

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**REGIONAL**

**NEW MERIT-BASED PRIVATE FINANCING PROGRAM FOR  
HIGHER EDUCATION IN CHILE, COLOMBIA, AND MEXICO**

**(RG-M1089)**

**DONORS MEMORANDUM**

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## ABBREVIATIONS

HCC	Human capital contract
MIF	Multilateral Investment Fund
PPMR	Project performance monitoring report

**NEW MERIT-BASED PRIVATE FINANCING PROGRAM FOR HIGHER  
EDUCATION IN CHILE, COLOMBIA, AND MEXICO  
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**I. EXECUTIVE SUMMARY**

<b>Beneficiary countries:</b>	Chile, Colombia, and Mexico
<b>Executing agency:</b>	Lumni Inc.
<b>Beneficiaries:</b>	Individuals who lack personal or family resources to pay for higher education
<b>Financing:</b>	Modality: Nonreimbursable MIF: US\$ 837,000 <sup>1</sup> Local: <u>US\$ 613,000</u> <b>Total: US\$1,450,000</b>
<b>Objectives:</b>	The project's <b>general objective</b> is to promote private-sector involvement in the sustainable financing of human capital development based on more equitable access to quality higher education in Latin America and the Caribbean. Its <b>specific objective</b> is to develop and systematize an innovative model of private financing that promotes merit-based access to quality higher education and that can be used in other countries of the region.
<b>Execution timetable:</b>	Execution period: 30 months Disbursement period: 36 months
<b>Special contractual clauses:</b>	Condition precedent to the first disbursement: establishment of the project executing unit.
<b>Exceptions to Bank policy:</b>	None.
<b>Environmental and social review:</b>	The Committee on Environment and Social Impact reviewed the project on 6 October 2006 (meeting 39-06) and had no comments.

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<sup>1</sup> This amount includes US\$4,164 for the Impact Evaluation Account administered by the MIF Office.

## II. BACKGROUND

- 2.1 A nation's human capital—the skills, knowledge, and talent of its working population—is a key determinant of its level of economic and social development. A country that invests in developing its citizens' human capital will attain higher growth rates, strengthen its political and economic institutions, become more competitive in global markets, and, in general, improve the quality of life for its people. One of the principal means for developing human capital—and allowing individuals to acquire the knowledge and skills demanded by the labor market—is through higher education.
- 2.2 “With technological advance, the demand for highly skilled workers has increased sharply: student and employer demand for tertiary education and training is larger and more diverse than previously, and is repeated, in the sense that people require retraining. ... A central question, therefore, is how to finance these systems so as to facilitate economic growth and equitable access to higher education. In poorer countries, fiscal capacity is limited. ... Public funding thus needs to be supplemented by private-sector sources.”<sup>2</sup> The lack of suitable mechanisms and resources with which to finance investment in human capital is one of the main obstacles to development in Latin America and the Caribbean. The gross enrollment rate in higher education in the region is no higher than 28%.<sup>3</sup> In Chile, the gross enrollment rate is 34%; in Colombia, only 14.5% of the population earns a post-secondary degree from a technical, technological, or university-level institution;<sup>4</sup> and in Mexico, the figure is approximately 6%.<sup>5</sup> The main source of funding throughout the region is students' families.
- 2.3 Quality higher education is very expensive, both for governments and for individuals, and finding a sustainable way to finance it is a considerable challenge. A great many students and their families have neither the means to afford a higher education nor the cosigners or collateral to make bank loans an option. Within a context of strict fiscal discipline that limits the number of government subsidies or scholarships, the countries of the region need to find sustainable, alternative formulas for involving the private sector in financing higher education in order to increase access and ensure that it is not determined more by families' means than by students' merit.

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<sup>2</sup> *Investing in Human Capital: A Capital Markets Approach to Student Funding*, Miguel Palacios Lleras. Cambridge University Press. Quote from the Foreword by Nicholas Barr, professor of Public Economics at the European Institute, London School of Economics.

<sup>3</sup> Source: International Institute for Higher Education in Latin America and the Caribbean. This means that only one adult in three has access to higher education.

<sup>4</sup> 2005 Census data, published by Colombia's National Statistics Department at [www.dane.gov.co](http://www.dane.gov.co).

<sup>5</sup> Asociación Nacional de Universidades e Instituciones de Educación Superior [National Association of Universities and Institutions of Higher Learning], based on information from Mexico's Ministry of Public Education.

