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Lumni Inc.: improving society in a sustainable way

Professors Luis Felipe Martí Borbolla, José Alfredo Walls Gómez, and June Cotte wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In June 2017, a business journalist from a respected magazine in Mexico City, was preparing a major news story about Lumni Inc. (Lumni). The magazine wanted to profile companies that had adopted a hybrid business model and Lumni stood out as one of the most innovative in this area. The article would focus on the benefits and advantages of a hybrid business model, and whether it was a desirable formal to be promoted among business firms throughout the world.

According to the journalist’s research, Lumni’s mission was to improve access to higher education in Mexico and Latin America and enhance the quality of that education through a self-sustainable business model that did not sacrifice the students’ financial solvency. Lumni seemed to achieve this mission by being the link between private investors who wanted their money to have a beneficial impact in society without losing profit, and young students in need of financial aid.

Lumni offered students funds to support their studies in exchange for their promise to pay a percentage of their future earnings, never above 15 per cent, for a specific period of time.[[1]](#footnote-1) This arrangement meant that students who received this funding could end up paying a smaller, larger, or an approximately equal amount to what they had received in funding from Lumni, since the payment amount would depend on the amount of their first salary. The company had recently been bought by two Mexican investors who turned it into a Mexican business, although it had been originally founded by a Colombian, Felipe Vergara. Lumni operated in many Latin American countries, including Colombia, Chile, Peru, and Mexico, and also in the United States.

Lumni’s mission was essentially a social one: to improve the conditions, access, and quality of higher education for students, especially in Latin America. However, although its mission was originally non-profit, Lumni was not a non-governmental organization (NGO) since it worked with a financially sustainable model and did not depend on donations or government funding. Some experts referred to it as a hybrid business model, with some alternative names referring to it as a values-driven organization or a benefit corporation.

Finding the balance point could be a difficult task for a financially sustainable business that did not rely on profit making, especially when its main goal was to improve the social conditions of the environment. For some investors, it might appear more reasonable to advocate for a shift to a traditional business model, where the mission was essentially for profit.

In terms of Lumni: What legal tools should be used for students who were in default of their agreements? What return on investment should the shareholders reasonably expect? What elements differentiated this model from traditional businesses that had social responsibility departments?

The education problem in Latin America

With open access to higher education, a country was able to create value in every facet of its national life: a productive labour force, the development of a society of knowledge, the formation of leaders with a global perspective, and many other great benefits. Through education, countries achieved the minimum conditions required to set their societies on a path of economic growth; in this task, a higher-education system, which included universities, colleges, technical schools, and other institutions that issued professional degrees, played an essential role. Additionally, a 2012 study published by the Inter-American Development Bank revealed that, in Latin America, an adult college graduate earned 140 per cent more than an adult high school graduate.[[2]](#footnote-2) For a young citizen of any Latin American country, studying for a professional degree was a good investment, but in some situations, it could be a risky investment. This risk originated in the uncertainty of getting a job where the remuneration was proportionate to the years of preparation and, in the case of private universities, the fees paid.

UNESCO reported that, even when access to higher education in the Latin American region had witnessed accelerated growth, this growth was uneven and was highly concentrated in high-income areas and cities, leaving rural areas disadvantaged.[[3]](#footnote-3) Among the many challenges faced by countries in Latin America, perhaps the greatest challenge was reversing this expansion trend that benefited only the few. A traditional way to achieve this reversal was through the involvement of the state in funding public universities and providing state loans to people in financial difficulty. However, public financing had proved to be insufficient to solve the enormous challenge of open access to higher education. This insufficiency may have been due to the great number of young people among the population of the region and the inability of public universities to properly meet the demand. As a result, private universities were an alternative for those who wanted to acquire a quality education, although the tuition fees could pose a financial challenge not faced by students of public universities.

