

Document of  
The World Bank

Report No: ICR0000436

IMPLEMENTATION COMPLETION AND RESULTS REPORT  
(IBRD-43320)

ON A  
LOAN  
IN THE AMOUNT OF US\$180.2 MILLION  
TO  
BANOBRAS, S.N.C  
WITH THE GUARANTEE OF  
THE UNITED MEXICAN STATES  
FOR A  
HIGHER EDUCATION FINANCING PROJECT

June 27, 2007

Human Development Sector Management Unit  
Mexico and Colombia Country Management Unit  
Latin America and the Caribbean Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2006)

Currency Unit = Mexican Peso

MX Peso 1 = US\$0.0919

US\$1 = MX Peso 10.88

## FISCAL YEAR

January 1 - December 31

## ABBREVIATIONS AND ACRONYMS

BANOBRAS	National Bank of Public Services and Works ( <i>Banco Nacional de Obras y Servicios Públicos, S.N.C.</i> )
CAS	Country Assistance Strategy
CONACYT	National Council of Science and Technology ( <i>Consejo Nacional de Ciencias y Tecnología</i> )
CPS	Country Partnership Strategy
ENIGH	Mexican Household Survey ( <i>Encuesta Nacional de Ingresos y Gastos de los Hogares</i> )
FIMPES	Mexican Federation of Private Universities ( <i>Federación de Instituciones Mexicanas Particulares de Educación Superior</i> )
FM	Financial Management
GDP	Gross Domestic Product
GPA	Grade Point Average
IBRD	International Bank for Reconstruction and Development
ICEES	Student Loan Institute of the State of Sonora ( <i>Instituto de Crédito Educativo del Estado de Sonora</i> )
ICR	Implementation Completion and Results Report
IFC	International Finance Corporation
ILO	International Labor Organization
LAC	Latin America and the Caribbean
M&E	Monitoring and Evaluation
NAFIN	Mexican Development Bank ( <i>Nacional Financiera</i> )
PAD	Project Appraisal Document
PDO	Project Development Objective
PRONABES	Nacional Scholarship Program for Higher Education ( <i>Programa Nacional de Becas para la Educación Superior</i> )
SHCP	Secretariat of Finance and Public Credit ( <i>Secretaría de Hacienda y Crédito Público</i> )
SEP	Secretariat of Education ( <i>Secretaría de Educación Pública</i> )
SES	Socio-Economic Status
SOFES	Society for the Promotion of Higher Education ( <i>Sociedad de Fomento a la</i>

	<i>Educación Superior)</i>
SEDESOL	Secretariat of Social Development ( <i>Secretaría de Desarrollo Social</i> )
TOR	Terms of Reference
UDI	A Mexican inflation adjusted monetary unit ( <i>Unidades de Inversión</i> )
UNITEC	Universidad Tecnológica de México
US\$	United States Dollar
WDI	World Development Indicators

Vice President: Pamela Cox

Country Director: Makhtar Diop

Sector Manager / Sector Leader: Eduardo Velez Bustillo / Mark Hagerstrom

Project Team Leader: Andreas Blom

ICR Team Leader: Andreas Blom

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## Mexico

### Higher Education Financing Project

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<b>A. Basic Information</b>			
Country:	Mexico	Project Name:	MX HIGHER ED. FINANCING
Project ID:	P049895	L/C/TF Number(s):	IBRD-43320
ICR Date:	06/28/2007	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	MINISTRY OF FINANCE
Original Total Commitment:	USD 180.2M	Disbursed Amount:	USD 180.2M
<b>Environmental Category: C</b>			
<b>Implementing Agencies:</b>			
SOFES- Sociedad de Fomento a la Educacion Superior			
ICEES - Instituto de Credito Educativo del Estado de Sonora			
<b>Cofinanciers and Other External Partners:</b>			

<b>B. Key Dates</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	03/15/1997	Effectiveness:	10/13/1999	10/13/1999
Appraisal:	11/17/1997	Restructuring(s):		
Approval:	06/04/1998	Mid-term Review:		03/12/2002
		Closing:	02/29/2004	12/31/2006

<b>C. Ratings Summary</b>	
<b>C.1 Performance Rating by ICR</b>	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

<b>C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)</b>			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
<b>Overall Bank Performance:</b>	Satisfactory	<b>Overall Borrower Performance:</b>	Satisfactory

<b>C.3 Quality at Entry and Implementation Performance Indicators</b>			
<b>Implementation Performance</b>	<b>Indicators</b>	<b>QAG Assessments (if any)</b>	<b>Rating</b>
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

<b>D. Sector and Theme Codes</b>		
	<b>Original</b>	<b>Actual</b>
<b>Sector Code (as % of total Bank financing)</b>		
Sub-national government administration	2	2
Tertiary education	98	98
<b>Theme Code (Primary/Secondary)</b>		
Education for all	Primary	Primary
Education for the knowledge economy	Primary	Primary

<b>E. Bank Staff</b>		
<b>Positions</b>	<b>At ICR</b>	<b>At Approval</b>
Vice President:	Pamela Cox	Shahid Javed Burki
Country Director:	Mark V. Hagerstrom	Olivier Lafourcade
Sector Manager:	Eduardo Velez Bustillo	Nair Carmen Hamann
Project Team Leader:	Andreas Blom	Jamil Salmi
ICR Team Leader:	Andreas Blom	
ICR Primary Author:	Andreas Blom	
	Domenec Ruiz Devesa	
	Anna Maria Sant'Anna	

## **F. Results Framework Analysis**

### **Project Development Objectives** (from Project Appraisal Document)

To assist the Government in promoting greater equity and quality in the preparation of university graduates.

Specific goals are to:

- improve access to higher education, particularly for academically qualified but financially needy students.

- develop more effective and financially sustainable student loan institutions.

To achieve these objectives, the project will support (1) the development of a private student loan agency (SOFES) and (2) the strengthening of the Sonora Student Loan Institute.

**Revised Project Development Objectives (as approved by original approving authority)**

**(a) PDO Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Increased Mexican higher education enrollment rate			
Value quantitative or Qualitative)	14.0%	17.9%		23.4%
Date achieved	12/31/1997	06/05/1998		12/31/2005
Comments (incl. % achievement)	Achieved (130%) Project impacted only partially to this achievement			
<b>Indicator 2 :</b>	Increased Higher education enrollment in the State of Sonora			
Value quantitative or Qualitative)	26%	33%		35.4%
Date achieved	12/31/1997	06/05/1998		12/31/2005
Comments (incl. % achievement)	Achieved 107% Project impacted only partially to this achievement			

**(b) Intermediate Outcome Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Improve access to higher education: N# of students financed			
Value (quantitative or Qualitative)	SOFES 0 ICEES 8,000	SOFES 25,600 ICEES 22,784	ICEES 14,000	SOFES 27,030 ICEES 14,714 (2003)
Date achieved	12/31/1998	06/05/1998	10/13/1999	12/31/2006
Comments (incl. % achievement)	SOFES Achieved 105% ICEES Achieved 105%			