- 2.4 Lumni Inc., a pioneering company that designs and manages funds to channel investment to advanced human capital, offers a private-sector alternative to complement the traditional system of family financing and bank loans (the latter requiring that families have property that can be used as collateral). The proposed system is based on the development of human capital investment tools.<sup>6</sup> Lumni's funds attract capital from independent private investors to provide financing (covering both tuition and maintenance fees) for undergraduate and graduate students as well as those in technical and vocational programs through human capital contracts (HCCs). Under these contracts, students receive capital to finance their education in exchange for a fixed percentage of their income for a given period of their future working lives.<sup>7</sup> Briefly defined, an HCC is a type of higher-education loan whose repayment begins once students have completed their education and is proportional to their pay for a given number of months or years. Students with zero income pay nothing as long as they continue to earn nothing, and no past-due interest is charged. Hence, the product offered by Lumni is not a debt with fixed payments and terms, but a type of income-contingent financing whereby Lumni shares in the benefits of the "venture," which in this case is the salary to be earned. Consequently, Lumni's interests are aligned with those of the student, as both share in the risk as well as the benefits.
- 2.5 HCCs are based on (i) students' academic merit and their potential performance in the labor market (i.e., equitable access); (ii) reducing risk for students and their families (by not requiring them to commit to pay the principal and interest irrespective of their future work situation, or, as is often the case, to pledge collateral); (iii) reducing the information asymmetry between students and potential investors through the job-placement and coaching services that Lumni also provides for students; (iv) proper alignment of students' interests with those of investors in human capital investment funds;<sup>8</sup> and (v) diversification of private investors' financial risk through investment in a "portfolio" of students.
- 2.6 The principal alternatives or complements to HCCs are, in order of preference, scholarships and student loans. Two facts must be kept in mind regarding government scholarships: scholarships entail a sunk cost for countries, since once a scholarship has been paid out there is no possibility of the money returning for another student to use it; and, unfortunately, governments can only provide funding for a small percentage of the students who would stand to benefit from a university education. This limits the educational opportunities for the vast majority of the

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<sup>6</sup> For comparative and explanatory purposes, these tools can be considered equivalent to venture-capital investments in the equity of a startup firm.

<sup>7</sup> In Chile, for example, Lumni finances the final two years of undergraduate studies, including both tuition and maintenance fees, in exchange for up to 10% of students' future salary during the first five years of their careers.

<sup>8</sup> These private investors have thus far had a twofold motivation. First, they seek financial sustainability, meaning a positive financial return (of around 12% for existing funds). Second, they want to give back to society, so they do not expect the financial return normally sought by investors bearing this level of risk.



population. Higher education loans, in turn, can entail a high financial risk for students, because payments do not correlate to their employment/unemployment cycle or to variations in their income curve. In addition, such loans are often contingent upon the family's providing a cosigner or collateral.

- 2.7 Given the above, HCCs are a highly innovative complementary tool—not only in Latin America and the Caribbean but worldwide. If the model is consolidated and establishes a successful track record, HCCs could (i) attract more private capital and lead to a more effective use of public resources; (ii) promote the creation of financing schemes based on students' merit rather than their means; (iii) reduce the financial risk for persons wanting to continue their education; (iv) create an incentive to choose an educational institution based on future value rather than the cost of enrollment; (v) provide information on the economic value of different fields of study and institutions; and (vi) become a powerful tool that could easily be tailored to the specific needs of certain social groups (e.g., students in rural areas, those interested in studying medicine, etc.).
- 2.8 In the past the Bank has mainly supported primary and secondary education. Most loans approved by the Bank for institutions of higher learning in the region have been for science and technology programs, laboratory research, and system accreditation and evaluation. For its part, the MIF has focused on the reemployment of displaced workers and adult training. The Agreement Establishing the MIF II states that its main objective is to “support economic growth and poverty reduction” by advancing “the application of innovative initiatives.” Access to quality higher education is an innovative thematic area, where the MIF can help create economic value and employment opportunities, reduce poverty, and promote sustainable economic growth. MIF intervention in this area can (i) demonstrate the feasibility of innovative financial mechanisms founded upon principles of equal opportunity, affordability, and complementarity; (ii) allow for the entry of new financial institutions; (iii) create positive externalities, e.g., by promoting transparency among the different stakeholders in higher education (students, universities, and investors); and (iv) create significant synergies with other MIF and Bank initiatives.

### III. OBJECTIVES AND COMPONENTS

- 3.1 The project's **general objective** is to promote private-sector involvement in the sustainable financing of human capital development based on more equitable access to quality higher education in Latin America and the Caribbean. Its **specific objective** is to develop and systematize an innovative model of private financing that promotes merit-based access to quality higher education and that can be used in other countries of the region. To attain these objectives, the project will include six components.

**Component I. Supply and demand analysis of private financing for higher education (MIF: US\$72,000)**

- 3.2 The objective of this component is to learn more about which groups of students in each beneficiary country might be potential candidates to receive Lumni financing. Data will be systematized on the academic performance and socioeconomic status of students at the leading institutions of higher learning in Chile, Colombia, and Mexico who are potential candidates to receive Lumni financing. The following activities will be carried out: (i) a study on the demand for private higher education financing in the beneficiary countries; (ii) identification and profiling of private and institutional investors; and (iii) design of information campaigns for students and investors.
- 3.3 An expected outcome of this component is that it will provide statistical data on prospective student borrowers. This information can later be used to implement the stochastic model in order to determine the amounts (percentage of salaries) and timeframes for the installments to be paid by those students. The component should also provide specific information on access to higher education for disadvantaged social groups (e.g., women in technical fields of study) so as to introduce differentiating criteria into the actions to recruit and select student borrowers. Lastly, information campaigns will publicize the Lumni model among the public at large in the beneficiary countries, attracting new interested students (thereby raising the number of Lumni borrower students by an average of 30% per year) and encouraging individuals and institutions to invest in a human capital fund (thereby increasing investments in students by an average of 30% per year).

