

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**DOMINICAN REPUBLIC**

**DEVELOPMENT OF AN INNOVATIVE MECHANISM TO PROMOTE  
HIGHER EDUCATION FINANCING IN THE DOMINICAN REPUBLIC**

**(DR-M1025)**

**DONORS MEMORANDUM**

This document was prepared by the project team consisting of: Francisco Rojo (MIF/IKM) and César Buenadicha (MIF/OPS), Project Team Coleaders; Fermín Vivanco (MIF/ATF); María Elena Nawar (MIF/DEU); Smeldy Ramírez (MIF/CDR); Armando Godínez (EDU/CDR); Kelvin Suero (CID/CDR); Carolina Escudero (CID/CDR); and Anne Marie Lauschus (LEG/NSG).

## CONTENTS

I.	EXECUTIVE SUMMARY.....	1
II.	BACKGROUND.....	2
III.	OBJECTIVES AND DESCRIPTION.....	5
	A. Objectives.....	5
	B. Components and activities .....	5
IV.	COST AND FINANCING.....	7
V.	EXECUTING AGENCY AND IMPLEMENTATION MECHANISM.....	8
VI.	MONITORING AND EVALUATION.....	10
VII.	BENEFITS AND RISKS.....	11
VIII.	ENVIRONMENTAL AND SOCIAL IMPACT .....	11

## **ANNEXES**

Annex I	Logical Framework Matrix
Annex II	Itemized Budget

## **APPENDICES**

Proposed resolution
---------------------

### **INFORMATION AVAILABLE IN THE FILES**

Document I	Operating Regulations
Document II	Schedule of activities
Document III	Preliminary list of milestones
Document IV	Procurement plan
Document V	Institutional assessment of the executing agency and risk analysis

## **ABBREVIATIONS**

APICE	Asociación Panamericana de Instituciones de Crédito Educativo [Pan-American Association of Educational Lenders]
ESR	Environmental and Social Impact Review Secretariat
FUNDAPEC	Fundación APEC de Crédito Educativo

**DOMINICAN REPUBLIC**  
**DEVELOPMENT OF AN INNOVATIVE MECHANISM TO PROMOTE**  
**HIGHER EDUCATION FINANCING IN THE DOMINICAN REPUBLIC**  
**(DR-M1025)**

**I. EXECUTIVE SUMMARY**

<b>Country/region:</b>	Dominican Republic		
<b>Project name:</b>	Development of an innovative mechanism to promote higher education financing in the Dominican Republic		
<b>Project number:</b>	DR-M1025		
<b>Project team:</b>	Francisco Rojo (MIF/IKM) and César Buenadicha (MIF/OPS), Project Team Coleaders; Fermín Vivanco (MIF/ATF); María Elena Nawar (MIF/DEU); Smeldy Ramírez (ITI/CDR); Armando Godínez (EDU/CDR); Kelvin Suero (CID/CDR); Carolina Escudero (CID/CDR), and Anne Marie Lauschus (LEG/NSG).		
<b>Beneficiaries:</b>	(i) People who lack the resources to finance the costs of higher education; (ii) financial institutions—banks, microlenders, and insurance companies; and (iii) the Dominican securities market as a whole.		
<b>Executing agency:</b>	Fundación APEC de Crédito Educativo (FUNDAPEC)		
<b>Financing:</b>	MIF	US\$	948,000 (63.77%)
	Local counterpart:		
	Total:	<u>US\$</u>	<u>536,000 (36.23%)</u>
			US\$1,484,000
<b>Execution period and disbursements:</b>	36 months		
<b>Group/subgroup:</b>	WSD/YTRG		
<b>Objectives:</b>	The <i>goal</i> of the project is to help raise the quality of the workforce and to foster the development of the Dominican Republic's financial markets. Its <i>purpose</i> is to develop an innovative mechanism to promote access to higher education financing in the country using the securities market.		
<b>Special contractual clauses:</b>	Condition precedent to the first disbursement: establishment of the project execution unit.		

<b>Exceptions to Bank policy:</b>	Exception to policy AF-100. The IDB/MIF will contract the financial audits.
<b>Environmental and social review:</b>	The Environmental and Social Impact Review Secretariat (ESR) reviewed the project abstract on 20 February 2008 (meeting ESR 07-09) and classified the project as category “C.”

## II. BACKGROUND

- 2.1 Although the Dominican Republic’s financial market has seen significant development in recent years, it still lacks specific products that could pave the way for the country’s relatively good macroeconomic performance to translate into economic inclusion, with opportunities for the entire population. One consequence is that access to financing for higher education is limited, resulting in a student loan coverage rate of only 1% (versus 17% in Colombia,<sup>1</sup> for instance).
- 2.2 Regionally, the average rate of gross enrollment in higher education, measured as the percentage of total enrollment over the population between ages 18 and 24, is only 28.0%.<sup>2</sup> In the Dominican Republic the situation is even more discouraging—as of 2002 this figure has hovered around an average of 25.4%. Students’ families are the main source of funding, as the government invests only 0.3% of the gross domestic product (11% of the total education budget) in higher education financing.<sup>3</sup>
- 2.3 A nation’s workforce, or human capital—the skills, know-how, and talent of its working population—is one of the key determinants of its level of economic development. A country that invests in developing its citizen workforce will grow more quickly, strengthen its political and economic institutions, compete better in the global marketplace, and, generally, improve quality of life for its people. Technological advances have heightened the demand for skilled workers: demand for higher education and training is more diverse and more urgent than ever. A central question, then, is how to finance those studies, so as to facilitate economic growth and equitable access to higher education in a country with limited fiscal capacity. Public funding needs to be supplemented with private sector sources.<sup>4</sup> That being the case, it is particularly important to remedy market shortcomings in

---

<sup>1</sup> Colombian Institute for Educational Loans and Technical Studies Abroad (ICETEX): 2007 Report on Operations.