<b>Indicator 2 :</b>	Develop more effective student loan institution: Administration cost as a share of portfolio (SOFES and ICEES)			
Value (quantitative or Qualitative)	SOFES not applicable ICEES 4.37	SOFES 2% ICEES 1.3%		SOFES 1% ICEES 4.4% (2005)
Date achieved	12/31/1998	06/05/1998		12/31/2006
Comments (incl. % achievement)	SOFES Achieved (200%) ICEES Not Achieved (0%)			
<b>Indicator 3 :</b>	Develop more financial sustainable student loan institution: ICEES Default rate (% of loans with payments 3 years overdue) SOFES Default rate			
Value (quantitative or Qualitative)	SOFES not applicable ICEES 18 %	SOFES 3% ICEES 12%		SOFES 0% ICEES 17% (2005)
Date achieved	01/01/1998	06/30/1998		12/31/2006
Comments (incl. % achievement)	SOFES Achieved ICEES Not Achieved			
<b>Indicator 4 :</b>	Finance needy students: Socio-economic class of beneficiaries: (% of students receiving loans)			
Value (quantitative or Qualitative)	SOFES Low-Income not available SOFES Middle-Income not available ICEES Low-Income 75.3% ICEES Middle-Income 24%	SOFES Low-Income 39.6% SOFES Middle-Income 57.7% ICEES Low-Income 75.3% ICEES Middle-Income 24%	SOFES updated income measurement methodology	SOFES Low-Income 28% SOFES Middle-Income 70% ICEES Low-Income 75% ICEES (2005) Middle-Income 22.9%
Date achieved	12/31/1998	06/05/1998	06/30/2003	12/31/2006
Comments (incl. % achievement)	SOFES Achieved until methodology was changed, thereafter not Achieved ICEES Achieved			

### G. Ratings of Project Performance in ISRs

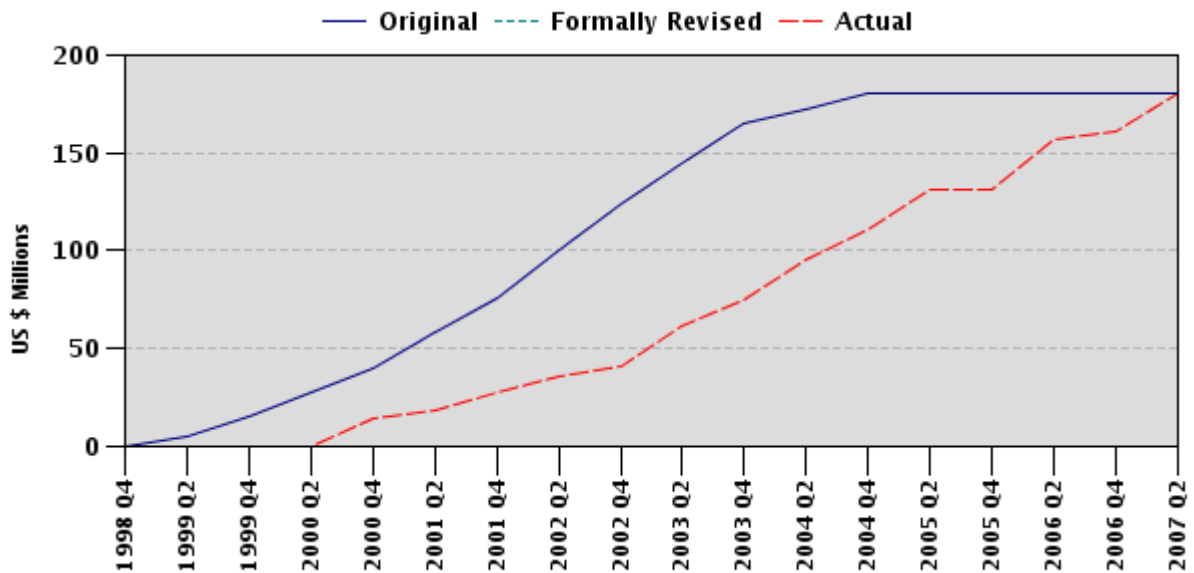
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/29/1998	Satisfactory	Satisfactory	0.00
2	12/30/1998	Satisfactory	Satisfactory	0.00

3	06/24/1999	Satisfactory	Satisfactory	0.00
4	12/20/1999	Satisfactory	Satisfactory	0.00
5	06/28/2000	Satisfactory	Satisfactory	14.26
6	11/30/2000	Satisfactory	Satisfactory	16.55
7	06/04/2001	Satisfactory	Satisfactory	27.29
8	12/20/2001	Satisfactory	Satisfactory	35.72
9	06/12/2002	Satisfactory	Satisfactory	41.28
10	12/11/2002	Satisfactory	Satisfactory	57.96
11	06/03/2003	Satisfactory	Satisfactory	69.86
12	12/12/2003	Satisfactory	Satisfactory	94.88
13	06/03/2004	Satisfactory	Satisfactory	108.83
14	12/23/2004	Satisfactory	Satisfactory	131.08
15	04/29/2005	Satisfactory	Satisfactory	131.31
16	09/16/2005	Satisfactory	Satisfactory	150.17
17	07/20/2006	Satisfactory	Satisfactory	161.40
18	01/17/2007	Satisfactory	Highly Satisfactory	180.20

## H. Restructuring (if any)

Not Applicable

## I. Disbursement Profile



# **1. Project Context, Development Objectives and Design**

## **1.1 Context at Appraisal**

*While Mexico's education system began to receive special attention from its Government during the 1990s (including higher spending, decentralization and targeted programs for the poor, most of the concerns were focused on primary and secondary education, and higher education continued to lag. Access to primary education was closing in on universality, secondary enrollment was on the rise, and per capita educational expenditure has been expanded. However, enrollment in higher education in Mexico continued to be low relative to its income level. In 1998, the gross enrollment rate in higher education in Mexico was 21 percent as compared to an average enrollment rate of 31 percent for a country with an income level similar to that of Mexico. Without a highly skilled labor force, Mexico was finding it difficult to shift its development path into a more knowledge-based, high productivity economy.*

The Mexican higher education system faced four main issues: (i) low participation rates that were insufficient to meet the country's growing needs for qualified manpower. The higher education gap was costing the country roughly MX\$6.5 billion or more per year in foregone income, equivalent to 1 percent of GDP; (ii) a scarcity of economic resources, particularly after the financial crisis of 1994. Public institutions of higher education were highly dependent on public funds and vulnerable to fiscal restrictions following the 1994 crisis; (iii) deficiencies in the quality and relevance of higher education, with only a small few offering high quality programs. For the period 1990 to 1994, only 49 percent of students graduated; and (iv) equity problems, particularly in light of the growing role of private universities (from 21 percent to 26 percent of enrollment in the years 1993 to 1996, alone) in meeting the demand for higher education, and the limited number of grants, scholarships and student loans. In 1998, private universities reported that 25 percent of the dropouts (of a 45 percent total dropout rate) were attributable to economic factors.

## **1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)**

The broad development objective is to assist the Government in promoting greater equity and quality in higher education.

The specific objectives are to:

- a) Improve access to higher education, particularly for academically qualified but financially needy students; and
- b) Develop more effective and financially sustainable student loan institutions.

To achieve these objectives, the project supported: (1) the development of a private student loan agency (Society for the Promotion of Higher Education—SOFES); and (2) strengthening of the public-sector Sonora Student Loan Institute (ICEES).

## **1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification**

Neither the Project Development Objectives nor Key Indicators were revised, with the exception of the coverage target for component B (ICEES) that was reduced from the initial 21,000 students to 14,000 students in 1999.