In the specific situation of Colombia, the Confederation of Parents reported that in 2012 only 17 per cent of Colombia’s 450,000 high-school students were able to access higher education, while the United Nations Development Programme indicated that only 12–13 per cent of Colombian adults between the ages of 30 and 35 had accessed post-secondary studies after high school. In broad terms, this situation was similar across the Latin American region. While some variations existed between countries, this issue was shared across Latin America and could be addressed with a common solution.[[4]](#footnote-4)

The Challenges of Education Financing

Federal loans could be very risky, both for the state and students, since they encouraged students to pursue any degree regardless of the cost and the students’ future income. In the United States, some federal loans were easy to acquire and required only a credit check, resulting in many families mortgaging their homes without ensuring any future financial ability to pay the debt.

Many kinds of loans were available in the United States for students and their parents, including Stafford Loans, Parent Loans for Undergraduate Students (PLUS), and consolidation loans, each with its particular features. These loans were part of the U.S. Federal Family Education Loan (FFEL) Program, which depended on federal funds provided by the taxes paid by U.S. citizens. However, taxpayers who contributed to federal funds could ultimately be the losers in this system, since at least 22 per cent of those who accessed these federal student loans were estimated to be in default or forbearance, and federal programs typically forgave loans after 20 years.[[5]](#footnote-5) In Latin America, where most countries were still in a developing phase, a federal system of subsidized loans such as FFEL was still very expensive.

In Colombia, the home country of Felipe Vergara, the founder of Lumni, students’ main reason for dropping out of post-secondary education in 2003 was their inability to pay the tuition fees. Vergara realized that a new alternative for financing students was necessary when one of his classmates, a top student, wasn’t able to attend university because of a financial inability to pay the tuition. This situation was common in Latin America: when interviewed, at least 73 per cent of young Colombians between 18 and 24 years of age who did not study reported their reasons to be a financial inability, the need to work, and family responsibilities. In Mexico, only 2 per cent of college students had access to student loans.[[6]](#footnote-6)

Nevertheless, with proper financing, young people could avoid having to sacrifice their studies to support their families and thus could work and study simultaneously. According to the Schwab Foundation for Social Entrepreneurship, approximately 88 per cent of the world’s youth did not attend a higher-education institution, and even among those who were able to enrol in such an institution, whether private or state-funded, the dropout rate was 60 per cent. The primary reason cited for the abandonment of their education was the inability to pay the tuition.[[7]](#footnote-7)

Nourishing an idea

Being aware of the existence of this education problem in Colombia and Latin America, Vergara nourished the idea of financing the education of people in vulnerable financial situations, with the goal of improving the living conditions and opportunities of those who might face bigger challenges in life. However, traditional financial instruments for education, along with state funding, had proven to be insufficient to solve the problem. Additionally, traditional loans and credit were often unattractive for potential students because of the high interest rates and the enormous debts they created, which in turn produced a negative effect on the national economy (the extent to which the student-loan debt had increased had spawned talk of a “student loan bubble”[[8]](#footnote-8)). Traditional loans from banks were not always the best alternative for many students in financial need, since they generally incurred a high cost for the students, even for those who had good prospects. For banks and private credit institutions, financing education could be a necessary task, since doing so improved their public image and could be perceived as an act of corporate social responsibility. However, since such institutions remained for-profit organizations, students could ultimately lose by compromising a good part of their future income to pay off the loans.

In a situation where students had to choose between a public educational system that might not satisfy their demands for quality and efficiency and being indebted to a bank or a private credit institution for a considerable loan, which the students might not be able to pay after graduation, the task of innovating financial instruments for funding higher education appeared to offer a promising solution. For this reason, Vergara created an organization that enabled young students with great potential to finance their studies without having to sacrifice their efforts or compromise their future in a disproportionate manner. Lumni appeared to address Vergara’s concerns by providing a solution to the education problem in Latin American countries.