<sup>2</sup> International Institute for Higher Education in Latin America and the Caribbean.

<sup>3</sup> Reviews of National Policies for Education: Dominican Republic. OECD 2008.

<sup>4</sup> *Investing in Human Capital: A Capital Markets Approach to Student Funding*, Miguel Palacios Lleras. Cambridge University Press. From the Foreword by Nicholas Barr, professor of Public Economics at the European Institute, London School of Economics.

educational financing by creating efficient, sustainable private-sector mechanisms that provide incentives for funds to flow the student loan market.

- 2.4 As a concluding remark for this section, the lack of resources and effective mechanisms to finance human capital is without a doubt one of the main obstacles to development in Latin America. Of particular importance is the impact that access to higher education has on social and economic inclusion in a country. In the Dominican Republic, according to a report prepared by the IDB and the World Bank,<sup>5</sup> four to five years of university education ensure an average increase in income of 50% over having only a high school diploma. This figure gives a good indication of how access to higher education promotes a country's equitable development.
- 2.5 **Problem to be addressed.** The Dominican Republic's financial sector does not offer enough alternatives to the government's limited investment in higher education. This means, among other things, that low-income students have no access to higher education, since they do not have the means to cover the cost of tuition and/or living expenses for the duration of university studies. Commercial banks in the Dominican Republic have no loans specifically designed for education, so the only option left by these institutions for persons in need is to apply for a short-term consumer loan.<sup>6</sup> Moreover, banks usually require collateral, which is difficult for students from the lower social strata to provide. The reason for this has to do with how financial institutions view the risk involved in a loan based on a future asset (the returns on the student's future work).<sup>7</sup>
- 2.6 The Dominican Republic has one institution that grants higher education loans—Fundación APEC de Crédito Educativo (FUNDAPEC), a private nonprofit foundation created in 1967. Last year, FUNDAPEC made nearly 2,000 loans, but owing to the long repayment period for student loans (seven years on average) and to limits on the size of its portfolio,<sup>8</sup> FUNDAPEC's projections indicate that unless it can obtain new liquid funds, it will be unable to finance as many students in years to come. Demand for student loans is so high that FUNDAPEC currently has a waiting list of over 500 preapproved students because of its cash shortfall. Given this situation, FUNDAPEC has two options: continue to make loans at the pace of portfolio recovery (which would mean very minor increases because of scarce

---

<sup>5</sup> Report on Poverty in the Dominican Republic: Achieving More Pro-poor Growth. Inter-American Development Bank/World Bank, 2006.

<sup>6</sup> Student loans are much longer-term and generally have a grace period, at least for repayment of principal, until students have completed their studies.

<sup>7</sup> A maxim of student loans is that they are made to one borrower (a student) and paid off by another (a professional).

<sup>8</sup> FUNDAPEC has a portfolio of approximately US\$15 million (between student loans and institutional loans) and a student loan portfolio arrears rate of 5%. Particularly important is the fact that, by law, FUNDAPEC has the power to garnish guarantors' wages for past-due student loan payments—a valuable tool that bolsters its operational capacity and its stability as a lender.

- liquidity) or seek alternative financing mechanisms that enable it to meet a greater percentage of today's growing unmet demand for student loans.<sup>9</sup>
- 2.7 Because of the concessional nature of the funds managed by FUNDAPEC, its operating efficiency levels are lower than would be required if it secured funding in the financial market, so improvements will need to be made in the management of the institution's internal processes as an essential step before seeking alternative financing mechanisms.
- 2.8 **Rationale and additionality.** The project will have a major impact in two areas: development of the Dominican financial system and higher quality of the Dominican workforce as a result of greater access to higher education. The project will help FUNDAPEC to float issues on the securities market that will be purchased, at least in part, by Dominican pension fund management companies. On 18 November of last year, the Dominican Congress passed a law that encourages pension fund management companies to invest up to 5% of their portfolios in instruments that promote higher education,<sup>10</sup> but the Dominican Republic does not yet have any such market instruments. This issue will be the first education-based market security in the Dominican Republic and the first bond issue guaranteed with receivables in the Dominican Republic. It will also make FUNDAPEC the first private educational lender in Latin America to float an issue on the securities market.
- 2.9 In short, the project will have a direct economic benefit derived mainly from the country's becoming more productive and competitive as a result of the availability of more highly skilled human resources and, in parallel, due to the impact on the development of the Dominican Republic's emerging financial market. At the same time, the project will foster social inclusion, enabling students from the lower quintiles of the population to change their lives through access to quality higher education. The project's additionality lies in the development of new, private-sector financial products, as well as its innovative nature, in that the MIF will be financing the learning curve involved in these innovative areas.
- 2.10 In view of all these considerations, the project is expected to have a major demonstration effect, and the knowledge products created should become the seeds of valuable MIF experience that could be shared with other educational lenders and banks in the region. It will also complement the Technical-Vocational Education Enhancement Program in the Dominican Republic (loan 826/SF-DR), implemented

---

<sup>9</sup> There are four key interrelated variables in student loan management: (i) sufficient demand from quality, motivated borrowers, (ii) sufficient funds for lending, (iii) efficient institutional management—in terms of both operational and management indicators, and (iv) the profile of the target customer. This project aims to impact all four variables, although improvements to variable (iii), institutional performance, is essential to the project's success.