#### **1.4 Main Beneficiaries**

*The main beneficiaries were academically qualified but financially needy students enrolled in higher education institutions. The project benefited 38,695 students (99 percent of target at start of implementation) of whom 45 percent came from low-income families as measured by the project's targeting mechanism (93 percent of target at start of implementation). Further, the project benefited two student loan organizations, SOFES and ICEES, and indirectly benefited higher education institutions, whose students' education was financed by the project.*

#### **1.5 Original Components (as approved)**

The project consisted of two project components divided into several sub-components:

Project Component A – Development of the private sector student loan system (US\$237.1 million):

*Student loans* (US\$218.6 million). This sub-component supported: (a) sub-loans to students; and (b) the creation of a reserve fund.

*Institutional development* (US\$18.4 million). This sub-component supported the: (a) training of staff members, particularly to develop financial, accounting and collection skills; (b) carrying out of studies to improve management capacity; and (c) acquisition of equipment, including office furniture and technology.

Project Component B – Strengthening of the Sonora student loan system (US\$50.8 million):

*Student loans* (US\$ 48.3 million). This sub-component supported the (a) sub-loans to students; and (b) the creation of a reserve fund.

*Institutional development* (US\$2.5 million). This sub-component supported the: (a) training of staff members, particularly to develop financial, accounting and collection skills; (b) carrying out studies to improve management capacity; and (c) acquisition of equipment, including office furniture and technology.

#### **1.6 Revised Components**

None of the components were revised.

#### **1.7 Other significant changes**

*Prior to implementation of the project, the targeted number of beneficiaries of component B (ICEES) was adjusted from 21,000 students estimated at appraisal to 14,000 students. At the onset of the project, but after board approval, ICEES considered that -- despite being capable of servicing 21,000 students -- it judged as more important concentrating its resources on improving technical and financial aspects. Performance in this ICR is measured against the original target of 21,000 students.*

*The loan was extended twice to allow for Component B to be finalized by December 31, 2005 and Component A to be completed by December 31, 2006 (an extension of 34 months from the original closing date). The extensions were justified by: (i) a one year delay in effectiveness; (ii) overestimation in the Project Appraisal Document (PAD) of the desirable rate of student loan expansion, and (iii) need of time for SOFES to create a financial track record and thereby increase financial sustainability. Later sections further discuss these issues.*

2. Key Factors Affecting Implementation and Outcomes

## **2.1 Project Preparation, Design and Quality at Entry**

*The overall quality at entry was **satisfactory**.* The project preparation and design took into account all relevant experiences in the region, the lessons from past and on-going Bank-funded student loan programs, and international best practices. In particular, preparations and design focused on the key weaknesses of student loans in developing countries: low financial sustainability due to high default rates and inefficient administration (Ziderman and Albrecht, 1991). The PAD correctly identified these as the key challenges, and the design incorporated several effective mitigating actions. The Project Development Objective (PDO) was clear and concise (greater equity and quality in the preparation of university graduates). The specific goals in the PDO (improve access to higher education, particularly for academically qualified and needy students, and develop more effective and financially sustainable student loan institutions) were clear, concise and attainable within the implementation period of the project. Further, the key indicators reflected well the specific goals of the PDO.

*All overall project ratings in this report are based on a weighted average of the rating of the two components with the weight of each component equal to its share of loan proceeds.* That is 83 percent (US\$150.2 million out of US\$180.2 million) for Component A (SOFES) and 17 percent (US\$30 million out of US\$180.2 million) for Component B (ICEES).

Component A. *The quality at entry of Component A (SOFES) was **satisfactory**.* The design of the new student loan organization, SOFES, incorporated several important innovations in student loan systems in the developing world. Notably, the universities were asked to jointly administer the loan program through a shareholder company, similar to the best practice in the US. Further, the institutions were financially fully responsible for default of students from their institution, and shouldered an important part of operational costs. This design gave the university a strong financial incentive to prudently lend and constantly monitor performance of SOFES. Further, SOFES was established as a financial intermediary and was subject to regular financial supervision from the national financial supervisory entity (*Comisión Nacional Bancaria y de Valores*). These two design aspects were crucial and innovative features, which to a large extent led to the good performance of SOFES and mitigated the risk of low financial sustainability. An important but perhaps necessary challenge of this design was that universities acted as mini-commercial banks, an unusual step that is not normally within the core competences of an education institution. Hence, some universities performed this role better than others. This reduced the economies of scale in loan collections and the professionalization of the collection process, as discussed in Section 6 (lessons learned).

Component B. *The quality at entry was **moderately satisfactory**.* This component supported an existing public sector student loan system. Relying on an existing institution to deliver the loans to students allowed for a timely implementation of the component. As it was known at the time of preparation, such systems tend to suffer from administrative inefficiencies and lack of emphasis on the financial aspects of the student loan, including student loan collections. These weaknesses often lead to high implicit subsidies preventing the system from gaining support to scale-up its operation. To counter this risk, the component included institutional strengthening focused on revised financial loan conditions ensuring non-zero real interest rates, new loan collection strategies, better targeting of low- and middle-income students, technological upgrading, and technical assistance to improve financial and accounting practices. Further, the component requested a commitment from the government of the State of Sonora to maintain funding in real terms to ICEES throughout project implementation at the level of 1997. Compared to Component A, this continued public investment contributed to the institution's financial sustainability.

*The overall project design – Components A and B – had an experimental aspect in the sense that it supported two different kinds of loan systems within a single national setting. This allowed the Bank and the government to draw lessons that could be transferred to other projects nationally and internationally. In particular, the project design and subsequent lessons were highly instrumental in positioning the Bank as a knowledge institution in the area of student loans.*

## **2.2 Implementation**

*There was a one year delay in effectiveness. This delay was due to a change in financial arrangements between the Borrower (BANOBRA), the Guarantor (Secretariat of Finance and Public Credit—SHCP), and implementing agencies (SOFES and ICEES).*

*Disbursement to SOFES was practically stalled in the first six months of 2005. The Guarantor requested the shareholder universities of SOFES to strengthen their financial commitment to SOFES, which they were reluctant to do. Disbursements resumed in August 2005 following an agreement where the universities increased their own capital in SOFES by US\$4.3 million (72 percent), strengthened the enforceability of the guarantee of the universities to buy back non-performing loans from SOFES, and the government requested to the Bank an extension of the loan closing date to December 31, 2006. The stall in disbursements did not affect students.*

## **2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization**

The monitoring and evaluation framework was well designed, implemented and actively utilized in supervision.

