, it is not comprehensive in two ways: (i) some countries that are not included in this note equally have student loan programs, and (ii) for the countries included in this note, additional programs exist, in particular loan programs run by non-governmental education institutions and commercial banks.

The penetration rate shows how many students of those enrolled in higher education benefit from a student loan. It is defined as the number of students who received loans as a percentage of the national student population.

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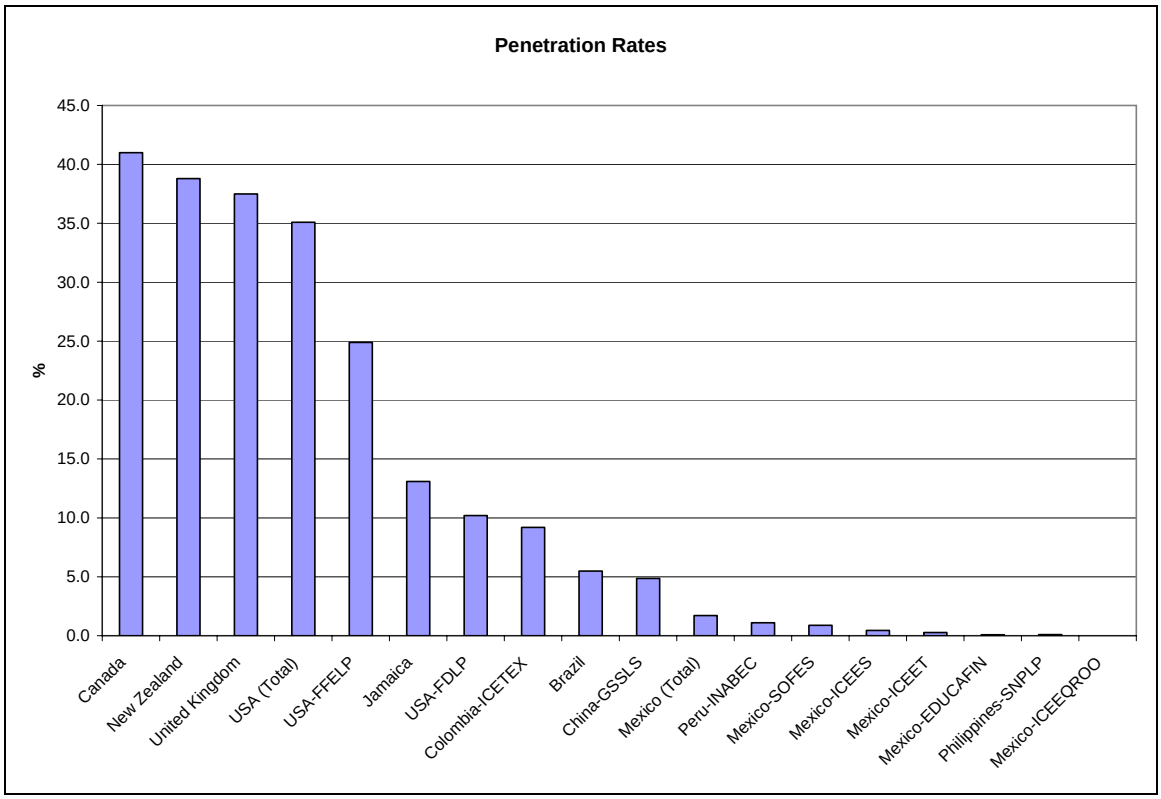
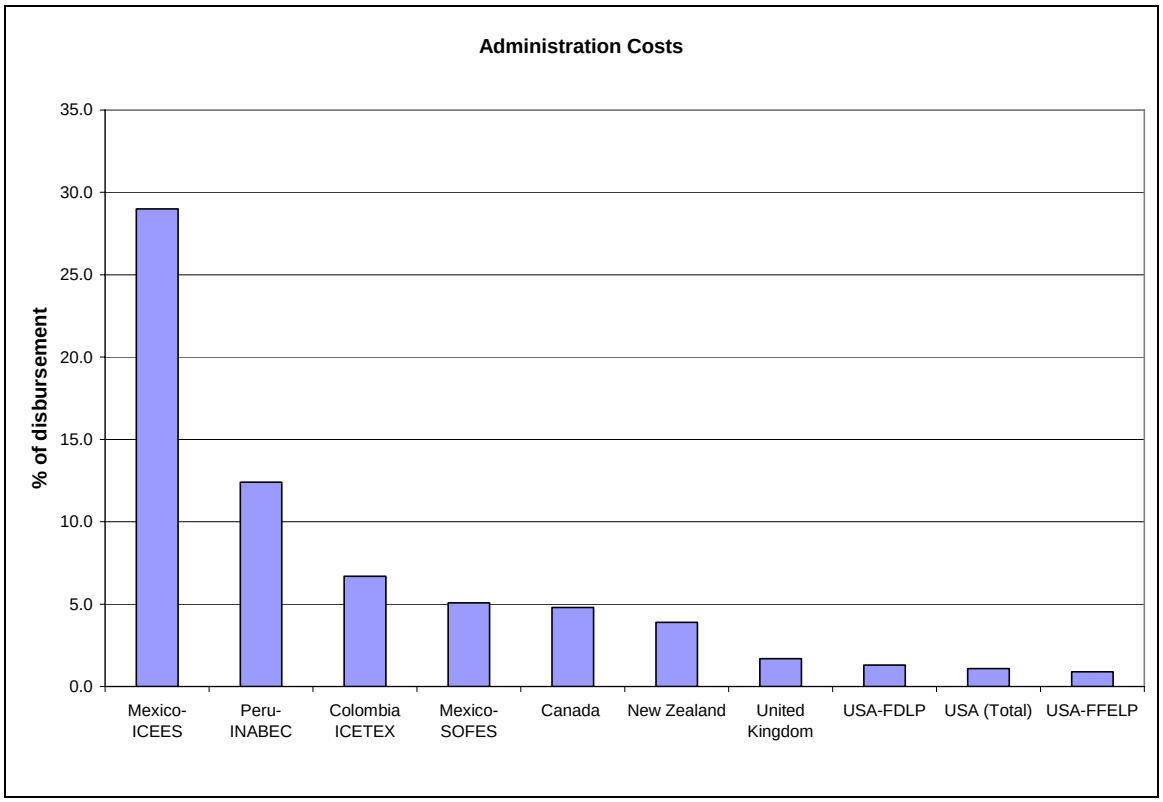