Human Capital Contracts and Income Share Agreements

Before the creation of Lumni, Miguel Palacios, a close friend of Vergara, had been conducting research on human capital contracts (HCCs), financial instruments that were strongly advocated by Milton Friedman, who received the Nobel Prize in Economic Sciences in 1976. Human capital could be briefly described as the total sum of skills, abilities, and knowledge possessed by the members of a society. In human capital contracts, the investor bought a share of the future success of individuals who formed a society’s human capital, while investing in their formation to promote and ensure their professional success. Palacios was convinced that HCCs were the future of student financing since, compared with the traditional financing through bank loans, they were more attractive for both the investors who provided the private capital and the students in need of funding for their higher education. More importantly, in Palacios’s opinion, HCCs had great potential to improve the social environment and life quality of countries where access to education didn’t meet the basic requirements. Palacios cited at least four reasons why HCCs were a convenient instrument both for students and investors: (1) they relieved the student from any uncertainty about being able to make fixed loan payments, (2) they virtually eliminated default due to financial distress, (3) they were means- and needs-blind, and (4) they offered a subsidy to those who most needed it during the repayment period.[[9]](#footnote-9)

Income share agreements (ISAs) were one form of human capital contract and were seen as an ideal way to effectively help students to acquire and finish their post-secondary studies, while providing investors with an attractive model that was sustainable and improved the social environment. ISAs could be considered a specific type of HCC, applied to the particular situation of student financing. According to ISAs, the investor who provided the funds would receive a portion of the earnings of the benefited individual for a specified period of time. According to Miguel Palacios and colleagues, ISAs were “financial instruments for the private financing of higher education . . . [with which] an investor or other organization provides a student with financing for higher education in exchange for a percentage of the student’s future income for a defined period of time after the student finishes school.”[[10]](#footnote-10) The main difference between this type of financing and a traditional loan was that no principal balance needed to be paid. Thus, ISAs fell into a category called income contingent agreements, where the amount to be paid was not fixed but instead depended on the future income of the student who was being financed. As a result, HCCs and ISAs were described as “equity-like” financial instruments because the investor’s return depended on the earnings of the students and not on a predefined interest rate. In this scheme, the students could ultimately pay more or less than the original amounts financed by the ISAs, depending on their success in starting their professional careers.

Compared with traditional loans, ISAs held many advantages. In the United States alone, traditional student loans in 2013 reached a debt of $1 trillion,[[11]](#footnote-11) an amount that represented only federal student loans. If private student loans were added, the debt amount would be much larger. Student loans were therefore a risky investment, both for the lender and the borrower, since those who did not make it through their education would be unlikely to repay their debt, which in turn forced lenders to require high interest rates to ensure their investments would be profitable. For families living in poverty and for students living in precarious financial situations, these interest rates were unattractive and therefore discouraged them from borrowing funds. As a result, for those individuals, higher education represented a senseless economic risk. Ultimately, the greatest victim of this vicious circle was society as a whole since all of the human capital and potential wealth that could be developed and promoted through education was wasted.

A partnership for the common good

Felipe Vergara was born in the Colombian city of Barranquilla, a city located near the Caribbean coast. He grew up to become an entrepreneur, always with a keen interest in the education industry, where he believed many improvements could be made. He always manifested a passion for the power of education, which had allowed him to learn more than three languages, and he was convinced that expanding one’s mind and horizons was essential to accomplishing anything in life.

Vergara received a master’s degree in business administration from the Wharton School of the University of Pennsylvania and had worked as a consultant at McKinsey & Company. In the early 2000s, Vergara met Miguel Palacios, a fellow Colombian who shared his passion for the betterment of the educational system, and from him he learned about human capital contracts. Palacios was a Batten Fellow at the Darden School of Business at the University of Virginia and had been conducting research on HCCs, which he considered to be the future of educational financing. Both Palacios and Vergara believed that the traditional system for financing education was ineffective and unattractive for students, while HCCs held the promise of a financially sustainable system that would improve the social environment in Colombia and the Latin American region.