*The M&E framework was carefully and appropriately designed. All indicators were relevant. There were 36 key performance indicators that accurately measured inputs, outputs and impacts. Further, two-thirds of the indicators had baseline values and targets.*

*During the implementation, there was a strong focus on using the key indicator framework to measure progress and outcomes. The implementing agencies reported quarterly on the 10 primary key performance indicators reflecting key project outcomes. All supervision reports by the implementing agencies and all supervision Aide Memoirs included monitoring of these indicators. As a consequence of the project, ICEES was the first state agency to use performance indicators in the State of Sonora.*

*A rigorous impact evaluation, several tracer studies, and user surveys were undertaken to measure the impact of the project on project objectives. In particular, the evaluation study examined the impact of student loans on learning outcomes, time needed to awarding of degrees, drop out, and equity in higher education. This was the first rigorous study on the impact of student loans for Latin America and the Caribbean (LAC) region (results are reported in Section 3.2). Further, both ICEES and SOFES carried out user surveys among beneficiaries (results are reported in Section 5).*

## **2.4 Safeguard and Fiduciary Compliance**

*On financial management (FM), SOFES and ICEES maintained FM arrangements satisfactory to the Bank. Annual financial audits were carried out in line with Bank's policy (under Terms of Reference (TOR) and by auditors acceptable to the Bank). During the review of audits and during supervision missions neither the auditors nor the Bank identified any major issues that affected*

FM performance. Moreover, all audit findings were properly addressed, and all Bank recommendations were implemented by SOFES and ICEES. Also, BANOBRAS as the financial agent and lender carried out all its FM-related responsibilities ensuring, for example, the proper management of the Special Account. An in-depth review of SOFES' financial management system was carried out in 2004 following doubts of the reliability of the agency's financial data. The Bank led this review with SOFES' auditors. The review concluded that the system was acceptable, but it suffered from shortcomings. A new IT-platform was purchased and implemented in 2006 and 2007.

*On procurement, SOFES and ICEES complied with the Bank's procurement guidelines.* The Bank authorized retroactive financing on an exceptional basis for a single source contract with a consulting firm after verifying that the contract followed procedures that were acceptable to the Bank.

*No Safeguard issues were triggered for the project during preparation* and no safeguard issues emerged during implementation.

## **2.5 Post-completion Operation/Next Phase**

*The main challenge facing both institutions is to maintain -- or scale-up -- support to financially needy students.* To continue operations, several transition arrangements were undertaken.

*The continuation of SOFES is promising -- but difficult.* As explained further in Section 4 on risk to development outcomes, SOFES requires access to new resources in order to continue lending to students. Substantial efforts have been made by all project partners (SOFES, member universities, federal government, BANOBRAS and the Bank) since 2002, for finding additional funding to continue lending. In summary, the following avenues of new funding are being explored: investment from private national and international investors; credit lines from commercial banks and national development banks; funding from universities; and federal government support, among others. The Federal Government's strategy in order to attend SOFES financial sustainability for the medium and long term is being discussed while the International Finance Corporation (IFC) and SOFES are exploring investment options<sup>1</sup>. However, it is unclear whether current lending terms can be maintained.

*ICEES' transition to other sources of funding was facilitated by the support it received from the government of the State of Sonora.* In particular, the state government doubled its yearly investment in ICEES. This allowed ICEES to continue lending and service the loan repayments to BANOBRAS and the Bank. Nevertheless, the number of students financed was reduced from 12,889 in 2004 to 11,665 in 2005. This was a result of focusing more on improving repayment rates and insufficient funds.

*The project was instrumental in positioning the World Bank as the key knowledge and financial institution for higher education student assistance in Mexico.* The Mexican government and the

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<sup>1</sup> As an alternative to continuation of SOFES loans, SOFES has negotiated an agreement with a private bank. The private bank will, through its normal banking system, offer loans to students currently financed by SOFES. However, the interest rate would increase and the private bank will screen students. Therefore, a share of the financed students from lower- and middle-income backgrounds is expected not to be eligible or not to be able to afford the commercial bank loan due to its excessive cost.

Bank agreed on a follow-up project approved in December 2005 (World Bank, 2005a). The design of the new project built extensively on the experience accrued in the ongoing project and other projects in the LAC region. Lastly, the project design of the Colombia Higher Education – Improving Access project approved in December 2002 (World Bank, 2002c) benefited from the early lessons learned in this project.

### **3. Assessment of Outcomes**

#### **3.1 Relevance of Objectives, Design and Implementation**

The development objectives and design of the project were highly relevant at the country and global levels, and they were fully consistent with the Country Assistance Strategy (CAS) and Bank's sector strategy.

*At the country level, the objectives were highly relevant because of their focus on increasing the pool of higher education graduates, and improving equity in higher education.* Enrollment in higher education in Mexico was 10 percentage points below the expected for a country of Mexico's income. Several Bank reports have shown that expansion of higher education in Mexico was -- and still is -- a critical factor to spur economic growth and competitiveness. Further, the project aimed to improve equity in access to higher education to promote a more equal Mexican society. Given the high inequality prevailing in Mexico and the role that access of higher education plays in fostering upward social mobility, the objective was highly relevant. The design of the project accurately emphasized the need to provide alternative instruments to finance higher education in Mexico that would enable financing of more education for talented students from low- and middle-income families. Sufficient public investment to meet rising demand for higher education was -- and is -- untenable due to insufficient available funds, and the regressive nature of un-targeting institutional support to higher education (as opposed to targeted funding to students from poor families).

The objectives were consistent with the 1995 and 1999 Bank's CASs of supporting macroeconomic stabilization and social development that prevailed at the beginning of the project. The relevance of the objectives increased even more when the Bank's country priorities changed to reducing poverty and inequality and increasing competitiveness by focusing on human capital development as stated in the World Bank's 2002 CAS and the Country Partnership Strategy (CPS) of March 2004.

*The project's choice of instrument, student loans, followed the Bank's strategic documents for higher education (World Bank 1994, and 2002d, and Salmi, 2000).* These strategy documents focused on increasing access for low-and middle-income students and preferably through financially sustainable investments, such as student loans.

*Project timing was opportune.* The project was carried out at the same time that the country increasingly integrated into the global economy, thereby raising the demand for highly skilled workers on the labor market. The private rates of return to higher education increased from an already high of 15.7 percent in 1998 to 18 percent in 2000 and 16 percent in 2002 (see Annex 3). Consequently, it continued to pay off to invest in higher education in terms of the individual (private) rates of return to education. These high returns increased demand for higher education, which the project was partly able to accommodate without significant recourse to public funds (estimation of fiscal impact in the following section and in Annex 3). Equally importantly, the project supported institutional capacity for further expansion of student loans.

*Project objectives were consistent with the federal government's strategy for higher education. Through the SHCP, the federal government provided indirect support for student loans as a policy instrument to increase access to higher education for low- and middle-income families, and to raise investment into higher education. SHCP also indirectly subsidized the interest rate on students by bearing the exchange rate risk and the financial fees attached to the loan. However, SEP did not directly support student loans at the time of appraisal.*

### **3.2 Achievement of Project Development Objectives**

*Overall the project performed **satisfactorily** in achieving its development objectives considering that all its major objectives and development results were substantially achieved.*

SOFES reached its goals in a highly satisfactory manner, while ICEES only moderately satisfactorily reached its targets. Further, the project has substantially strengthened institutional capacity in Mexico for the expansion of student loans.

*Chain of results from output to impact at the national level.* This section investigates in part A if the targets for each of the project's two components' outputs were reached. The project's output were loans to financially needy students and student loan systems that were more effective and financially more sustainable. Second, this section reviews in part B the causal link between outputs and outcome. The project's outcome was a contribution to expansion of higher education with improved equity. This would lead to a greater pool of graduates of quality higher education. Third, the report presents in part C how the project affected the objectives, equity and enrollment into higher education at the national level.