<sup>10</sup> Pursuant to an amendment to Article 96 of Law 87-01, passed by the Dominican Senate on 18 November 2008.

by the Bank from 1990 to 1995.<sup>11</sup> FUNDAPEC is a member of the Pan-American Association of Educational Lenders (APICE), which will facilitate sharing of experience. This is the second project in a new MIF area that seeks to develop alternative mechanisms for financing higher education.<sup>12</sup>

### III. OBJECTIVES AND DESCRIPTION

#### A. Objectives

- 3.1 The *goal* of the project is to help raise the quality of the workforce and to foster the development of the Dominican Republic's local financial market. Its *purpose* is to develop an innovative mechanism to promote access to higher education financing in the country using the securities market.

#### B. Components and activities

- 3.2 ***Component I. Operational improvements enabling FUNDAPEC to manage new financing mechanisms and a larger volume of resources (MIF: 486,000; Local: 195,000).*** The first component will help to improve FUNDAPEC's operational processes, so that it can develop the operating efficiency to successfully cope with the costs involved in external funding processes and to meet the challenges of managing a larger student loan portfolio. In addition, its strategy will be updated to establish a long-term vision in keeping with the demands of institutional transformation.
- 3.3 This component will involve activities in the following areas: (i) review of institutional strategy and redesign of loan-granting and loan-management processes, (ii) strengthening of the marketing and business unit, (iii) design of a technology platform that incorporates commercial banking best practices in loan management, (iv) strengthening of accounting systems and creation of an external investment management unit, (v) development of job placement and productive employment services, and (vi) analysis for integration with an educational savings plan that complements FUNDAPEC's loan model.
- 3.4 The *expected outcomes* of this component are: (i) FUNDAPEC will have a strategic plan and a business plan that reflect the institution's new financing strategy; (ii) FUNDAPEC will have a new operating and process structure and will have implemented a new information system enabling it to cut loan application processing times by 50%, lower its operating costs by at least 20%, generate a profit margin large enough to cover the costs of securing funding on the securities market, and manage an active portfolio of more than 10,000 customers; (iii) the number of new student loan applications received by FUNDAPEC will double; (iv) 25% of students enrolled in higher education in the Dominican Republic will be

---

<sup>11</sup> This program provided a loan to FUNDAPEC through the Central Bank that came to make up a sizeable share of FUNDAPEC's current portfolio.

<sup>12</sup> The first project was RG-M1089, with Lumni.

aware of FUNDAPEC's services; (v) at least five universities will have enhanced their job placement services, benefitting a minimum of 2,500 students; (vi) FUNDAPEC will have an action plan for integrating its lending activities with an educational savings plan.

- 3.5 ***Component II. Access to higher education financing via the securities market (MIF: 221,413; Local: 256,058).*** The second component will enable FUNDAPEC to secure funding in the Dominican securities market by issuing bonds, and thereby increase its student loan portfolio and meet current demand. The intention is not to float just one issue, but to build the capacity within FUNDAPEC to periodically turn to the securities market for funding as needed. The activities under this component are: (i) design and structuring of the issues; (ii) obtaining a risk rating for the issuer and the issues; (iii) placement of the issues; and (iv) management of the issues. This component will be implemented by FUNDAPEC in partnership with BHD Valores.<sup>13</sup>
- 3.6 The project will be important for the securities market in the Dominican Republic in two ways: (i) floating bonds whose underlying asset is higher education is innovative (for the Dominican Republic and, to a large extent, for the Latin American region); and (ii) since the Dominican securities market is still in the early stages of development, an issue of the type envisaged will inherently expand market capacities and create a positive demonstration effect for other potential issues.
- 3.7 The *expected outcomes* of this component are as follows: (i) two issues floated on the Dominican securities market will raise a total of at least US\$5 million and obtain an investment-grade risk rating of BBB or higher; (ii) FUNDAPEC will have the resources (human, financial, and knowledge) to float subsequent issues on the securities market to finance its activity; (iii) BHD Valores will have sufficient technical knowledge of the student loan market to help other institutions float issues on the securities market; and (iv) pension fund management companies will add higher education financing securities to their investment portfolios.
- 3.8 ***Component III. Documentation and sharing of lessons learned (MIF: 49,700; Local: 5,000).*** Because the project is so innovative, it is important to ensure that the resulting knowledge products are well documented and disseminated. The component therefore calls for activities in the following areas: (i) consulting services to document lessons and knowledge products, (ii) a forum on higher education financing, (iii) production of testimonial videos and materials, and (iv) dissemination of know-how through participation in seminars and workshops.
- 3.9 The project will produce two key knowledge products: (i) know-how on raising the operating efficiency of an educational lender (beginning with the ability to analyze student loan industry indicators) and (ii) the experience of an educational lender issuing securities on the securities market.

---

<sup>13</sup> BHD Valores Puesto de Bolsa S.A. is the brokerage arm of Centro Financiero BHD. This institution will design, structure, and place the issues, as established in the project, without receiving compensation.

- 3.10 The *expected outcomes* of this component are as follows: (i) knowledge products will have been created in the areas of higher education financing via securities market issues and performance indicators for an educational lender; (ii) an international forum on higher education financing will have been held, attended by at least 200 persons; (iii) visual materials will have been produced for dissemination purposes; and (iv) at least 10 educational lenders in the region will be familiar with the project implemented by FUNDAPEC.