Before meeting Vergara, Palacios had worked at Sigma, a conglomerate of the Angelini Group in Chile, where he discussed with his co-workers an innovative financial device made famous by British rock star David Bowie: the “Bowie bonds.”[[12]](#footnote-12) These bonds were asset-backed securities that Bowie sold to investors, awarding them with a share in his future royalties for 10 years. By selling them, Bowie committed to repay his creditors with future income, giving a fixed annual return of 7.9 per cent. These 10-year bonds helped the rock star to collect $55 million much quicker than if he had earned the money. Other star musicians learned that the Bowie bonds were a successful and innovative way of collecting funds, and some—including the heavy metal band Iron Maiden and the funk and soul singer James Brown—adopted them as a financial strategy. The future of the Bowie bonds depended strongly on the success of the albums that the star produced after selling his bonds. For Palacios, the successful story of Bowie and his knowledge of HCCs and ISAs nourished his hope for one day using them to finance college tuitions in his own country while creating an attractive business model for investors and people in need.

After meeting each other thanks to a mutual friend, Vergara and Palacios realized they shared a common interest in improving and funding higher education, and thus they started a partnership in 2001. Palacios could provide the theoretical basis, while Vergara had a strong entrepreneurial acumen, which was needed to effectively implement their ideas. After months of discussions via telephone and face-to-face meetings, Vergara and Palacios finally were able to start the company that would embody their common interest in improving the social environment, empowering them to finally effectively address the particular problem of educational financing. They decided to name the company “Lumni,” a wordplay that combined the Latin words *lumen* (“light”) and *alumni* (“student”).

A steady growth

In 2009, eight years after Vergara and Palacios started their partnership, Vergara was named by *Bloomberg Businessweek* magazine as one of the 25 most promising social entrepreneurs. Three years later, in 2011, he was recognized by the Schwab Foundation for Social Entrepreneurship for his work improving his social environment in Colombia and Latin America. By that time, Lumni had financed the education of 1,000 students in Colombia, Mexico, Chile, and Peru. This recognition was a key impulse for the growth of Lumni, opening many opportunities. As a result, Vergara and Palacios were able to access a large network of social entrepreneurs, investors, and companies, which strongly enabled and boosted Lumni’s growth. By 2016, Lumni had supported 8,000 students, an 800 per cent growth in only five years.[[13]](#footnote-13)

Lumni forged relationships with private investors and the government to establish various funds, each one directed to students of different origins, profiles, or countries. For example, some funds in Colombia, established as a result of an agreement with the Colombian government, gave preference to students pursuing technical careers, which were in high demand in some rural areas in Colombia. The funds could be from any source, including private investors, international funds, government funds, or agreements with companies (e.g., the Colombian bank Bancolombia or the company Postobón).

A non-conventional business model

When interviewed at the World Economic Forum in Medellin, Colombia, Vergara stated that “Lumni seeks to be a business, but also seeks to have a positive impact on its context.”[[14]](#footnote-14) The entrepreneurial itch that boosted Vergara was profoundly embedded in a sense of social responsibility. The main drive for Vergara and Palacios was their deep concern for the social improvement of their home country, Colombia, and their region, Latin America.

Also at the World Economic Forum, Vergara stated that:

Education is changing all over the world; there is an urge to invest in education. Human Capital doesn’t grow spontaneously; we must invest in it. Universities must provide the education programs that the labour markets need, and the price for that education must be closely related with the future income of the students. . . . We believe that it is very important not only to provide the money, but also to ensure that the beneficiary is able to return the money. With this, a message is sent: that nothing is free and one must work to achieve things in life. Also, when you pay back to the fund, there is an additional benefit: someone else may be benefited and get education. This way, we are part of something that is larger than ourselves.[[15]](#footnote-15)

Vergara’s motivation to become an entrepreneur was evidently based not purely on the pursuit of an economical profit but also on a deeply rooted social motivation.

Some observers had branded this particular business model as a hybrid business model, and Lumni’s structure could well fit this type of business strategy. A hybrid business model merged financial sustainability with a social mission that was oriented to the common good and the improvement of the local society’s living conditions. In other words, Lumni did not depend solely on donations or external funding, as traditional NGOs would, but functioned similar to a typical business, following the laws of the financial market. Lumni worked as the link between investors, who wanted to benefit society while receiving a financial profit, and the higher education students who needed support to finish their education. Given that these students represented the most valuable human capital of a society, the benefits received by the investors comprised not only economic value but also social and moral value.