Note: The penetration rate is the ratio of students benefiting from student loans in the latest year available and the overall student population enrolled in higher education.
Source: SOFES (2006), ICEES (2006), ICETEX (2006), INABEC (2006), Suzuki, Blom, and Yammal (2006) for ICEET, ICEEQROO, and Educafin in Mexico, United Kingdom Student Loans Company Limited (2005), Canada Student Loans Program (2004), New Zealand Student Loan Scheme (2006), US Office of Post-Secondary Education Website (2006) for the US, Kitaev et Alter (2003) for the Philippines, Shen and Li (2006) for China, World Bank (2002), for Jamaica, and World Bank EdStats Website (2006) for national enrolment in higher education).

A higher penetration rate indicates both higher availability of loans and higher reliance on student loans as a way for households to finance the costs of tertiary education. With 13 percent, the student loan program in Jamaica has the highest penetration rate in Latin America and the Caribbean region, while Colombia has the highest penetration rate among the included Latin America countries. Nine percent of the Colombian student population received a student loan in 2006.

The indicator on administration costs is calculated as the total costs of administration in the organization's accounting year divided by the loan amount disbursed for the same year. This was the most available indicator. Another similar indicator - the cost of administration as a share of the book value of the loan portfolio - was also frequently used, but less so. The first indicator tends to be more volatile, since annual lending shows higher volatility than the book value of the loan portfolio. However, the book value could differ significantly from the expected value of the portfolio if defaulted loans are not written off, which has been the case for some student loan organizations in Latin America. Therefore, we measure administrative efficiency as a share of loan amount disbursed for the same year. For some programs administration

costs related to administration of grants and other activities are included. It was not possible to identify costs for student loans administration only.



Source: United States Government Accountability Office (2005), ICEES (2006), INABEC (2006), ICETEX (2006), SOFES (2006), New Zealand Student Loan Scheme (2006), United Kingdom Student Loans Company Limited (2005), and Canada Student Loans Program (2004)
Note: ICEES, Mexico made a policy decision to limit lending in 2005 in order to focus on repayments of the existing portfolio. From 2000 - 2005, the average administrative cost in percent of the yearly disbursement loan amount was 21 percent.

In the case of Latin America, it is evident that administration costs are relatively high compared to administrative costs in high-income countries. Several factors could explain this difference: (i) economies of scale in student lending. The loan programs in Latin America are relatively smaller, (ii) use of technology, (iii) degree of outsourcing of administration, (iv) government oversight, political interference in the day to day management of the loan scheme, and accountability of student loan organizations, and (v) institutional capacity, as well as stability and level of professionalization of the institutional leadership and staffing.