#### **A. Output by component**

*The overall performance of component A, SOFES, (83 percent of project expenditures) is considered **Satisfactory**, because of the increased access to higher education for 27,000 students (105 percent of goal) and a strong institutional development of SOFES.*

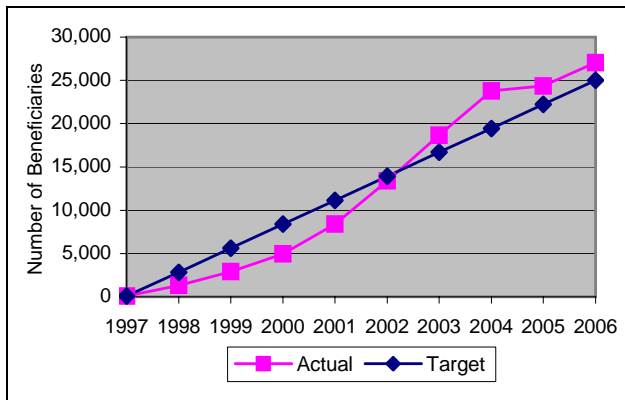
*Goal (a) Improve access to higher education, particularly for academically qualified but financially needy students (Achieved):* SOFES provided access to higher education to 27,000 students above the targeted 25,000 students (105 percent). Of the students financed, 98 percent were from low- and middle-income families (see Figures 1 and 2).

*Goal (b) Develop more effective and financially sustainable student loan institutions (Achieved):* During the project, SOFES improved substantially its performance. SOFES is yet to experience its first unfunded default. This is by design, since the institution sells non-performing loans back to its member universities. Hence, SOFES met its default target of 3 percent. The temporary default rate, a share of the portfolio being more than 180 days in arrear, improved from a baseline of 40 percent in 1998 to 7 percent in 2006, although still falling short of meeting the target of 3 percent (Figure 3). SOFES has lower default rates than other Mexican and Latin American student loan systems. Regarding the efficiency of administration costs, SOFES exceeded the ambitious target: Administrative costs amounted in 2006 to 1 percent of the value of the portfolio, and target was 2 percent (Figure 4). On an international scale, SOFES performance is noteworthy.<sup>2</sup>

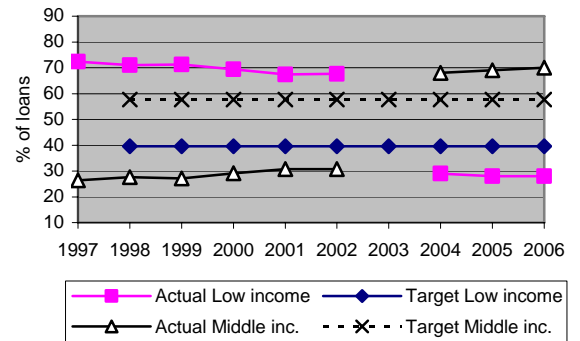
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<sup>2</sup> SOFES is the most effective large scale student loan system in Mexico and Latin America in terms of both default and efficiency for which data is available, (Ruiz Devesa and Blom, 2007). It outperforms loan systems in the States of Sonora (4.4 percent) and ICEET in Tamaulipas (7.9 percent), in Mexico, as well as

**Figure 1 SOFES Number of Beneficiaries**

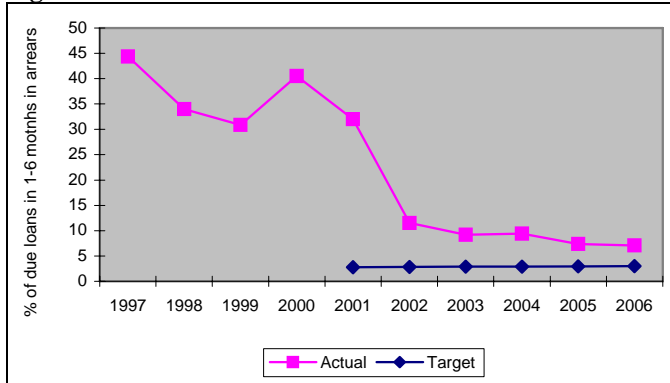


**Figure 2 Socio-economic Status of SOFES Beneficiaries**



Note: In 2003 a new evaluation of Socio-economic Status was implemented.

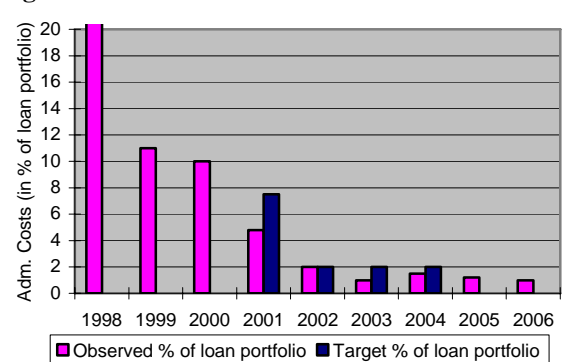
**Figure 3 SOFES Loans in 1-6 months arrear**



Note: All loans with payments overdue by six months are sold back to the member universities.

Source: SOFES (2006)

**Figure 4 SOFES Administrative Costs**



By reaching the component's quantitative goals, the project created in SOFES a platform for future expansion of student loans in Mexico, and one of the best student loan agencies in the developing world. SOFES has:

- developed good record keeping, collection instruments, and reliable systems, that function relatively well. This is a significant asset, since it is the only large delivery system of student loans in Mexico that has proven to be able to handle all stages of a student loan;
- achieved a good track record, which will enable SOFES to further improve its financial sustainability in the future;
- gained political support among participating universities to work together, and this was the path followed by a major US student loan provider to achieve economies of scale;
- been flexible to absorb more universities; and
- achieved product identification — people know what it is.

ICETEX in Colombia (2.1 per cent) and the Peruvian student loan institution, INABEC (12 percent). In a national and international perspective, the targets for SOFES were highly ambitious.

*The overall performance of component B (17 percent of project expenditures) is considered **Moderately Satisfactory** because it met expectations in terms of improving access, but fell short on institutional targets.*

*Goal a) Improve access to higher education, particularly for academically qualified but financially needy students (Partially Achieved):* Component B (ICEES) financed 12,889 students, vis-à-vis the 21,000 established in the PAD<sup>3</sup>. However, 75 percent of beneficiaries from ICEES student loans were students from low-income families. This represents a 99.6 percent achievement of the target of 75.3 percent (Figures 5 and 6).

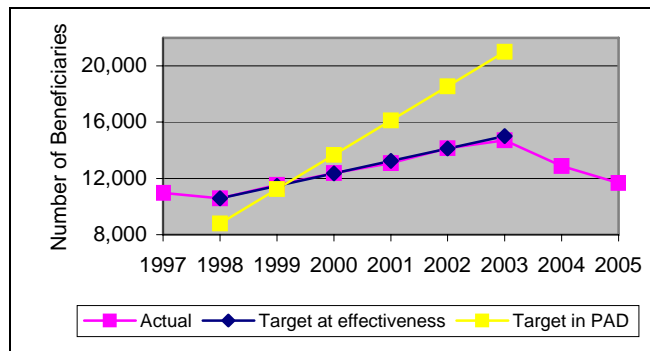
*Goal b) Develop more effective and financially sustainable student loan institutions (Not Achieved):* The financial sustainability of ICEES improved slightly overall. The implicit subsidy of the agency's loan system decreased marginally from 28.9 percent in 1997 to 25 percent in 2005. The target was 20 percent. The improving factor was ICEES' willingness to establish and maintain a positive real interest (average of 2.9 percent from 1998 to 2005).

