



# *Supporting the Development of European Education: Current role of EIB on Student loans and Future Perspectives*

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***CEDEFOP Workshop on "The Role of Loans in Financing VET in Europe"***  
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# The Presentation

1.

**Introducing the EIB**

2.

Rationale for EIB's Involvement

3.

The EIB and Student Loans

4.

The Feasibility Study – Some  
Comments

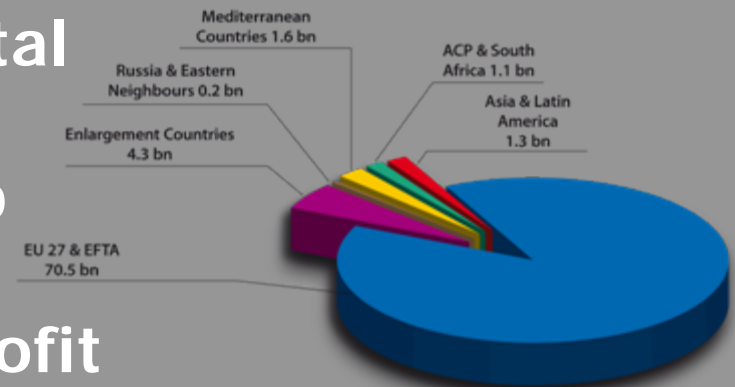
# European Investment Bank

## Who we are...



The **European Investment Bank** is the European Union's long-term financing institution. The Bank **acts as an autonomous body** set up to finance capital investment furthering European integration by **promoting EU policies**.

- The EIB is **owned by the 27 EU member states**
- The EIB raises its funds on the **capital markets** (EUR 79.4 bn in 2009)
- The EIB **signed loans** amounting to **EUR 79.1 bn** in 2009
- The EIB is a **policy driven, non-profit institution** following sound banking principles



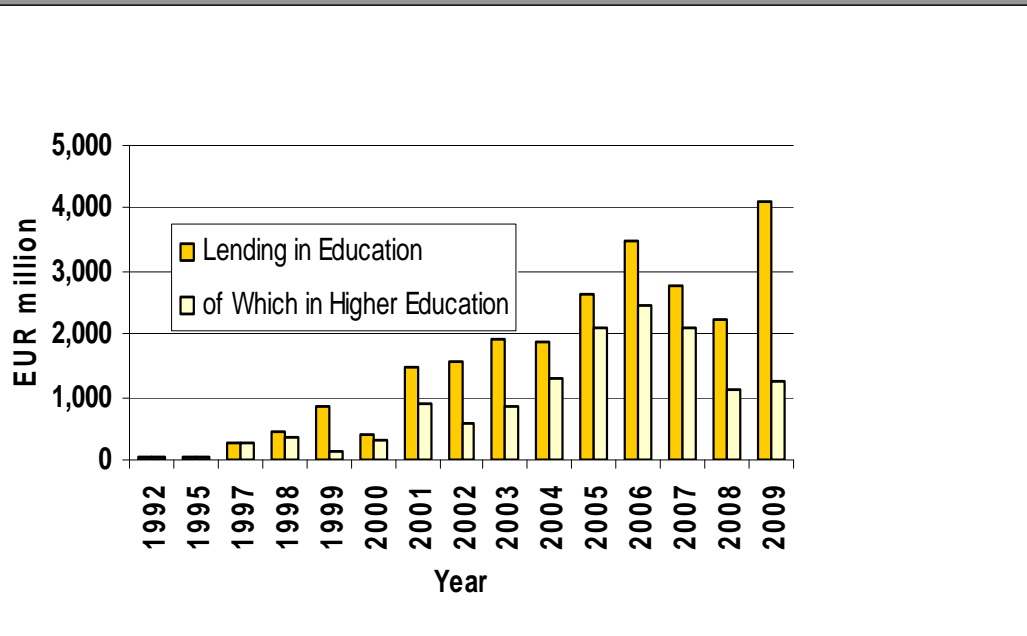
# Added value: The Cornerstone of EIB lending Policy

- ▶ Support for EU Priority Objectives
  - EU Objectives
  - EU Mandates: Pre-Accession (Candidate and Potential Candidate Countries); European Neighbourhood (Mediterranean Partner Countries; Russia and Eastern Neighbours...); Development (ACP, ALA)
- ▶ Quality and Soundness of Projects (economic, technical, financial...)
- ▶ Financial Benefits of EIB funds
  - AAA, long maturity, large amounts, all major currencies, catalytic effect on participation of other banking or financial partners.
- ▶ Technical Assistance