**Component II. Strengthening of management processes and information systems (MIF: US\$206,000; local counterpart: US\$91,000)**

- 3.4 The objective of this component is to strengthen and standardize Lumni's administrative processes, allowing it to scale up its activities and reduce the management costs of each loan. Lumni currently manages its funds by combining several manual processes with automated ones. Although this management system was adequate for the startup phase, scaling up services will require much more efficient, dependable, and robust systems. Since sophisticated institutional investors require, and evaluate, management models—and especially valuation models—when making investments, Lumni must make its tools and procedures more efficient. Moreover, the work of managers and assistants is highly important for the success of the funds and one of the most critical factors for replicating the system. Consequently, Lumni needs these managers and assistants to acquire extensive knowledge on processes, the target student market, fund management processes, and fund valuation models. Lastly, this component also seeks to fine-tune the workings of Lumni's human capital funds, simplify them, and enhance their legal certainty (given their innovative nature). This requires optimizing the contracts with student borrowers and the investment vehicles used. The following activities will be carried out: (i) refining valuation models for human capital funds and contracts; (ii) optimizing student selection; (iii) developing student and investor transaction

and communication systems; (iv) developing fund-manager selection and training systems; (v) establishing processes for auditing fund managers; (vi) improving and maintaining the website, including a virtual information sharing module (to include rates, balances, amount of upcoming payments, rate of return, etc.) for student borrowers and investors; (vii) automating management processes through a computerized system; and (viii) optimizing investment vehicles and student contracts.

- 3.5 An expected outcome of this component is that it will help identify, assess, and incorporate more advanced valuation methods than those currently used by Lumni. It should also serve to identify key elements for optimizing critical features of HCC management, especially student recruitment, selection, and evaluation processes and student loan tracking and collection. This will lead to a 30% reduction of the time required for collecting payments, generating internal and external reports, and screening loan applications, while 90% of student borrowers should understand their obligations to Lumni and receive regular updates. In addition, an optimized website will allow students and investors to use an identification code to electronically access important information. Lastly, the development of the Lumni model is not expected to be hindered by legal issues in any of the three beneficiary countries. The fact that investors will view the model as an efficient and legally sound investment should attract new funds.

**Component III. Adaptation and development of a mentoring and job-placement system (MIF: US\$108,200; local counterpart contribution: US\$31,000)**

- 3.6 The objective of this component is to develop tools with which to maximize the value added that Lumni provides to students, by designing and implementing a mentoring system, managing a job exchange to be operated through Lumni's website, and carrying out activities specially designed for the community of students financed by Lumni. The following activities will be carried out: (i) developing a mentoring model to follow up with and support borrowers while they are still in school and to select and train the mentors; (ii) launching a mentoring system; (iii) developing the Lumni community; and (iv) creating an online system to help student borrowers find employment (a job exchange).
- 3.7 An expected outcome of this component is that it will allow Lumni to distinguish itself from other educational lenders by highlighting the multiplicity of its services. Coaching and professional guidance services and assistance to secure a job will be provided. In addition to providing a service to students, these activities will be part of Lumni's investment oversight, since the expected rate of return depends on the quality of the professionals that emerge and of the jobs that they are able to find.

**Component IV. Launch of Lumni México (MIF: US\$70,000; local counterpart US\$124,000)**

- 3.8 The objective of this component is to lay the groundwork for Lumni Inc. to establish itself in Mexico and to launch the first human capital funds in that

country. To that end, the following activities will be conducted: (i) Lumni México will be incorporated and begin operations; (ii) business operations will be developed and promoted; (iii) fund management methods and human capital contracts will be adapted to Mexican law; and (iv) the first fund will be legally established and registered.

- 3.9 An expected outcome of this component is that it will make the Lumni model fully operational in Mexico: a minimum of three human capital funds will be established and capitalized and will begin operating, with a capacity to invest in at least 600 students.

**Component V. Launch of pioneering human capital funds (MIF: US\$250,000; local counterpart: US\$250,000)**

- 3.10 Lumni's financing system is sufficiently versatile to be fine-tuned and implemented so as to support specific segments of society. The idea is for the first funds targeting disadvantaged social groups to be launched in Chile and Colombia, with at least 50% of the student borrowers coming from the lower two income quintiles of the population.<sup>9</sup> The first HCC fund in Mexico will be created with a focus on financing talented Mexican students who wish to pursue graduate studies abroad before returning to Mexico to make a contribution to their country.<sup>10</sup> All three of these HCC funds, with which the MIF seeks to create private-sector demand, involve the assumption of an initial loss, but equal returns, and will play a decisive role in building the track record required by investors. The component will provide capital to help set up the following funds so they can serve as catalysts: (i) a social human capital fund in Chile; (ii) a social human capital fund in Colombia; and (iii) the first human capital fund in Mexico.
- 3.11 The expected outcome of this component is the launch of three human capital funds, two of which will have a twofold (social and financial) objective. Each dollar of MIF investment should leverage at least three dollars from the private sector. Any remaining resources, after the students have repaid the investment, will be used to establish future social funds. As Lumni acquires experience and the number of students and volume of funds managed by it rise, the resulting demonstration effect should increase both supply and demand, and, therefore, lead to financial sustainability in the medium term.