*Despite investments in technology and other initiatives, ICEES was not able to reduce operational costs, nor was it able to lower the default rate to the targets.* For administrative efficiency, the PAD established that administrative costs should be 1.3 percent of the value of the loan portfolio or lower. At the end of the execution of the component in 2005, administration costs amounted to 4.4 percent of the portfolio (4.37 percent in 1998). The default rate -- defined as the share of the portfolio in more than three years of arrear -- was 17 percent, while the target was 12 percent (Figure 7 and 8). Despite having identified the believed cause of default -- impunity of non-payment -- ICEES and its board did not favor taking stronger actions to address the impunity (See Section 6 on lessons learned), also because the institute's juridical form did not allow the use of such instruments as the credit bureau.

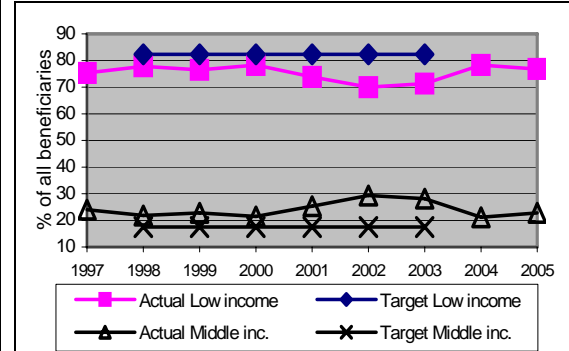
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<sup>3</sup> However, it is important to bear in mind that the goal was changed to 14,000 at effectiveness, and that was the benchmark used by the implementing agency during the life of the project.

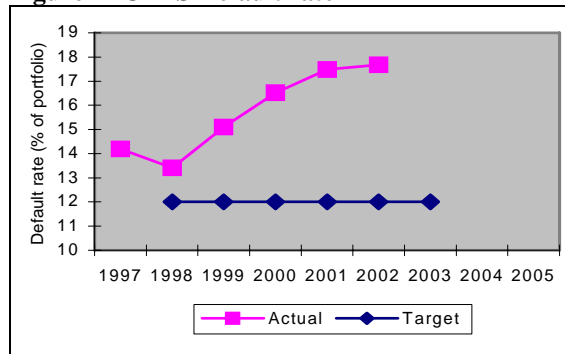
**Figure 5 ICEES Number of Beneficiaries**



**Figure 6 ICEES Socio-economic Status of Beneficiaries**



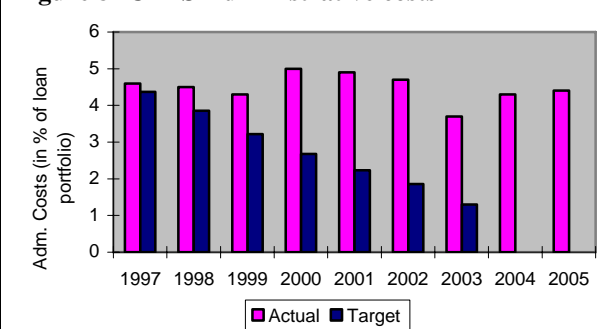
**Figure 7 ICEES Default rate**



Note: Default rate (3 years in arrears) only observable with a three year lag

Source: ICEES (2006)

**Figure 8 ICEES Administrative costs**



## B. From output to outcomes

The project reached a high number of its output targets. These outputs impacted project outcomes — availability of student loans, increased enrollment, equity and quality of higher education — in the following ways:

*The project succeeded in raising the availability of student loans in Mexico.* The project financed a substantial expansion of student loans in Mexico. In 1998, there were 8,000 students who received student loans. At the close of the project in 2006, an estimated 47,600 students benefited from student loans, of which 38,600 (83 percent) were financed by the institutions supported by the project. Hence, the project directly increased availability of publicly supported student loans fourfold.<sup>4</sup>

*Impact of loans on enrolment.* A rigorous evaluation study undertaken to assess the impact of SOFES found that students who received some kind of financial support (loan or grants) have a 24 percent higher probability of enrollment in a university program.<sup>5</sup> This finding is corroborated

<sup>4</sup> This estimation excluded loans offered by non-governmental universities because there is no statistical information available.

<sup>5</sup> These results stems from a regression of all relevant observable factors in the Mexican household survey, ENIGH 2000, on higher education enrollment. The result should be interpreted with caution since the study cannot control for unobservable variables, principally academic aptitudes, and type of financial aid, (Canton and Blom, 2004)

by a survey of SOFES beneficiaries in which 29 percent of beneficiaries responded that without the student loan they would not have been able to matriculate.

*Impact of loans on retention.* In the survey of SOFES beneficiaries and non-beneficiaries, beneficiaries repeated less than non-beneficiaries (5 percent compared to 4.3 percent). However, controlling for other factors, the difference is statistically insignificant.<sup>6</sup>

*Impact of loans on equity.* Seventy-five percent of ICEES beneficiaries came from a family classified as low-income as compared to only 63 percent for the total student population. Hence, ICEES equally facilitated to a large extent access for low students. Twenty percent of students came from the low-income families category, whereas more than 33 percent of loan beneficiaries were from low-income families. Consequently, ICEES was more successful in benefiting the neediest students compared to SOFES. Nevertheless, a survey of 1,800 SOFES beneficiaries and non-beneficiaries found that beneficiaries tend to come from less favorable backgrounds than non-SOFES students from the same universities: (a) family income of non-SOFES students exceed that of SOFES students by 48 percent; (b) parents' education level is higher for non-SOFES students than for SOFES-beneficiaries; and (c) 51 percent of SOFES beneficiaries attended public upper secondary education as compared to 37 percent for non-SOFES beneficiaries. Hence, SOFES opened the doors of non-governmental higher education for a new group of students and thereby increased enrollment of higher education and made more efficient public expenditure in public higher education.

*Impact of loans on quality of programs.* The project principally stimulated quality higher education through increased enrollment in the highest quality institutions in Mexico. Only universities that were accredited at the highest level in the Mexican Federation of Private Universities (FIMPES) were eligible for membership in SOFES. Hence by increasing access to SOFES universities, the project helped raise the average quality of higher education in Mexico. Further, student loans empowered students to choose higher quality institutions. For example, the SOFES user survey indicated that in the absence of the loan, 10 percent would have matriculated in another institution.

### C. Impact at the National level

*It is difficult to estimate the full impact of the project on enrollment because of the absence of a counterfactual.* Enrollment in higher education in Mexico increased from 1,838,000 in 1999 to 2,323,000 in 2004, a 26 percent increase (enrollment figures from 2004 are the most recent available). The project funded a number of students equivalent to 9 percent of the additional 400,000 new enrollees. In particular, the direct impact of the project on enrolment could range from 0 to 38,800 students (which would represent as much as 9.2 percent of the total increase). Using the above-mentioned estimate of 24 percent estimated impact from loans to enrollment, the project resulted in at least an increase of 12,500 additional students enrolling in higher education or 2.5 percent of the total increase.