#### IV. COST AND FINANCING

- 4.1 The **total cost** of the project is US\$1,484,000. Of that total, FUNDAPEC will provide a local counterpart contribution of US\$536,000 (36.23%), at least 50% of which will be in cash. The MIF will contribute US\$948,000 (63.77%). A summary of the budget is presented below:

Budget items	MIF	Local	Total	%
<b>Component I</b>	486,000	195,000	681,000	45.89%
<b>Component II</b>	221,413	256,058	477,471	32.17%
<b>Component III</b>	49,700	5,000	54,700	3.69%
Administration	110,500	65,000	175,500	11.83%
Baseline and midterm, and final evaluations	30,000		30,000	2.02%
Audit	31,000		31,000	2.09%
Contingencies	14,727	14,942	29,669	1.99%
<b>Subtotal</b>	<b>943,260</b>	<b>536,000</b>	<b>1,463,340</b>	
<i>Percentage (excluding the Impact Evaluation Fund)</i>	<i>63.77%</i>	<i>36.23%</i>	<i>100%</i>	
Impact Evaluation Fund	4,740	-	4,740	-
<b>Total</b>	<b>948,000</b>	<b>536,000</b>	<b>1,484,000</b>	

- 4.2 The project's **sustainability** will derive from two factors. First, efficiency improvements will enable FUNDAPEC to increase its operating margins and expand its volume of business. The project will develop installed capacity within FUNDAPEC—in terms of management, operating and information procedures, customer growth strategies, etc.—that will enable it to sustain portfolio growth. This will ensure that the educational lending model is not only sustainable, but also scalable. The second factor behind the project's sustainability will be the development of products and mechanisms within the Dominican securities market that enable it to absorb future higher-education-related issues. This will both allow for growth in the capital supply market, providing liquidity for FUNDAPEC, and firmly establish higher-education-based issues as a local market investment option. The project calls for preparation of a strategic plan and a business plan in which project sustainability will be a central theme.

## V. EXECUTING AGENCY AND IMPLEMENTATION MECHANISM

- 5.1 For over 40 years, Fundación APEC de Crédito Educativo (FUNDAPEC) has been the principal student loan provider in the Dominican Republic (the only one, in fact, apart from a handful of universities), administering its own funds as well as third-party funds (from universities and businesses) for that purpose. Since 1967, more than 90,000 Dominican men and women have financed their studies through FUNDAPEC programs. FUNDAPEC currently has an active portfolio of 3,300 students.
- 5.2 **Implementation mechanism.** The project will be managed by FUNDAPEC. For the purposes of component II, a collaborative agreement has been signed with BHD Valores, the institution that has arranged the largest number of issues in the Dominican Republic.<sup>14</sup> The project execution unit will consist of a general coordinator and a project assistant, both of whom will work out of FUNDAPEC's offices.
- 5.3 A Steering Committee will oversee the project, to ensure proper governance and provide strategic guidance. It will comprise the chairman of APEC's board, the chairman of FUNDAPEC's board, and the Executive Vice President for Institutional Banking at Banco BHD. The Executive Director of FUNDAPEC and the General Manager of BHD Valores will serve as deputy secretaries of the Steering Committee. It will meet at least every six months, and its main functions will be to: (i) review and provide feedback on the project execution plan and the semiannual work plan; (ii) evaluate progress with components and indicators and suggest strategic courses of action; and (iii) propose actions to enhance the project's impact and reach.
- 5.4 **Project timeline.** The project will have an execution period of 36 months.
- 5.5 **Disbursement by results.** Disbursements of the contribution resources will be contingent upon the achievement of milestones,<sup>15</sup> which will be agreed upon by FUNDAPEC and the MIF, as established in the memorandum, "Operating Guidelines for Project Management Based on Risk and Performance," of 25 March 2008, along with their means of verification. Achievement of milestones does not exempt the executing agency from the responsibility to meet the project's objectives.
- 5.6 Disbursements will follow disbursement by results mechanism 2, as established in the above guidelines. Accordingly, the first disbursement will be made upon fulfillment of the conditions precedent. Subsequent disbursements will be made when requested by the executing agency in order to continue with normal project execution, provided that all milestones have been reached. The amount of

---

<sup>14</sup> Its experience includes issuance of the subordinated debt of Banco ADOPEM.

<sup>15</sup> Minimum targets to be met for critical indicators, where failure to do so would undermine the technical feasibility of project implementation.

subsequent disbursements will be calculated according to project expenses needed and the associated costs of activities during a projected period of time. Disbursements will be made through a revolving fund equivalent to 10% of the total project resources.

- 5.7 Milestones will be reviewed jointly by the executing agency and the IDB/MIF when the first annual planning exercise is presented at the outset of the project, and during technical visits. The executing agency may also request that the Bank modify the agreed milestones, provided that all milestones have been reached.
- 5.8 **Procurement.** The executing agency will procure goods and services and contract consulting services included in the project procurement plan previously approved by the MIF, updated semiannually and/or whenever there is a change with regard to an established procurement method or a good or service to be procured, in accordance with the policies established in documents GN-2349-7 and GN-2350-7. Procurement processes must be transparent and competitive and obtain the best quality-to-cost ratio for the project.
- 5.9 Based on the finding of the institutional assessment (“low risk”), disbursements, procurement of goods and services, and contracting of consulting services for the project will be subject to annual ex post review. However, the first three contracts will be subject to ex ante review, so that the institution can receive coaching and support in the process. The application and frequency of these reviews may be modified by the MIF based on the findings of reviews and/or subsequent risk analyses performed by the MIF during project execution.
- 5.10 **Financial supervision.** FUNDAPEC will establish and assume responsibility for maintaining adequate financial accounts, internal control mechanisms, and record-keeping systems for the project, consistent with IDB/MIF accounting and auditing rules and policies. It will keep specific accounts for the project, according to the chart of accounts approved in advance by the Bank, recording all transactions financed by the MIF and local counterpart contributions, differentiated by investment component. The institutional and risk assessment of FUNDAPEC in terms of its capacity for administrative/financial/accounting management found the level of risk in this area to be low (see Annex, Institutional Assessment and Risk Analysis). Accordingly, the project financial statements will be audited at the end of the execution period, and the supporting documentation for disbursements will be subject to ex post review on an annual basis.
- 5.11 The Bank/MIF will engage independent auditors to perform the final audit of the financial statements, as well as the ex post review of procurement processes and supporting documents for disbursement requests. The cost will be covered by the MIF contribution, in accordance with Bank procedures.