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<sup>9</sup> For example, a social fund could be established with Alianza Educativa, an association of schools known for their academic excellence that work in some of Bogotá's poorest neighborhoods. Most of the 400 students that graduate each year from these technical schools do not go on to study at institutions of higher learning because of a lack of money and guidance. Another possibility is a partnership fund with a university to provide financing to low-income students. Lumni would structure the fund to encourage private investors, companies, or private institutions to participate with the MIF.

<sup>10</sup> Students are being preselected by Fundación Beca, which receives scholarship applications from some of Mexico's top students. The best of the 130 preselected students will be chosen to initiate the fund. Given that this will be the first fund to be launched in Mexico, there will be no requirement for a certain percentage of borrowers to come from low-income groups (see paragraph 5.5).

**Component VI. Evaluation and dissemination (MIF: US\$45,000; local counterpart: US\$12,500)**

- 3.12 Lumni is in a position to become an important agent of innovation in the financing of higher education in Latin America and the Caribbean. Accordingly, the project will implement an effective communications strategy targeting the different stakeholders by (i) producing a publication on the experience of providing student financing in Chile, Colombia, and Mexico; (ii) holding a forum for the educational community—governments, institutions of higher learning, students, and specialized media outlets, among others—to publicize project outcomes; (iii) sharing the experience with councils and various decision-making bodies responsible for higher education financing; and (iv) establishing a baseline and preparing a midterm and a final evaluation.
- 3.13 Expected outcomes of this component are: development of a baseline; at least 12 mentions of the project in the media; a publication on the experience, complemented by presentations in-country and abroad; and, lastly, evaluations (midterm and final) carried out to monitor the project’s performance and identify the lessons learned.

**IV. COST AND FINANCING**

- 4.1 The total cost of the project will be US\$1,450,000. Of this amount, US\$613,000 (42.28%) will come from Lumni, which is responsible for the counterpart contribution. The estimated project budget is shown in the following table:

<b>Budget categories</b>	<b>MIF</b>	<b>LUMNI</b>	<b>Total</b>	<b>%</b>
Component I	72,000	-	72,000	4.98
Component II	206,000	91,000	297,000	20.54
Component III	108,200	31,000	139,200	9.63
Component IV	70,000	124,000	194,000	13.42
Component V	250,000	250,000	500,000	34.58
Component VI	45,000	12,500	37,500	3.98
Administration	54,000	104,500	158,500	10.96
Other (audit and contingencies)	27,636	-	20,770	1.91
<b>Subtotal</b>	<b>832,836</b>	<b>613,000</b>	<b>1,445,836</b>	
<i>Percentage</i>	<i>57.72%</i>	<i>42.28%</i>	<i>100%</i>	
Impact Evaluation Fund <sup>11</sup>	4,164	-	4,164	-
<b>Total</b>	<b>837,000</b>	<b>613,000</b>	<b>1,450,000</b>	

- 4.2 The **sustainability** of the initiative and the future of the model depend primarily on the outcomes of this project. If the expected outcomes are achieved, the model will boast a track record of lending operations and of creating and satisfactorily managing human capital funds, allowing Lumni to attract more financial resources

<sup>11</sup> MIF II Managing for Results Commitments: Impact Evaluation System, (document MIF/GN-92-4).

for new funds. At the same time, the use of HCCs to finance post-secondary or university education will have become sufficiently well-known and recommended for student demand to reach the required level. Lastly, once the model has been shown to be economically viable, new applications may be developed for new target markets (as a motivational tool for employees, for work training, etc.)