Having adopted this particular business model, Lumni faced many difficult challenges that would have been unusual for companies following a traditional business model. The legal aspect, for example, represented a challenge in every country where Lumni started operations. For example, in Chile, Vergara worked with a group of attorneys who waived their fees to establish the legal foundation of a hybrid business model that functioned through human capital contracts under the Chilean legal framework. To avoid any legal action against non-paying students, Lumni developed a contract that defined three forms of employees and their repayment arrangements: formal-economy employees, whose repayment was based on the income disclosed to federal authorities; family or small-business employees, whose repayment was based on a minimum acceptable salary corresponding to 90 per cent of the market average for their positions; and self-employed entrepreneurs, whose repayment took the form of granting Lumni an equity stake in their companies.[[16]](#footnote-16) Thus, Lumni, a company with a non-conventional business model, used the legal tools available to operate successfully under the legal framework of each country. Since HCCs were generally an uncommon legal entity, Lumni needed to apply strategic thinking to its legal matters.

The challenges—the Mexican example

With the growth and expansion of the company throughout the American continent, Lumni encountered many new and unforeseen challenges, especially regarding the adaptation of the model in each particular legal framework where the company operated. Countries such as Mexico, for example, constituted an illuminating case of the many challenges that could appear in certain cultural contexts but not in others. Analyzing some aspects of the Mexican cultural context could be extremely useful to indicate the way in which companies with a hybrid business model should consider the specific cultural traits and legal idiosyncrasies of each country where they plan to expand.

Bureaucracy and Corruption

The legal framework in Mexico was known to function in a highly bureaucratic manner. Many governmental institutions needed to approve various legal procedures and issue permits to enable a company to legally operate. This enormous bureaucratic system in turn produced, or at least promoted, corrupt behaviour among both public servants and the private sector. This widespread corruption had troubled Mexican society since almost the beginning of its democratic life, and it had been often indicated, exposed, and denounced by many sectors of society, from private Mexican NGOs, such as Mexicanos contra la Corrupción(Mexicans against Corruption), to international organizations, such as Transparency International*.* In Transparency International’s 2016 Corruption Perceptions Index, Mexico was ranked 123 out of 176 countries, with only 30 points out of a maximum of 100.[[17]](#footnote-17) This study reported the level of corruption in the public sector according to the perception of businesspeople and country analysts.

When starting a business in a society such as Mexico, it was important to take into account the phenomenon of corruption. The performance of businesses could be affected by the cultural implications of corruption, particularly the aspect of impunity. High levels of impunity in Mexico were revealed by many recent scandals involving political corruption and crime at high levels of politics, and the guilty parties never seemed to receive punishment. This led to a widespread social mistrust of justice-related institutions such as the police or the Federal Public Ministry, which investigated and prosecuted crimes. This aspect of Mexican society played a particularly important role for companies such as Lumni, which needed to take these issues into account when they planned to operate in countries with similar social conditions.

The presence of corruption and impunity in a society had the effect of lowering the culture of responsibility and liability, which was an essential social requirement for financial institutions. Lumni’s model was based on contracts between students in financial need and the investors, leading to a need for a strong culture of accountability. That is, when students signed the contract, they needed to be aware of and agree to the possible legal consequences of failing to pay the agreed-upon percentage of income. In a society such as Mexico, Lumni and similar companies needed to be conscious of the high risk of default, simply because Mexico lacked a strong culture of accountability, for the reasons mentioned previously.