## VI. MONITORING AND EVALUATION

- 6.1 The Bank's Country Office in the Dominican Republic will supervise and monitor compliance with contractual clauses, process disbursement requests, and receive audited financial statements. FUNDAPEC will compile and analyze the relevant information for ongoing monitoring of the indicators established in the project Logical Framework (see Annex I). It will also deliver project status reports within 30 days after the end of each six-month period. These reports will follow a format previously agreed upon by the MIF and will contain information on project execution, milestones met, outcomes, and their contribution to the completion of project objectives. Within 90 days after the end of the execution period, the executing agency will deliver a final project status report to the MIF that highlights results achieved, the plan for project sustainability, and lessons learned.
- 6.2 The Bank will commission two consulting assignments for the midterm and final evaluations. The midterm evaluation will be commissioned once 50% of the MIF contribution has been committed, or 50% of the execution period has elapsed, whichever occurs first. Its main objective will be to assess the project's progress, as measured by fulfillment of the intermediate indicators established in the Logical Framework (see Annex I), with special emphasis on the following: (i) the project's impact in terms of improving student loan access and coverage in the Dominican Republic; (ii) interest of the Dominican securities market in securities backed by higher education assets; (iii) improvement in FUNDAPEC's management indicators; (iv) the institutional capacity of the executing agency and the other institutions involved in the project; (v) fulfillment of the *pari passu* requirement for the counterpart contribution, consistent with the budget and the Operating Regulations; and (vi) the degree of institutional coordination achieved by the executing agency. If necessary, the midterm evaluation will make recommendations for the MIF and the executing agency to jointly formulate corrective actions.
- 6.3 The final evaluation will be performed at the end of the execution period, or once 95% of the MIF funds have been disbursed, whichever occurs first, and will analyze the extent to which the final outcome targets set in the logical framework and the baseline have been met. The evaluation will also assess to what extent the activities promoted by the project are expected to be sustainable once the MIF contribution ends, as well as identify lessons learned and best practices.
- 6.4 Three months before the end of the project execution period, a *closing workshop* will be held for FUNDAPEC, BHD Valores, and Bank staff assigned to supervision of the project to jointly evaluate outcomes, identify additional tasks to ensure the sustainability of project-initiated activities, and identify lessons learned. In addition, a *sustainability workshop* will be held at least one year before the project execution period ends. The Bank and the executing agency will agree on the scope of this workshop sufficiently in advance.

## VII. BENEFITS AND RISKS

- 7.1 **Benefits.** First, the project is expected to help broaden access to higher education in the Dominican Republic, which will serve to raise the quality of the country's human resources, with the resulting impact on workforce productivity and, consequently, on the competitiveness of local businesses and of the country as a whole. This will be accomplished by getting pension fund management companies in particular, and the private sector in general, involved in financing human capital through an innovative model with potential for replication in other countries of Latin America and the Caribbean. Second, the project will benefit the development of the securities market in the Dominican Republic, both by creating market instruments that will help pension fund management companies diversify their investment portfolios, and through the innovative approach of issuing securities whose underlying asset is education-based. Lastly, the project is expected to develop a cost- and time-effective student loan management model within FUNDAPEC that also allows ample room for growth.
- 7.2 **Risks.** The following risks were identified during project design: (i) pension fund management companies might lose interest in higher education financing, and/or the laws governing them might prevent or discourage investment in instruments that support higher education financing in the country; (ii) the economic crisis could cause a larger-than-expected slump in the job market, with a major impact on young people's decision as to whether to pursue higher education; and (iii) the economic crisis might significantly affect the rate at which FUNDAPEC can borrow money in the capital market, raising it to levels that could force the institution to raise its lending rate to students above the rate that students are willing to pay. The project provides the following instruments to mitigate the foregoing risks: (i) develop channels to optimize communication and coordination with the country's pension fund management companies, adjusting the securities issues to fit their needs; (ii) hold coordination meetings with regulatory authorities and government agencies, to anticipate and work to influence any potential legislative changes; (iii) in marketing campaigns, raise awareness of the benefits of educational lending in times of crisis, and the importance of higher education for access to skilled jobs; and (iv) strengthen FUNDAPEC's internal financial monitoring system, so that it can adjust quickly to possible fluctuations in commercial bank lending rates.

## VIII. ENVIRONMENTAL AND SOCIAL IMPACT

- 8.1 Given the project's nature, no direct environmental impacts are foreseen. Quite the reverse, this initiative is expected to have positive social impacts, inasmuch as an increase in business startups and a decline in business failures will have a favorable impact on employment. The Environmental and Social Impact Review Secretariat (ESR) reviewed the project abstract on 20 February 2008 (meeting ESR 07-09) and classified the project as category "C."