## V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 Lumni Inc. will execute the project through its subsidiary in Chile (Lumni Chile S.A.). Lumni Inc. is a for-profit company whose purpose is to extend educational access to persons who otherwise would not be able to afford to continue their studies. Lumni recently received an award for its work in social entrepreneurship from the Ashoka Foundation, and was selected by the Darden School of Business to conduct and publish a study<sup>12</sup> on Lumni's entrepreneurial experience in emerging economies.
- 5.2 Lumni Inc. is the majority owner of Lumni Chile S.A. and Lumni Colombia S.A., with more than 80% of these subsidiaries' equity, while the remaining interest belongs to the local partners and employees. The two subsidiaries are the legal vehicles through which Lumni Inc. conducts its HCC fund management activities in Chile and Colombia. The boards of directors of all three entities are composed of prominent local business owners. Lumni Inc. has not yet reached the break-even point, and its founding partners work pro bono. This is not the case in Chile and Colombia, where the managers are paid. Lumni México will replicate Lumni Inc.'s method of involving prominent local business leaders.
- 5.3 Lumni Chile S.A. successfully manages two human capital funds (with expected returns of 9% and 11%). Its undergraduate financing is managed through Fondo Andrés Bello Uno S.A.—the pilot project for the methodology. The fund was established in 2002, providing loans to six students. Having performed well, the fund was replenished in 2005 with US\$200,000 to provide loans to 45 more students. For graduate financing, Lumni Chile operates Fondo Lumni Postgrados Uno S.A., through which 35 students have received US\$30,000 in financing, and which is in the process of being replenished. Lumni Chile's business plan calls for funding at least 180 students in 2008 and 336 in 2009.
- 5.4 Lumni's Colombia operations began in February 2006. It signed 14 HCCs as a pilot test and is creating an initial US\$300,000 fund to finance 100 more students. Lumni Colombia's business plan calls for providing loans to at least 150 students in 2008 and 349 in 2009.
- 5.5 Lumni will enter the Mexican market by establishing Lumni México in partnership with Fundación Beca. This foundation, started by a group of business owners committed to Mexico's comprehensive development, supports professional training

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<sup>12</sup> "Felipe Vergara and Lumni: Launching an innovation in a developing economy," Darden Business Publishing, September 2006.

for young people who wish to enter graduate programs abroad and return to Mexico to pursue a career.

- 5.6 **Execution mechanism.** Lumni Inc. will manage the project through its Chile subsidiary, creating an executing unit that will consist of a general director, a part-time coordinator, and a part-time administrative/accounting assistant. The general director of Lumni Inc. will serve as its general director and will not receive compensation. In addition, the project will have an **advisory committee**, composed of a delegate from Lumni's board of directors in each beneficiary country, a delegate from Lumni Inc., and a private investor. The advisory committee's basic duties will be to: (i) review the project execution plan and semiannual work plan and provide feedback on them at least once every six months; and (ii) evaluate the progress of the components and indicators every six months.
- 5.7 **Execution and disbursement periods:** The project execution period is expected to last 30 months. The disbursement period will be 36 months.
- 5.8 **Procurement of consulting services and goods.** The MIF's general guidelines on designing and managing reimbursable technical-cooperation operations, of 8 August 2006, and based on documents GN-2349-7 and GN-2350-7, will apply.
- 5.9 **Procedures for disbursing the MIF contribution.** A revolving fund of up to 10% of the total MIF funding will be established. The executing unit will submit semiannual revolving fund status reports as part of the semiannual project reports. The component V funds will be treated differently. They will be disbursed directly through a "pari passu" mechanism based on the capital contributed by the private sector: for each US\$3 contributed by the private sector, US\$1 of MIF funds will be disbursed.

## VI. MONITORING AND EVALUATION

- 6.1 The Country Office in Chile will perform control and oversight, monitor compliance with contractual clauses, process disbursement requests, and receive audited financial statements. Lumni Inc. will compile and analyze the relevant information for ongoing monitoring of the logical framework indicators.
- 6.2 The Bank will hire two consultants for the midterm and final evaluations. The midterm evaluation will be commissioned when 50% of the MIF contribution has been committed or midway through the disbursement period, whichever comes first. The main objective of this evaluation is to gauge the project's progress in meeting the midterm outcome targets. The final evaluation will be conducted once project execution is complete or when 95% of the MIF funding has been disbursed, whichever comes first. This evaluation will examine beneficiary satisfaction and measure progress towards final targets against the baseline. The evaluation will also examine the expected sustainability of project actions once the MIF contribution has ended and will identify lessons learned and best practices.

- 6.3 Three months before the end of the project execution period, a closing workshop will be held so that the executing unit, Bank staff, and any other parties, as agreed, can evaluate the outcomes achieved, identify additional tasks to guarantee the sustainability of project-initiated actions, identify the lessons learned, and, potentially, decide to have an ex post evaluation of the project's impact conducted two years after project completion. In addition, a sustainability workshop will be held at least one year before the end of the project execution period.

## VII. BENEFITS AND RISKS

- 7.1 **Benefits.** The project is expected to promote private sector involvement in financing human capital through an innovative model that is potentially replicable in other Latin American and Caribbean countries. This will, in turn, have a significant effect on the lives of student borrowers, who will gain access to quality higher education on the basis of their academic merit and personal qualities without being penalized for their families' socioeconomic status. Specifically, the project is expected to strengthen Lumni so that by the end of the project it will have provided financing to more than 2,150 students and have a portfolio of at least US\$12 million from the private sector. This will provide it with a solid, proven model, capable of continuing to attract funds, of being implemented in other countries of the region, and of continuing to provide student financing, but on a larger scale.
- 7.2 **Risks.** The main risk to achieving the project objectives is the venture-type nature of the executing unit, given its short track record in business. Lumni will have to meet the challenge of growing at an average rate of at least 30% per year and at the same time develop its managerial capacity in three countries of the region. Lumni is responding to this challenge through a remarkable effort to attract highly experienced members of the business community to its boards of directors. Moreover, the project will lead to a critical improvement in the effectiveness, dependability, and scalability of its management and administration systems.