Lumni’s funds were provided by private investors who, although driven by the desire to improve their social environment, also expected a certain return on the investment of their funds. As a company with a hybrid business model, Lumni could face an absence of explicit legal frameworks that were appropriate to its model. This situation constituted a particular challenge that other companies with more traditional business models might never encounter. Although Lumni was born from a desire to contribute to a common good, as a mainly non-profit organization, it could not endanger its own financial sustainability, which was critical for accomplishing its mission. For hybrid businesses, it could be tempting to take a paternalistic approach with society. With this possibility in mind, Lumni needed to develop a stronger legal instrument that would ensure the safety of the funds and thereby the sustainability and reputation of the company.

The legal tools that would meet this goal could be, for example, a contract including a clause of joint and several liability, in which a third liable party committed to answer for the student in the case of default. This tool would make signing the contract a much more compromising task than committing only the student to be responsible for the payment. Involving a third party as a co‑obligor, who must consider the student a reliable and trustworthy person, guaranteed a stronger commitment from the student to comply with the payment agreement and justified the use of legal proceedings if the agreed-upon conditions were not fulfilled by the parties who signed the contract.

Income variance among countries

Lumni’s model relied heavily on the professional potential of the students receiving financing. Profiles of the students, including their academic histories, abilities, competences, and other beneficial qualities, were necessary to predict their professional potential, especially for their first professional years. This process was carried out for all students to estimate their future ability to repay the loaned money.

An essential step for this process was a wage projection for the student’s first work years; this was based on the profile and potential determined by the analysis. When generating this projection, many factors needed to be considered, including the country’s income average for newly graduated students. As obvious as it may seem, if the process were not well adapted to the social conditions of each country, Lumni risked projecting incorrect wages for the students. For example, when the projected salaries were initially calculated in Colombia, where the company was launched, there was a risk that the same criteria would be applied to students in other countries where Lumni expanded, producing a discordance between the real wages that could reasonably be expected and the projected wages that had been generated based on data specific to Colombia, including its particular social, economic, and political conditions.

the final balance

The journalist had been gathering research for his report for some months; and he planned to use the example of a fictional customer to get the readers thinking (see Exhibits 1 and 2). He wanted to provide an integral perspective on hybrid business models—one that would stress not only the advantages but also the disadvantages, challenges, and obstacles that the model posed. In the end, the journalist needed to write an in-depth report addressing the advantages and disadvantages of these models. Did they represent a desirable formula to be promoted among business firms throughout the world?

Exhibit 1: A Customer’s Story

Julián Fuentes, a young Mexican student with great potential, wanted to pursue his undergraduate degree in law and political sciences at Instituto Tecnologico Autonomo de Mexico (Autonomous Technological Institute of Mexico, or ITAM), a prestigious private university in Mexico City. ITAM alumni included many public figures in the Mexican government and politics, such as former president Felipe Calderón and José Antonio Meade, the current secretary of finance and public credit. For Fuentes, studying at ITAM was his only option since he believed that ITAM would provide him with the best education and would best prepare him to work in the Mexican government and improve his country. However, ITAM charged an expensive tuition, and Fuentes’s financial situation made it impossible for him to fully cover it. Additionally, he needed to cover the expenses of rent, food, Internet access, and other necessities. Working while studying was not Fuentes’s preferred scenario because doing so would prevent him from dedicating all his attention and effort to his studies—and he wanted to take the greatest advantage of his time at university. Fuentes could consider the following options to finance his education:

1. Apply for a scholarship at ITAM. However, ITAM was well known for its strict scholarship policy, in which all students were always at risk of losing their scholarships. A minimum grade average was needed, and the difficulty of the courses made it risky for Fuentes to rely solely on a possible scholarship. Almost no students with scholarships made it to their graduation with their scholarships intact.
2. Apply for a traditional loan at a bank or credit institution. Almost everyone had recommended that he avoid a bank loan since interest rates were always high, which could make it difficult to repay a loan even when receiving a salary. Furthermore, if Fuentes did acquire such a loan, he would be compromising a big part of his future by paying a large amount of money toward the loan, which would likely take most of his initial salary for an extended time. Also, since Fuentes was a foreign student in Mexico City, he could not compromise his salary if he wanted to stay there. However, his plan was to get his first job in the Mexican senate, as a private assistant to one of the senators. Many high-profile politicians taught and gave lectures at ITAM, and Fuentes thought he could easily demonstrate that he had a great potential. If he managed to get this job, which was very well paid, he might be able to pay off the loan relatively quickly and live comfortably. For Fuentes, this was the best outcome.
3. Apply for a loan at Lumni. Through a friend, Fuentes learned about Lumni, a company that provided students with the necessary financing to finish their post-secondary studies. He was told that it would not be a conventional loan since there were no fixed interest rates and he would not necessarily be repaying the same amount of money he needed right now. For what he learned, there are two possibilities: he could ultimately pay more than the original amount financed, or, in the best outcome, less than the original tuition.