## DEVELOPMENT OF AN INNOVATIVE MECHANISM TO PROMOTE HIGHER EDUCATION FINANCING IN THE DOMINICAN REPUBLIC

(DR-M1025)

### LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b>			
To help raise the quality of the workforce and to foster the development of the Dominican Republic's local financial market.	<p>Two years after project completion:</p> <ul style="list-style-type: none"> <li>- The percentage of students who have access to higher education in the Dominican Republic because of an educational loan has doubled.</li> <li>- Public securities for higher education financing are regularly issued.</li> </ul>	<ul style="list-style-type: none"> <li>- Data from the Dominican Republic's Ministry of Higher Education, Science and Technology</li> <li>- FUNDAPEC loan portfolio</li> <li>- Ex post evaluation<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>- The country's macroeconomic, legal, political, and investment climates remain stable.</li> <li>- The current economic crisis does not cause a larger-than-expected slump in the Dominican Republic's job market.</li> </ul>
<b>PURPOSE</b>			
To develop an innovative mechanism to promote access to higher education financing in the country using the securities market.	<p>24 months into the project:</p> <ul style="list-style-type: none"> <li>- First issuance of higher education related securities by an educational lender in Latin America.</li> <li>- Pension fund management companies have a market instrument available that promotes access to higher education financing, combining economic return with legal guarantees.</li> <li>- FUNDAPEC's operating costs have been cut by at least 20%.</li> </ul>	<ul style="list-style-type: none"> <li>- Reports from the Dominican Republic's Superintendency of Securities</li> <li>- FUNDAPEC loan portfolio</li> <li>- Risk rating agency reports</li> <li>- FUNDAPEC audit reports</li> <li>- FUNDAPEC portfolio lending projections</li> </ul>	<ul style="list-style-type: none"> <li>- Dominican laws and regulations remain conducive to the issuance of higher education financing securities.</li> <li>- Pension fund management companies remain willing and able to invest in higher education related securities.</li> </ul>