## VIII. SOCIAL AND ENVIRONMENTAL IMPACT

- 8.1 Given the nature of the project, no direct environmental impact is anticipated. The initiative should, however, have positive social impacts, by offering real opportunities for merit-based access to higher education to individuals who lack financial means.



**NEW MERIT-BASED PRIVATE FINANCING PROGRAM FOR HIGHER EDUCATION IN CHILE, COLOMBIA, AND MEXICO (RG-M1089)  
LOGICAL FRAMEWORK**

<b>Objectives</b>	<b>Indicators</b>	<b>Means of verification</b>	<b>Assumptions</b>
<b>Goal</b>			
To promote private-sector involvement in the sustainable financing of human capital development based on more equitable access to quality higher education in Latin America and the Caribbean.	Two years after project completion: <ul style="list-style-type: none"> <li>- At least one institutional investor outside the public and social sectors invests in the model.</li> <li>- At least one competitor emerges to replicate the model.</li> </ul>	<ul style="list-style-type: none"> <li>- Ex post evaluation<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>- Economic and political stability is maintained in the beneficiary countries.</li> <li>- There are no legal changes in the beneficiary countries barring contracts for financing human capital.</li> </ul>
<b>Purpose</b>			
To develop and systematize an innovative model of private financing that promotes merit-based access to quality higher education and that can be used in other countries of the region.	18 months into the project: <ul style="list-style-type: none"> <li>- At least 750 students have received financing (during Lumni's existence) in more than 20 fields of study.</li> <li>- At least US\$3.5 million are in human capital funds.</li> <li>- At least one Lumni fund-management company reaches the break-even point.</li> </ul> By project end: <ul style="list-style-type: none"> <li>- At least 2,150 students have received financing (during Lumni's existence) in more than 20 fields of study.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluation reports</li> <li>- Project completion report</li> <li>- Semiannual reports</li> <li>- Project performance monitoring report (PPMR)</li> </ul>	<ul style="list-style-type: none"> <li>- There continues to be demand for higher education financing not covered by the social or public sectors.</li> <li>- Private investors are interested in contributing to human capital funds.</li> </ul>

<sup>1</sup> During project execution, the MIF and the executing unit will review the possibility of using funds from the MIF Impact Evaluation System to conduct the evaluation.

Objectives	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> <li>- At least US\$12 million are in human capital funds.</li> <li>- At least two Lumni fund-management companies reach the break-even point.</li> </ul>		
<b>Components</b>			
<p>I. Supply and demand analysis of private financing for higher education</p>	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The number of students financed through the Lumni system increases by 400%.</li> <li>- The amount of money invested in students increases by 400%.</li> <li>- The number of applicants over the life of the project increases an average of 400%.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- The number of students financed through the Lumni system has increased by 1,500%.</li> <li>- The amount of money invested in students has increased by 1,500% on average.</li> <li>- The number of applicants over the life of the project has increased an average of 1,500%.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> </ul>	
<p>II. Strengthening of management processes and information systems</p>	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The average time devoted to monitoring, communication, and collection is cut by 50% per student.</li> <li>- The time devoted to evaluating each applicant is cut by 50%.</li> <li>- Report preparation times are cut by 50%.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
	<p>By project end:</p> <ul style="list-style-type: none"> <li>- The average time devoted to monitoring, communication, and collection is reduced by another 40% per student</li> <li>- The time devoted to evaluating each applicant is cut by another 50%.</li> <li>- Report preparation times are reduced by another 30%.</li> <li>- Information on students' obligations is available online, and periodic updates are sent by e-mail, to significantly reduce discrepancies between loan recipients' perceptions and what was agreed.</li> <li>- Fund development costs are cut by 50%.</li> </ul>		
<p>III. Adaptation and development of a mentoring and job-placement system</p>	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- At least one specialized professional is providing mentoring in each beneficiary country.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- The attrition rate is 20% lower than among students from the same socioeconomic quintile in the same field of study.</li> <li>- At least 5% of loan recipients find work thanks to contacts with the community of Lumni investors and alumni.</li> <li>- At least 10% of loan recipients find work through the Lumni job exchange.</li> <li>- At least 85% of students rate the mentoring system as satisfactory.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> <li>- Satisfaction surveys</li> <li>- Loan application forms</li> <li>- National education statistics</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
IV. Launch of Lumni México	<p>12 months into the project:</p> <ul style="list-style-type: none"> <li>- At least one fund has been established and capitalized.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- At least three human capital funds have been launched and have the capacity to invest in 625 students.</li> <li>- At least three professionals work for Lumni México</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> </ul>	<ul style="list-style-type: none"> <li>- An agreement is reached among the partners.</li> </ul>
V. Launch of pioneering human capital funds	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- At least one human capital fund has been established and capitalized.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- At least three human capital funds have been established and capitalized, of which two have a twofold (social and financial) objective.</li> <li>- For each fund, at least US\$3 is invested by the private sector for every US\$1 from the MIF.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> </ul>	
VI. Evaluation and dissemination	<p>6 months into the project:</p> <ul style="list-style-type: none"> <li>- The baseline is developed.</li> </ul> <p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- The midterm review is conducted.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- The model is mentioned at least 12 times in the media.</li> <li>- The final evaluation is conducted.</li> </ul>	<ul style="list-style-type: none"> <li>- Midterm and final evaluations</li> <li>- Semiannual progress reports</li> <li>- Articles and stories published in the press</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
<b>Activities</b>			
I-1 Studies on demand for private higher education financing in the beneficiary countries	12 months into the project: - Three demand studies are carried out (one in Mexico, one in Chile, and one in Colombia).	- Inspection visits - Semiannual status reports from the executing agency - Demand studies - PPMR	
I-2 Identifying and profiling private and institutional investors	12 months into the project: - One study profiles private and institutional investors in the beneficiary countries.	- Semiannual status reports from the executing agency - Inspection visits - Profiling study - PPMR	
I-3 Designing information campaigns for students and investors	12 months into the project: - A new corporate image is designed.  18 months into the project: - Information campaigns incorporate the new image.	- Semiannual status reports from the executing agency - Inspection visits - Corporate image - PPMR	
II-1 Refining valuation models for human capital funds and contracts	18 months into the project: - The calculation model is updated to calculate combinations of installments, repayment periods, and income percentages to be pledged.	- Semiannual status reports from the executing agency - Inspection visits - PPMR	
II-2 Optimizing student selection	12 months into the project: - One student-selection procedures manual is produced.	- Semiannual status reports from the executing agency - Inspection visits - PPMR	