Fuentes went to the Mexico City offices of Lumni, where he met with a young man who told Fuentes that Lumni was neither a bank, nor a typical business, nor a non-governmental organization (NGO), although it most closely resembled an NGO. Lumni had the non-profit mission of helping students who had shown potential by financing their post-secondary education, with the goal of improving society and harnessing the talent of young people in Mexico and Latin America. Their talent, or human capital, was at risk of being wasted because of the few and poorly attractive opportunities to finance their education and the faults and deficiencies of public universities in the region. Lumni offered to finance the full cost of Fuentes’s studies at ITAM with private capital provided by investors interested in helping students.

Fuentes would need to sign a contract in which he would commit to pay a monthly percentage of his salary, starting when he got his first job—an amount that would never exceed 15 per cent of his income. However, if Fuentes got his dream job at the senate, he surely would end up paying more than the original amount financed, because his initial salary as a private assistant to a senator or politician would be high.

What should Fuentes do?

Source: Created by the case writers.

exhibit 2: Julián fuentes’s future

The tuition for law and political sciences at Instituto Tecnologico Autonomo de Mexico (Autonomous Technological Institute of Mexico, or ITAM) amounted to approximately MEX$650,000, (approximately US$32,000 in February 2017, when Fuentes made the calculation). After considering all his possible sources for financing, (e.g., his savings, his parents’ income, and the 30 per cent scholarship he was granted) Fuentes found that he still needed another source to finance the remaining MEX$300,000 (approximately US$15,000).

If Fuentes signed a contract with Lumni to finance this remaining amount, he would *sell* to Lumni and the investors who provided the fund for his tuition the right to 5 per cent of his earnings during the first 10 years after he got a job. If he managed to get a job in the Mexican senate during his last year in ITAM and pursued a career in the Mexican government, starting as a trainee in the senate, he might very well face the following scenario:

Figure 1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Hypothetical Scenario for Fuentes’s Future 10 Years After Graduation** | | | | |
| Years after graduation  Job income & 5% sold to Lumni | 0-2.5  years | 2.5-5  years | 5-7.5  years | 7.5-10  years |
| Monthly job and approximate monthly income (in Mexican pesos) | Trainee in the Senate  $7,500 | Private Assistant to Senator  $20,000 | President of the Youth Committee at the National Action Party (PAN)  $40,000 | Federal Deputy  $145,000 |
| Monthly sold percentage of income (5%) | $350 | $1,000 | $2,000 | $7,250 |
| Total amount per period  (30 months per period) | $10,500 | $30,000 | $60,000 | $217,500 |
| Accumulated amount paid to Lumni | $10,500 | $40,500 | $100,500 | **$318,000** |

In this fictional scenario, Fuentes would start as a trainee in the senate and, 10 years later, would win a seat in the federal congress as a deputy, a not uncommon scenario for young gifted politicians. According to this hypothetical future, Fuentes would pay only MEX$18,000 more than the original amount of his loan. That amount represented only 6 per cent more than the original amount after 10 years, a reasonable increase compared with the usual interest rates of bank and federal loans.

Was this scenario desirable for Fuentes?

Note: MEX$ = Mexican pesos; in February 2017, MEX$1 = US$0.049.

Source: Created by the case writers.

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