<sup>1</sup> During project execution, the MIF and the project execution unit will jointly analyze the possibility of using funds from the MIF's Impact Evaluation System to conduct an ex post evaluation.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>By project end:</p> <ul style="list-style-type: none"> <li>- FUNDAPEC has the capacity to fund its educational lending by regularly issuing public securities. At least US\$5 million in securities have been issued, accounting for 25% of FUNDAPEC's portfolio.</li> <li>- FUNDAPEC has an active portfolio of at least 6,000 students—2,000 more than before.</li> </ul>		
<b>COMPONENTS</b>			
<p>I. Operational improvements enabling FUNDAPEC to manage new financing mechanisms and a larger volume of resources</p>	<p>12 months into the project:</p> <ul style="list-style-type: none"> <li>- Critical aspects of FUNDAPEC's current operating structure have been identified for improvement.</li> <li>- The information system best suited to FUNDAPEC's needs has been identified.</li> <li>- Potential FUNDAPEC customers have been identified, and a customer growth plan is in place.</li> <li>- FUNDAPEC and at least five universities have formed a working group to enhance job placement services.</li> </ul> <p>24 months into the project:</p> <ul style="list-style-type: none"> <li>- FUNDAPEC has a new operating and process structure and has implemented a new information system, enabling it to: <ul style="list-style-type: none"> <li>- Cut loan processing times by 50%</li> <li>- Manage an active portfolio of more than 10,000 customers</li> <li>- Provide online customer service</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Project status reports</li> <li>- FUNDAPEC financial statements</li> <li>- Inspection visits</li> <li>- Process improvement consultant's report</li> <li>- Strategic plan and business plan</li> <li>- Student and customer survey</li> <li>- Reports from university job placement units</li> <li>- Report by the consultant engaged to develop an action plan for integrating FUNDAPEC's lending activities with an educational savings plan</li> </ul>	<ul style="list-style-type: none"> <li>- The cost of securing funding in the financial markets does not increase drastically or prevent FUNDAPEC from improving its operating efficiency enough to cover the cost of securing funding.</li> <li>- FUNDAPEC's governance structure (board of directors and management) remains stable enough to allow for continuity of change.</li> <li>- Banco BHD follows through on plans to launch an educational savings plan.</li> </ul>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>- Have a business intelligence system</li> <li>- Have a monitoring and evaluation system that allows it to analyze the social inclusion impact of its activities.</li> <li>- FUNDAPEC has a strategic plan and a business plan that reflect its new financing strategy.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- The number of new student loan applications received by FUNDAPEC has doubled.</li> <li>- 25% of Dominican college students are aware of FUNDAPEC's services.</li> <li>- At least five universities have enhanced their job placement services, benefitting a minimum of 2,000 students.</li> <li>- FUNDAPEC has an action plan for integrating its lending activities with an educational savings plan.</li> </ul>		
<p>II. Access to higher education financing via the securities market</p>	<p>12 months into the project:</p> <ul style="list-style-type: none"> <li>- The financial structure of the securities to be issued by FUNDAPEC has been determined.</li> </ul> <p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The first securities issue by FUNDAPEC obtains at least an investment grade risk rating (BBB).</li> <li>- The entire issue is placed within three months.</li> <li>- Pension fund management companies have added higher education financing securities to their investment portfolios.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Project status reports</li> <li>- Report of the Superintendency of Securities</li> <li>- FUNDAPEC financial statements</li> <li>- Reports of the Superintendency of Pensions</li> <li>- Risk rating of issues</li> </ul>	<ul style="list-style-type: none"> <li>- The securities issue is authorized by the Superintendency of Pensions.</li> <li>- The current economic crisis does not significantly affect the cost of securing funding in the local market.</li> </ul>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>By project end:</p> <ul style="list-style-type: none"> <li>- Two issues floated on the Dominican securities market have raised a total of at least US\$5 million.</li> <li>- FUNDAPEC's financial statements show that the institution has improved its operating efficiency enough to cover the cost of securing funding.</li> <li>- BHD Valores has sufficient technical knowledge of the student loan market to help other institutions to float issues on the securities market.</li> </ul>		
<p>III. Documentation, evaluation, and sharing of lessons learned</p>	<p>24 months into the project:</p> <ul style="list-style-type: none"> <li>- At least 200 people attend an international forum on higher education financing organized by FUNDAPEC.</li> <li>- The leading institutions connected with the securities market, and all pension fund management companies in the country in particular, are aware of the securities issue.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- At least 10 educational lenders in the region are familiar with the project implemented by FUNDAPEC.</li> <li>- Knowledge products have been created in the areas of: (i) higher education financing via securities market issues, and (ii) performance indicators for an educational lender.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Reports, documents, and press articles on the forum</li> <li>- Promotional video</li> <li>- APICE references to the project and the knowledge products created</li> </ul>	<ul style="list-style-type: none"> <li>- Educational lenders in the region remain interested in developing instruments to secure funding from the private sector.</li> </ul>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>ACTIVITIES</b>			
<i>COMPONENT I. Operational improvements enabling FUNDAPEC to manage new financing mechanisms and a larger volume of resources</i>			
I.1. Strategy and process analysis	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- A strategic plan and business plan have been designed that incorporate the new mechanisms for securing funding in the securities market.</li> <li>- A credit scoring system enhances institutional information and reduces costs.</li> <li>- New process manuals are produced by the process consulting firm.</li> </ul> <p>24 months into the project:</p> <ul style="list-style-type: none"> <li>- At least three external cooperation agreements have been signed.</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic plan documents</li> <li>- Project status reports</li> <li>- Reports from the process consulting firm</li> <li>- Process manuals</li> <li>- External cooperation agreements</li> </ul>	
I.2. FUNDAPEC business development	<p>12 months into the project:</p> <ul style="list-style-type: none"> <li>- FUNDAPEC has current information on the potential demand for student loans, what students need, and how that demand is segmented.</li> <li>- The number of loan applications received by FUNDAPEC increases by 30%.</li> <li>- FUNDAPEC's new website gets an average of 300 hits per month.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- The alumni network includes at least 500 former FUNDAPEC customers.</li> <li>- FUNDAPEC increases the amount of business funds it manages by 25%.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual reports of the executing agency</li> <li>- Inspection visits</li> <li>- Surveys</li> <li>- FUNDAPEC information system reports</li> <li>- FUNDAPEC alumni network records and documents</li> </ul>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>I.3. Technology development for improved customer service processes</p>	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The average time involved in information technology related processes is reduced by 30%, and the system's data management capacity is increased by 200%.</li> <li>- FUNDAPEC has current computerized personnel data, and this information is tied into performance-based management processes.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- FUNDAPEC's Management has an information system that automatically generates reports to facilitate decision-making.</li> <li>- The upgraded information systems produce process-related cost savings of 25%.</li> <li>- A customer service unit is set up to gather feedback from FUNDAPEC customers.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual reports of the executing agency</li> <li>- Information system reports</li> <li>- Customer service unit reports</li> </ul>	
<p>I.4. Capacity-building for FUNDAPEC to secure funding</p>	<p>12 months into the project:</p> <ul style="list-style-type: none"> <li>- FUNDAPEC's accounting and financial management procedures have been updated.</li> <li>- Administrative/financial processes have been time- and cost-optimized, with a 25% improvement.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- Updated projections and reports enable FUNDAPEC to detect and correct potential deviations and avoid the associated financial risks.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual reports of the executing agency</li> <li>- FUNDAPEC financial and accounting reports</li> <li>- FUNDAPEC's financing timeline</li> <li>- FUNDAPEC's 5-year budget and business plan</li> <li>- Audit reports</li> </ul>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> <li>- Financial tracking tools make it possible to adjust the interest rate to achieve a match between its lending rate and its borrowing rate.</li> </ul>		
I.5. Job placement and productive employment services	<p>12 months into the project:</p> <ul style="list-style-type: none"> <li>- A work plan with the universities is in place.</li> </ul> <p>24 months into the project:</p> <ul style="list-style-type: none"> <li>- The participating universities receive advisory support to improve their job placement and employment support services.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- The improvements are documented and shared at an event with other universities in the country and the region.</li> </ul>		
I.6. Integration with an educational savings plan	<p>By project end:</p> <ul style="list-style-type: none"> <li>- An analysis has been done enabling FUNDAPEC to capitalize on the opportunities presented by savings plans for its activities.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual reports of the executing agency</li> </ul>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>COMPONENT II. Access to higher education financing via the securities market</b>			
II.1. Structuring of the issue	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The financial structure of the instrument and the issue has been determined.</li> <li>- The documentation relating to the first securities issue has been filed to the satisfaction of the Superintendency of Securities.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- With the structure set, the cost of the second issue is 30% less than the first.</li> </ul>	<ul style="list-style-type: none"> <li>- Project status reports</li> <li>- Reports from the institution responsible for structuring the issue</li> <li>- Reports of the Superintendency of Securities</li> </ul>	
II.2. Risk rating for the issuer and the issue	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The first risk rating is obtained for the issuer and the issue, both of which obtain a rating of at least BBB.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- Two annual ratings have maintained the minimum rating of BBB.</li> </ul>	<ul style="list-style-type: none"> <li>- Project status reports</li> <li>- Risk rating agency reports</li> </ul>	
II.3. Placement of the issue	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- All pension fund management companies in the country know the product exists.</li> <li>- Two events have been held to promote the product.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- At least three pension fund management companies have purchased securities connected with FUNDAPEC's issues.</li> </ul>	<ul style="list-style-type: none"> <li>- Project status reports</li> <li>- Promotional materials</li> <li>- Product promotion and advertising reports</li> </ul>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
II.4. Management of the issue	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The bondholders' representatives and the special manager of the issue have been appointed.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- FUNDAPEC has built up institutional reserves enabling it to fund the cost of the next issue.</li> </ul>	<ul style="list-style-type: none"> <li>- Project status reports</li> <li>- Legal records and documents relating to the issues</li> </ul>	
<b>COMPONENT III. Documentation, evaluation, and sharing of lessons learned</b>			
III.1. Documentation of the experience	<p>12 months into the project:</p> <p>A basic structure has been designed for the future documentation of experiences.</p> <p>By project end:</p> <ul style="list-style-type: none"> <li>- One publication on the project experience has been distributed to at least 10 educational lenders in the region.</li> </ul>	<ul style="list-style-type: none"> <li>- Project status reports.</li> <li>- Documentation plan</li> <li>- APICE references to the project</li> <li>- Visits by other educational lenders to FUNDAPEC</li> </ul>	
III.2. International forum on higher education financing	<ul style="list-style-type: none"> <li>- At least 200 people attend the forum, whose participants also include other educational lenders, universities, Dominican Republic government officials, and other international agencies.</li> </ul>	<ul style="list-style-type: none"> <li>- List of forum attendees</li> <li>- Materials, presentations, and other forum documents</li> </ul>	
III.3. Testimonial videos	<ul style="list-style-type: none"> <li>- Two videos are produced and distributed to educational lenders both internationally and nationally and are posted on FUNDAPEC's website.</li> </ul>	<ul style="list-style-type: none"> <li>- References to FUNDAPEC's experience within APICE and other educational lending associations</li> </ul>	
III.4. Presentation of the experience internationally	<ul style="list-style-type: none"> <li>- Three presentations are given on the project and FUNDAPEC's experience at both national and international forums.</li> </ul>	<ul style="list-style-type: none"> <li>- Reports on presentations</li> <li>- Final evaluation report</li> </ul>	