Objectives	Indicators	Means of verification	Assumptions
II-3 Developing student and investor transaction and communication systems	12 months into the project: <ul style="list-style-type: none"> <li>- One student communication procedures manual is produced.</li> <li>- One investor communication procedures manual is produced.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
II-4 Developing fund-manager selection and training systems	By project end: <ul style="list-style-type: none"> <li>- A recruitment process is developed and implemented.</li> <li>- A training program for new fund administrators is developed and implemented.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- Recruitment processes manual</li> <li>- PPMR</li> </ul>	
II-5 Establishing processes for auditing fund managers	24 months into the project: <ul style="list-style-type: none"> <li>- An auditing process is developed and implemented.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- Recruitment process</li> <li>- PPMR</li> </ul>	
II-6 Improving and maintaining the website, including a virtual information-sharing module for student borrowers, investors, and Lumni staff	12 months into the project: <ul style="list-style-type: none"> <li>- The website is improved.</li> </ul> By project end: <ul style="list-style-type: none"> <li>- The website is continuously updated.</li> <li>- The virtual information-sharing module is developed for student borrowers, investors, and Lumni staff.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- Website and report on hits/visits</li> <li>- PPMR</li> </ul>	
II.7 Automating management processes through a computerized system	By project end: <ul style="list-style-type: none"> <li>- A computer system for records, deposits,</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
	updates, loan issues, reconciliations, tracking fund performance, statistical calculations, and issuing reports is in place.	<ul style="list-style-type: none"> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
II.8 Optimizing investment vehicles and student contracts	<p>By project end:</p> <ul style="list-style-type: none"> <li>- Student financing contracts are reviewed (in all three beneficiary countries).</li> <li>- Investment vehicles are reviewed (in all three beneficiary countries).</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
III.1 Developing a mentoring model for student borrowers, and selecting and training mentors	<p>18 months into the project:</p> <ul style="list-style-type: none"> <li>- A mentor-selection procedures manual is produced.</li> <li>- A mentoring good-practices manual is produced.</li> </ul> <p>By project end:</p> <ul style="list-style-type: none"> <li>- A mentor training program is developed and being implemented.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- Mentor-selection procedures manual</li> <li>- Mentoring good-practices manual</li> <li>- Training program</li> <li>- PPMR</li> </ul>	
III.2 Launching the mentoring system	<p>By project end:</p> <ul style="list-style-type: none"> <li>- Three mentors are applying good mentoring practices.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
III.3 Pilot development of the Lumni community	<p>By project end:</p> <ul style="list-style-type: none"> <li>- One beneficiary country has a Lumni community pilot project.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	

Objectives	Indicators	Means of verification	Assumptions
III.4 Creating an online job-placement system for student borrowers (job exchange)	By project end: - One job exchange is developed and operating.	- Semiannual status reports from the executing agency - Inspection visits - Job exchange - PPMR	
IV.1 Incorporation and startup	12 months into the project: - A Lumni subsidiary is established in Mexico.	- Semiannual status reports from the executing agency - Inspection visits - PPMR	
IV.2 Business development and promotion	12 months into the project: - At least one fund has been established and capitalized.  24 months into the project: - At least two funds are established and capitalized.  By project end: - At least three funds are established and capitalized.	- Semiannual status reports from the executing agency - Inspection visits - PPMR	
IV.3 Fund management	12 months into the project: - At least one fund has begun to finance students.  24 months into the project: - At least two funds have begun to finance students.  By project end: - At least three funds have begun to finance	- Semiannual status reports from the executing agency - Inspection visits - PPMR	