*Perhaps more importantly for the long term national impact is the SOFES institutional platform for future delivery of student loans in Mexico, and to a lesser extent, the improved institutional capacity of ICEES, both of which were strongly stimulated by this project. Enhanced institutional capacity had a catalytic role in promoting sustainable investments in higher education.*

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<sup>6</sup> An impact evaluation of a similar student loan scheme found that drop-out rates were 30 percent lower for beneficiaries than for non-beneficiaries with the same observable characteristics, (ICETEX, 2006, and Cerdan-Infantes and Blom, 2007).

### 3.3 Efficiency

The PAD enumerated clear justification for public sector involvement with the project: expansion of higher education requires public-private partnership and a student loan is an important instrument to expand coverage using the existing supply of higher education. At the time of approval and now, the credit market provided little credit for education. And government intervention was -- and is -- necessary to help create a market.

The PAD projected three types of economic benefits:

- A. Cost-effectiveness of student loans vis-à-vis grants;
- B. Financial sustainability (Implicit subsidy); and
- C. Efficiency gains from reduced public expenditures in higher education (Fiscal savings, explicit subsidy).

#### A Cost-effectiveness of student loans vis-à-vis grants

According to the projections of the PAD (Annex 4), both SOFES and ICEES will have prompted more cost-effectiveness than offering an outright grant, except in the presence of large default rates.

*Central to the argument is the high rate of return to higher education, which increased from 13 percent in 1984 to 21 percent in 1994. The rate of return likely reduced as real wages for all education groups declined substantially in the wake of the 1994 economic crisis. Estimates show that the rate of return dropped to around 17 percent in 1997.<sup>7</sup> There was general tendency for wages and rates of returns in education to increase since then, although not to their pre-crisis level.*

*This analysis showed consistently higher net present values of cash flow for SOFES vis-à-vis a grant program as long as the default rate was less than 25 percent.<sup>8</sup> In practice the default rate has been in the order of 5 percent, which leads to a cost-benefit ratio of 7:5.<sup>9</sup> Even with the reduction in the rate of return, the project had a high cost-benefit ratio in an absolute sense. The lower returns to higher education would have affected both the cost-benefit for grants and loans, so the relative impact would have been the same. From this standpoint, SOFES has been cost-effective as predicted by the PAD.*

*In the case of ICEES, the default rate has been higher than the 14 percent forecasted by the PAD as a worst case scenario. Current estimates are that the default rate is approximately 17 percent, which would lead to a cost benefit ratio of 1.5. The PAD does not clarify what the cost-benefit ratio would be for subsidies (the number reported is 0.01, which seems to be incorrect), so it is not possible to report how this compares with the option of providing subsidies. These estimates also do not include the large number of loans (33 percent) that are not in default but have some arrears. This would lower the cost benefit ratio, as would the lower rates of return to education. Taking into account loans in arrears and lower returns to education, the cost benefit ratio for this*

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<sup>7</sup> World Bank (2005a)

<sup>8</sup> World Bank (1998)

<sup>9</sup> Given that SOFES technically has a zero default rate since bad loans are sold back to universities, this figure is indeed the percent of loans sold back to the higher education institutions when in arrears for more than six months (SOFES, 2007). The economic estimation is based on linear interpolation from the economic analysis in Annex 4 of the PAD. The original data used for calculation is not available.

component will be substantially lower than estimated in the PAD and may even be less than 1.0. This needs to be tempered by the significant social benefit (not captured in the estimates of private returns) to higher education and the benefits to strengthening ICEES.

#### B. Implicit subsidy

*The implicit subsidy measures the subsidy involved in a loan expressed as a percentage of the cost of the average loan (disbursed loan amount and administrative costs). The subsidy can come from three sources: interest rate; administrative costs; and default. To build financial sustainability, the project promoted a lower subsidy to reduce the system's dependence upon recurrent budgetary funds from the State of Sonora or other sources.*

*The implicit subsidy of an ICEES loan in 1997 is estimated to 28.9 percent and 25 percent in 2005. The PAD sets a target of 21.1 percent in 2003. The reduction in the subsidy is a combined effect of a change to a positive real interest rate reducing the subsidy, and an increase in the default rate, which increased the subsidy. Although, financial sustainability improved slightly, target was not met resulting in ICEES financing fewer students in the future and a greater reliance on budget funds from the State of Sonora.*

The implicit subsidy was not calculated for SOFES in the PAD and no target was envisioned.

#### C. Efficiency gains (Fiscal Savings or explicit subsidies)

*SOFES might lead to fiscal savings if students enrolled in SOFES universities had attended public universities, generating costs there. The actual fiscal savings depends on the number of students who, due to the availability of the SOFES student loan, substitute almost free education from the public sector with fee-based non-governmental education, and the marginal cost of each of these students in public universities.*

*The efficiency gains could be in the order of \$2.5 million to \$7.5 million per year, or a cumulative total between \$17.5 million and \$55 million. This estimate assumes that the substitution is not perfect and assuming that a significant proportion of SOFES beneficiaries would have attended public universities (as opposed to attended SOFES universities without the benefit of the loan). In the SOFES survey, 16 percent of SOFES beneficiaries indicated that they had been accepted at a public institution. If this is the assumed substitution, then the project led to a fiscal saving of 17.5 million. The estimates do not make a distinction between marginal cost and average cost and seem to assume that the students attending SOFES universities due to the program would not have been replaced by other students in the public sector, who may not have attended higher education at all. Further, the estimate of fiscal savings does not take into account the future increased tax-revenue from the additional graduates of higher education<sup>10</sup> (see Annex 3, Section C, for assumptions and data sources).*

*In addition, the project is likely to have an increased efficiency on lower repetition and therefore additional fiscal gains. An impact study showed that students benefiting from SOFES loans were 10 percent less likely to repeat courses, while their grades were 2 percent higher than those of a comparable student.*

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<sup>10</sup> It is important to note that the goal of the project is to expand overall higher education coverage, not to substitute public enrollment with private enrolment.

### 3.4 Justification of Overall Outcome Rating

Rating: **Satisfactory.**

The satisfactory rating is justified on the relevance and timeliness of the objectives and the substantial achievements of the objectives in an efficient manner.

*The objectives were highly relevant and timely.* Further, the quality-at-entry was satisfactory. In particular, the design of the SOFES loan system involved significant adaptation of new innovative and effective mechanisms that mitigated previous shortcomings.

*The project achieved its objectives in providing access to higher education to a significant number of low- and middle-income students.* It directly expanded availability of publicly supported student loans in Mexico by an estimated 400 percent. Further, there is evidence suggesting that this expansion led to increased expansion of quality higher education. Further, the project succeeded in creating an effective and more financially sustainable student loan agency in SOFES, which represents a solid platform for expansion of student loans in Mexico, while ICEES increased its coverage of financially needy students.

*The objectives were achieved in a cost-effective and efficient manner.* First, the student loans proved significantly more cost-effective than a grant program. The economic analysis indicates a fiscal saving from the SOFES component between US\$17 million and 55 million over the life of the project. Secondly, comparatively speaking, project implementation was carried out in a highly efficient manner in the case of SOFES that accounts for 83 percent of loan proceeds. However, further improvements are possible and SOFES has turned out to be the most efficiently run large-scale student loan system in Latin America.

### 3.5 Overarching Themes, Other Outcomes and Impacts

#### **(a) Poverty Impacts, Gender Aspects, and Social Development**

*The project had a direct impact on poverty reduction and inequality by allowing needy students to have access to higher education.* The design and implementation of the targeting mechanism allowed both ICEES and SOFES to identify and finance low-and middle income students<sup>11</sup>.