ITEMIZED BUDGET

DEVELOPMENT OF AN INNOVATIVE MECHANISM TO PROMOTE HIGHER EDUCATION FINANCING IN THE DOMINICAN REPUBLIC  
(DR-M1025)

I. Operational improvements enabling FUNDAPEC to manage new financing mechanisms and a larger volume of resources					
	TOTAL COST	MIF	LOCAL in cash	LOCAL in kind	TOTAL LOCAL CONTRIBUTION
1.1. Review of institutional strategy and redesign of loan-granting and -management processes	145,000	125,000	20,000	0	20,000
1.2. Strengthening of the marketing and business unit	106,000	91,000	15,000	0	15,000
1.3. Evaluation and design of a technology platform that incorporates commercial banking best practices in loan management	345,000	185,000	160,000	0	160,000
1.4. Strengthening of accounting systems and creation of an external investment management and prospecting unit	25,000	25,000	0	0	0
1.5. Development of job placement and productive employment services	35,000	35,000	0	0	0
1.6. Integration with an educational savings plan that complements FUNDAPEC's loan model	25,000	25,000	0	0	0
<b>Component I total</b>	<b>681,000</b>	<b>486,000</b>	<b>195,000</b>	<b>0</b>	<b>195,000</b>
II. Access to higher education financing via the securities market					
	TOTAL COST	MIF	LOCAL in cash	LOCAL in kind	LOCAL CONTRIBUTION
2.1. Design and structuring of the securities issue	127,257	18,806	43,451	65,000	108,451
2.2. Obtaining a risk rating for the issuer and the issue	72,000	51,000	21,000	0	21,000
2.3. Placement of the issue	115,000	20,000	30,000	65,000	95,000
2.4. Management of the issue	163,214	131,607	31,607	0	31,607
<b>Component II total</b>	<b>477,471</b>	<b>221,413</b>	<b>126,058</b>	<b>130,000</b>	<b>256,058</b>
III. Documentation and sharing of lessons learned					
	TOTAL COST	MIF	LOCAL in cash	LOCAL in kind	LOCAL CONTRIBUTION
3.1. Documentation of lessons and knowledge products	10,000	10,000	0	0	0
3.2. International forum on higher education financing	17,500	12,500	0	5,000	5,000
3.3. Production of testimonial videos	20,000	20,000	0	0	0
3.4. Dissemination of know-how through participation in seminars and workshops	7,200	7,200	0	5,000	5,000
<b>Component III total</b>	<b>54,700</b>	<b>49,700</b>	<b>0</b>	<b>5,000</b>	<b>5,000</b>
Administration, evaluation, audits, and contingencies					
	TOTAL COST	MIF	LOCAL in cash	LOCAL in kind	LOCAL CONTRIBUTION
1. Project coordinator	108,000	108,000	0	0	0
2. Project assistant	54,000	0	0	54,000	54,000
3. Materials and equipment	13,500	2,500	0	11,000	11,000
4. Audit	31,000	31,000	0	0	0
5. Baseline and midterm and final evaluations	30,000	30,000	0	0	0
6. Contingencies	29,589	14,647	14,942	0	14,942
<b>Project administration total</b>	<b>266,089</b>	<b>186,147</b>	<b>14,942</b>	<b>65,000</b>	<b>79,942</b>
<b>PROJECT SUBTOTAL</b>	<b>1,479,260</b>	<b>943,260</b>	<b>336,000</b>	<b>200,000</b>	<b>536,000</b>
	TOTAL COST	MIF	LOCAL in cash	LOCAL in kind	LOCAL CONTRIBUTION
Impact Evaluation Fund	4,740	4,740	-	-	-
<b>PROJECT TOTAL</b>	<b>1,484,000</b>	<b>948,000</b>	<b>336,000</b>	<b>200,000</b>	<b>536,000</b>