Objectives	Indicators	Means of verification	Assumptions
	students.		
IV.4 Adapting Lumni Inc.'s human capital contract to Mexican law	10 months into the project: <ul style="list-style-type: none"> <li>- The student-financing contract is completed.</li> <li>- The fund management contract is completed.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
V.1 Social human capital fund in Chile	By project end: <ul style="list-style-type: none"> <li>- One social human capital fund is established and capitalized in Chile.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
V.2 Social human capital fund in Colombia	By project end: <ul style="list-style-type: none"> <li>- One social human capital fund is established and capitalized in Colombia.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
V.3 First human capital fund in Mexico	By project end: <ul style="list-style-type: none"> <li>- The first human capital social fund in Mexico is established and capitalized.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
VI.1 Publicizing the experience in the beneficiary countries	By project end: <ul style="list-style-type: none"> <li>- There is at least one publication on the experience of the Lumni model, with a print run of at least 100 copies.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	
VI.2 Experience-sharing forum	By project end: <ul style="list-style-type: none"> <li>- At least one forum is held, with 200 persons attending.</li> </ul>	<ul style="list-style-type: none"> <li>- Semiannual status reports from the executing agency</li> <li>- Inspection visits</li> <li>- PPMR</li> </ul>	

<b>Objectives</b>	<b>Indicators</b>	<b>Means of verification</b>	<b>Assumptions</b>
VI.3 Participating at international events, workshops, and seminars	By project end: - There has been participation in at least four events.	- Semiannual status reports from the executing agency - Inspection visits - PPMR	
VI.4 Baseline and midterm and final evaluation	6 months into the project: - The baseline is developed.  18 months into the project: - The midterm review is conducted.  By project end: - The final evaluation is conducted.	- Midterm evaluation report - Final evaluation report	

**NEW MERIT-BASED PRIVATE FINANCING PROGRAM FOR HIGHER EDUCATION IN  
COLOMBIA, AND MEXICO (RG-M1089)  
Itemized Budget**

<b>I. Supply and demand analysis of private financing for higher education</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Studies on demand for private higher education financing in the beneficiary countries	36,000	36,000
Identification and profiling of private and institutional investors	12,000	12,000
Design of information campaigns for students and investors	24,000	24,000
<b>Subtotal</b>	<b>72,000</b>	<b>72,000</b>
<b>II. Strengthening of management processes and information systems</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Improving valuation models for human capital funds and contracts	45,000	
Optimization of student selection	48,000	30,000
Development of student and investor transaction and communication systems	40,000	40,000
Developing fund-manager selection and training systems	18,000	18,000
Establishing processes for auditing fund managers	16,000	16,000
Improvement and maintenance of the website, including a virtual information-sharing module for student borrowers, investors, and Lumni staff	18,000	18,000
Automating management processes through a computerized system	90,000	84,000
Optimizing investment vehicles and student contracts	22,000	
<b>Subtotal</b>	<b>297,000</b>	<b>206,000</b>
<b>III. Adaptation and development of a mentoring and job-placement system</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Development of a mentoring model for student borrowers, and mentor selection and training	50,000	35,000
Launch of a mentoring system	43,200	43,200
Pilot development of the Lumni community	10,000	6,000
Creation of an online job-placement system for student borrowers (job exchange)	36,000	24,000
<b>Subtotal</b>	<b>139,200</b>	<b>108,200</b>
<b>IV. Launch of Lumni México</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Legal expenses for incorporation and startup	9,000	
Business development and promotion	75,000	
Fund management	70,000	70,000
Adapting Lumni Inc.'s human capital contract and its fund management contract to Mexican law and establishment of the first fund	40,000	
<b>Subtotal</b>	<b>194,000</b>	<b>70,000</b>
<b>V. Launch of pioneering human capital funds</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Lumni Chile social human capital fund	150,000	75,000
Lumni Colombia social human capital fund	150,000	75,000
First Lumni México human capital fund	200,000	100,000
<b>Subtotal</b>	<b>500,000</b>	<b>250,000</b>
<b>VI. Evaluation and dissemination</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Publicizing the experience in the beneficiary countries	6,000	
Experience-sharing forum	2,000	
Participation at international events, workshops, and seminars	4,500	
Baseline and midterm and final evaluation	45,000	45,000
<b>Subtotal</b>	<b>57,500</b>	<b>45,000</b>
<b>VII. Management</b>		
	<b>TOTAL COST</b>	<b>MIF</b>
Executive coordinator	90,000	0
Administrative/accounting assistant	54,000	54,000
Travel	8,000	
Audits	15,000	15,000
Contingencies	19,136	12,636
<b>Subtotal</b>	<b>186,136</b>	<b>81,636</b>
<b>PROJECT SUBTOTAL</b>	<b>1,445,836</b>	<b>832,836</b>
	<b>TOTAL COST</b>	<b>MIF</b>
Impact Evaluation Fund	4,164	4,164
<b>PROJECT TOTAL</b>	<b>1,450,000</b>	<b>837,000</b>