# Introducing the EIB...

- ▶ Priority Lending Objectives within the EU
  - Cohesion and convergence
  - Small and medium-sized enterprises (SMEs)
  - Environmental sustainability
  - Trans-European Networks (TENs)
  - Sustainable, competitive and secure energy
  - **Knowledge Economy: Three objectives**
    - Education and Training
    - Research and Development
    - Information and Communication Technology

# The EIB and Financing of Education



- Under ASAP investing in education and health was about investing in “hospitals and school buildings to generate employment”
  - Temporary and restricted in geographic scope
- ... now widely accepted as “human capital for employability”
  - Definitive and open throughout EU, Candidates, Med/Balkans/ACP

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# EIB and Student Loans

- ▶ Under Treaty and principle of Subsidiarity
  - No common education policy
  
- ▶ Barcelona 2002: three common objectives were endorsed
  - improving the quality and effectiveness of education and training systems;
  - facilitating the access of all to the education and training systems;
  - opening up the education and training systems to the wider world.

*Europe 2020 objective: To turn the EU into a **smart, sustainable and inclusive** economy delivering high levels of employment, productivity and social cohesion*

Student loans may impact all three



# Proposition 1: More private finance....

- ▶ Countries pursue three goals in tertiary education
  - Higher quality
  - Larger quantity
  - Constant or falling public spending
- ▶ Can achieve two but only at expense of the third
  - Large and tax-financed, but with worries about quality (many countries)
  - High-quality and tax-financed, but small (UK till 1989)
  - Large and good-quality, but fiscally expensive (Scandinavia)
- ▶ **The only sustainable way to achieve all three is to supplement public finance with private finance**

## Proposition 2: Student loans...

### The graduate not the student should pay

- Costs of Education= Accommodation + Books + Fees...
- How to get students to share the cost of their study without harming access of higher education?
  - How to avoid students taking disruptive part-time jobs?
  - How to avoid subsidy going to less diligent, less talented students from rich families rather than to smartest students from poorer families?

HE should be “free” at point of entry. Requires good loan system!

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# EIB and Financing of Student Loans

- ▶ Financing of student loans programmes
  - Hungary, Germany, Italy
- ▶ Organized an International Policy Conference (2009)
- ▶ Research with University of Verona (Italy) on Determinant of Demand for Student Loans in Italy
- ▶ Is discussing with the EC ways forward on student loans to promote mobility, namely the feasibility to establish a Pan European Student Loan Programme...

# EIB and Student Loans

- **Diákhitel Központ Rt. I & II & III, Hungary:**  
All accredited HE Institutions in Hungary
- **Banca Intesa – Politecnici Italiani:**  
Milano, Torino, Bari (22 Universities, incl. 2 post Grad. schools)  
Fondazione Cariplo
- **Meister Bafög, KfW, Germany:**  
Entrepreneurial qualifications
- **Student Loan, Landesbank, Germany:**  
Tuition fees for Universities and Fachhochschulen in NRW and Hessen

# Well-designed student loan schemes....Results from Conference

Should have the following core characteristics

- Full-income contingent repayments
- Amount of loan covers all direct costs of HE
- Price of loans related to the government cost of borrowing
- But also....
  - Links with student performance
  - Entitlement should be universal
  - Portability
  - “Minimum” Impact on Budget: capability to bring in private funds
  - Management Model

**Funding of HE: Universal Loans & Means-tested Grants**

# Pan European Student Loan Programme...

Is there a need for a European-level or Coordinated Solution? How can we structure such cross border-schemes?

## Current Situation

- ▶ Countries without student loans
- ▶ Countries with student loans: conditions vary significantly
  - Limited in scope, size, and number...
  - Portability of loans (and grants) / amount of loan
  - Limited in access

## Outlook

- Incentives/framework might be absent to change the situation at the national level
- Plus national schemes are not the right instrument to foster mobility

# Pan European Student Loan Programme...

- ▶ European Commission – Study to investigate feasibility of establishing a pan-European Scheme
  - Study is on-going
  - Desired output: assessment of feasibility and recommendations for architecture



# Pan European Student Loan Programme ...

- ▶ Management model? Intermediaries (loan awarding and collection procedures)
  - European Student Loan Company
  - Further support to national schemes – guarantees?
  - Window in a commercial/promotional bank
  - Consortium of Banks...
- ▶ Market failures – default guarantee fund? Who finances it? (EC, MS, Loan Takers, Banks?)
- ▶ Financing difference in cost of living -- Financial stability of the schemes
- ▶ Lack of access to credit default information

# The way forward...

- ▶ Support with TA and/or funds introduction of new loan schemes
- ▶ Support expansion of scope of existing schemes
- ▶ Support Pan European student loan programme?