Delinquency rate. If the interpretation of the above two indicators is relatively straightforward, this task becomes more difficult when assessing performance in terms of financial sustainability and financial management. Student loan recovery is a critical aspect in terms of financial self-sufficiency, ability to grow, and long term sustainability. However, information on default (loans that are deemed uncollectible and lost) and delinquency (loans with loan repayments in arrears) are rarely publicly available in Latin America. In addition, definitions of default and delinquency vary substantially from

program to program, since the definition an uncollectible loan is sometimes based on upon national banking law (such as the number of months a loan has been in arrear), occasionally based upon public administration law, and sometimes upon institutional estimations (does the collector deemed the debtor unable to pay now and in the foreseeable future). Therefore, the default and delinquency rates showed below are not comparable.

Table 1 Delinquency rates

Institution	**Delinquency definition**	**Delinquency rate (%)**	**Year**
Aguascalientes, Mexico	Percentage of loans with more than three months in arrears	21.9	2005
Canada	Percentage of loans in arrear	20.0	2003/ 2004
ICEES, Mexico	Percentage of loans with more than one year in arrear	18.0	2002
ICEET, Mexico	Percentage of loans with two or more payments in arrears	28.2	2005
ICETEX, Colombia	Percentage of loans with more than two months in arrear	16.3	2005
SOFES, Mexico	Percentage of loans with more than one month in arrear	7.4	2005

Source: Suzuki, Blom, and Yammal (2006) for ICEET and Aguascalientes, Mexico, ICEES (2006), INABEC (2006), ICETEX (2006), SOFES (2006), and Canada Student Loans Program (2004).

Table 2 Default rates

Institution	**Default definition**	**Default rate (%)**	**Year**
Canada	Three-year default rate (the ratio of the cumulative amount of all loans deemed in default for the period covering the year of consolidation and the subsequent two years – to the total amount of all loans consolidated in that year. A loan is deemed in default when it is in arrears for more than 270 days.	25.4	2004/ 2005
ICEES, Mexico	Percentage of loans with loan payments overdue more than four years	17.6	2002
ICEET, Mexico	Percentage of loans with loan payments overdue more than one year	11.3	2005
New Zealand	Percent of the cohort that started repayments in 1992 that have not fully repaid the loan as of June 30, 2006 (Cohort default rate)	18.0	2005/ 2006
The Philippines	Percentage of loans unpaid without further specification	98.0	2003
USA (federal programs)	Percentage of borrowers who began repaying their loans between Oct. 1, 2003, and Sept. 30, 2004, and who defaulted before Sept. 30, 2005	5.1	2005

Source: Suzuki, Blom, and Yammal (2006) for ICEET and Aguascalientes, Mexico, ICEES (2006), INABEC (2006), ICETEX (2006), Canada Student Loans Program (2007), Kitaev et Alter (2003) for the

Philippines, Office of Post-Secondary Education Website (2006) for the US, and New Zealand Student loan scheme (2006).
Note: For SOFES the institutional default rate is not reported because it is technically zero since bad loans are sold back to the universities.

There are many factors that could explain the difference in the outcome of the student loan programs shown above: (i) sophistication of credit system, including reporting to credit bureaus and the economy-wide use of credit bureaus, (ii) political will to pursue bad payers capable of paying, (iii) labor market conditions, such as level of unemployment, (iv) quality and relevance of education, (v) social background and academic preparation of borrower, (vi) sophistication of collection mechanisms, for example through instruments to defer payments of borrowers in temporary hardship, and outsourcing to professional collection companies, (vii) level of subsidy in student loan, for instance through interest subsidies, and (viii) institutional capacity and leadership.

It is likely that there are many short and long term linkages between the four aspects of student loans programs presented. For example, there seems to be a positive relationship the penetration rate and financial sustainability as measured by low administration costs and low default rates. In the OECD countries included in this study – the US, Canada, the UK and New Zealand—penetration rates are high while administration costs and default rates are low. Hence, a sound financial management is more likely to lead to a scaling-up of a program. Another potential trade-off is the link between socio-economic background of borrowers and their probability of paying student loans. In addition, factors not benchmarked in this note are equally critical. In particular, continued government investments in student loans are essential for a large scale program. However, the scale and form of this subsidy is subject to discussion, since this has consequences for the costs and impact of a loan program. It is important to better understand factors behind the above indicators and trade-offs through more benchmarking, knowledge sharing, and research. This would lead to better and larger student loan programs. Consequently, more low-income students could benefit from loans, access tertiary education, and escape from poverty.

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