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**The Feasibility Study –  
Some Comments**

# The Feasibility Study: Objectives

- ▶ Overview of Student Loans in EU & EFTA Countries
- ▶ Case Studies for 8 Countries (Austria, Finland, France, Hungary, the Netherlands, Poland, Sweden, and the UK)
- ▶ Comparative Assessment of Student Loans
- ▶ Policy Recommendations

# The Feasibility Study: Some Conclusions

- ▶ Not many loans available for initial VET (ISCED 2-4) and continuing VET
  - Most student loans are HE oriented
- ▶ Little attention paid to monitoring and evaluation – no information on efficiency, equity, effectiveness, sustainability, impact and overall significance
- ▶ Access and Equity: the most important aspect in a loan from stakeholder's perspectives

# Feasibility Study: General Comments

- ▶ Good choice of countries
- ▶ Good model of analysis
- ▶ Very comprehensive and detailed information
- ▶ Methodology for Data Collection/Definitions/Typology
  - Issues/Difficulties
  - Data Collection by surveys:
    - people give different names to the same things!!!!
    - E.g. Q1; Q6
  - Questionnaire of the Detailed survey on subjective judgments
- ▶ Methods for the analysis
  - Multi-criteria scoring
  - SWOT Analysis
  - Qualitative comparative analysis
- ▶ Conclusions & Policy Recommendations

# Methodology for Data Collection/Definitions/Typology

- ▶ Income Contingent – mortgage
- ▶ Public – Private
- ▶ Role of Government
- ▶ Missing data?

# Methodology for Data Collection/Definitions/Typology

## .. Question 1

Type of loan mechanism for VET	Short Description
Traditional/mortgage type	Loan mechanism which requires repayment of loans in fixed installments and repayment period starts irrespectively of the timing of graduation
Income-contingent	Loan mechanisms which does not require repayment until after graduation and where installments depend on the borrower's income



# Methodology for Data Collection/Definitions/Typology

**Repayment: Distinction between Mortgage versus Income-Contingent Repayment needs to be straightened up! Definition is ambiguous and includes grace period.**

- ▶ This is a second order issue: A mortgage repayment with good income safeguards will address debt aversion
  - The distinction seems to be driving the whole report! Table 6 (Mapping of the VET loan schemes..)
    - → do not break it by type of repayment rule!
- ▶ Need in the table to differentiate if it is pure mortgage or if has strong income safeguards built-in as it is the case of the Dutch system (as described in Box 7, p. 55); Luxembourg.

# Methodology for Data Collection/Definitions/Typology

## Table 7

- Public/Private distinction
- Government provides loan guarantee?

# Methodology for Data Collection/Definitions/Typology

- Role of Government (Table 19)
  - Providing loan guarantees (as a safeguard against student defaults?).
  - Financing subsidy? Which subsidy? Interest rate or what?
- Funding: e.g. Hungary – state guarantee
- Financing of default fund
- Other services provided by the State
- Type of subsidy (table 21) – consistency with table 19, line financing subsidy

# Methodology for Data Collection/Definitions/Typology

## Definition of default rate

- ▶ Needs to distinguish non-payment with written off because of death, retirement etc.
- ▶ Definition of default rate in Table 34 does not take into account the “depth” of default!

# Methodology for Data Collection/Definitions/Typology

## Missing?

- ▶ Comparison between the amount from all sources available and the direct cost of studying to assess whether education is free at point of entry!
- ▶ Interest rate (Table 16)
  - Table 16: How is it set? Hidden subsidies e.g. in the case of Netherlands is linked to the cost of government borrowing.
  - Table 17: Are interests compounded or not?

# Methodology for Data Collection/Definitions/Typology

## Missing?

- ▶ Who finances the defaults and written offs
  - Luxembourg: the Government
  - Hungary: self-insured cohort
  - Germany: the Government
  - Portugal: The Government and the banks depending on the level
- ▶ Very few loans for secondary oriented initial and Continuing VET? Why?

# Feasibility Study: Comments on the Organisation of the Report

- ▶ Chapter 2: Would limit it to the strictly necessary and include in appendix
- ▶ Chapter 3: 3.1 – Reorder of bullet points
  - Availability of loans: ISCED levels of loan mechanisms
  - Objectives
  - Duration of implementation
  - Level of operation
  - Public Private Classification
  - Access conditions
  - Repayment Conditions
  - .....
- ▶ Country-level description: include in appendix or in boxes

# Methodology of Analysis and Conclusions

- ▶ Drawbacks of the methodology – some results are “too strong”
- ▶ Some good policy recommendations but not necessarily backed up by the analysis



**Thanks!**

Questions?

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