*The project contributed significantly to increase acceptance in Mexico of student loans as a way of financing higher education.* As demonstrated by the increase in State-based student loan systems, a larger share of students and their families now consider borrowing for education acceptable. Further, there is an increased awareness in the public and private sectors about the feasibility of sharing the costs of higher education through student loans.

*In the State of Sonora, the project supported a higher share of female students, 55 percent, than the average enrollment of female students in Sonora, 53 percent.* Thus, the project contributed to a higher access for girls to higher education. Forty-seven percent of SOFES loans were awarded to females. Although being a complementary performance indicator, the project did not explicitly seek to increase female enrollment in higher education in Mexico. At the time of appraisal, the share of female students was 48.6 percent and on track to close the small gender gap in enrollment. In 2005, the share of female students was slightly higher than that of males.

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<sup>11</sup> SOFES defined low income as those with income up to 7.5 times the minimum wage; middle income is defined as those between 7.5 and 20 times the minimum income.

## **(b) Institutional Change/Strengthening**

*This project has had substantial institutional impact. Both SOFES and ICEES are now consolidated as student loans institutions, in terms of visibility, management and personnel. SOFES constitutes the most attractive and likely platform for scaling up the supply of student loans, leading to: (i) improved equity in non-governmental higher education, and (ii) increased sustainable private investment into tertiary education. This could contribute to a gradually long-term shift in financing of higher education and to fostering an understanding of the need and potential of cost-recovery and borrowing for tertiary education.*

## **(c) Other Unintended Outcomes and Impacts (positive or negative)**

*The project has provided momentum for the development of new student loans systems in Mexico. Other Mexican states have followed in Sonora's footsteps and established student loan institutions during the time of the project, such as Aguascalientes, Campeche, Chihuahua, Hidalgo, Tamaulipas and Quintana Roo.*

*Several non-governmental universities that are members of SOFES improved their management of loan programs concurrently with the retail management of SOFES loans. For example, UNITEC (Universidad Tecnológica de México) created an independent collection company to manage its student loan system.*

## **3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops**

*Beneficiary surveys and focus group were conducted at regular intervals during implementation to measure user satisfaction and identify opportunities for improvements. SOFES surveyed 1,800 students in 2003. Besides findings previously mentioned, the survey gives a picture of a balanced student loan program where the vast majority of borrowers are satisfied with the loan product and the SOFES service: (i) 90 percent characterize SOFES' overall performance as good and 6 percent as normal; (ii) 80 percent think the requirements for obtaining a loan are reasonable; (iii) 94 percent accept the repayment conditions; (iv) 73 percent consider the interest rate acceptable; and (v) 85 percent believe the share of costs financed by the student loan is sufficient. The survey also indicates that SOFES could do more to inform borrowers, especially on deadlines. Another survey of SOFES students carried out in 2002 indicated two demand constraints: the variable interest rate and the need for collateral and guarantors. Four out of ten cited the latter as a major difficulty in loan application.*

*ICEES equally undertook regular user surveys. Eighty-five percent of beneficiaries expressed overall satisfaction. Annex 5 contains more information regarding the findings of the surveys.*

## **4. Assessment of Risk to Development Outcome**

Rating: Moderate.

*The main risk to the development outcome is the continuation of the SOFES program. Although SOFES has performed exceptionally well, it lacks a medium term track record. Therefore, it faces difficulties attracting private investment to replace the World Bank funding.*

Even though SOFES has remarkably increased the number of loans in higher education, it still has to face some financial problems in the short term in order to continue providing loans to current and new beneficiaries. In particular, it is the only large-scale well-functioning student loan system in Mexico. It is a well-known brand, which reduces fear among potential borrowers.

The system incorporates the majority of the large high-quality higher education institutions in Mexico, allowing it to attract the best students who have good labor market prospects and reap large economies of scale in provision of student loans. The scale could be crucial for success to lower administration and collection costs, and for a later securitization of the portfolio. Furthermore, non-governmental higher education is poised to grow further, given the high demand for skills on the Mexican labor market.

*SOFES lacks a medium-term track record.* It has four years of credibility in regard to its repayment track record. A student loan operation is a long term intervention where the standard loan has a lifetime of 13 years (four years of disbursement, one year of grace and eight years of repayment). Therefore, the true cost of the current SOFES loans will only be known after 13 years; that is around 2011-2013 for the first three cohorts of SOFES loans. Therefore, despite the large potential of SOFES, at this time, no private investor is willing to assume part of this unknown risk, in particular when the interest of the portfolio is below market rates.

A continued public investment into student loans is necessary, in particular, when the system targets low- and middle-income students, see Section 6 (Lessons Learned). Although the costs of default can be shared with the non-governmental universities, it is questionable whether the universities are willing to increase their investment into SOFES and still assume all the risk.<sup>12</sup>

*The continued financing of student loans in the State of Sonora is secured, since the government of the State of Sonora has increased investment into ICEES.* Hence, the risk to development outcome is marginal. Nevertheless, the scale of operation has decreased, which is partially due to the failure of ICEES to reduce the level of implicit subsidy in its lending.

## **5. Assessment of Bank and Borrower Performance**

### **5.1 Bank Performance: Satisfactory**

#### **(a) Bank Performance in Ensuring Quality at Entry**

Rating: Satisfactory

*The Bank quickly responded to a request from the Mexican government and helped design an innovative, results-oriented, and effective project.* It brought the relevant knowledge in the form of consultants, and drew heavily from existing analytical and operational experiences, in particular the CAS (World Bank, 1995b), the Higher Education Strategy (1994), and above all, the careful review of previous unsatisfactory projects to avoid pitfalls like those encountered by Jamaica and Venezuela, whose governments directly operate student loan systems.

#### **(b) Quality of Supervision**

(including of fiduciary and safeguards policies)

Rating: Satisfactory

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<sup>12</sup> As of June 2007, the SOFES universities together guaranteed a portfolio of US\$100 million, which the government in turn guarantees to the Borrower (BANOBTRAS). To maintain lending at the same level, investors would have to extend a credit line to SOFES that would gradually attend the same amount.

The Bank's supervision efforts are rated as **satisfactory** based on six reasons: (i) the results-oriented supervision involving a consistent focus on main project output and the use of the M&E framework, as well as the rigorous impact study undertaken during the project; (ii) The supervisory team was able to create a strong and close relationship with the Borrower and implementing agencies, which has allowed an effective monitoring and an efficient learning and sharing of best practices in the field of student loans; (iii) the Bank ensured a continuity in the supervision team, and participation of high-level consultants who had extensive experience with student loans; (iv) the team provided analytical support, in particular to ICEES, in diagnostic reasons for the medium-high default rates; (v) Bank supervision took steps to ensure fiduciary responsibility when necessary, for example with an in-depth review of SOFES' financial management system; and (vi) the team assisted SOFES in the transition from relying on Bank funding to new sources of funding, for example by organizing meetings with potential investors, such as IFC and US student loan companies, liaison with the federal government, and assistance in drafting an investor prospectus.

**(c) Justification of Rating for Overall Bank Performance**

Rating: Satisfactory

The Bank performance in quality-at-entry and supervision are both satisfactory.

**5.2 Borrower Performance**

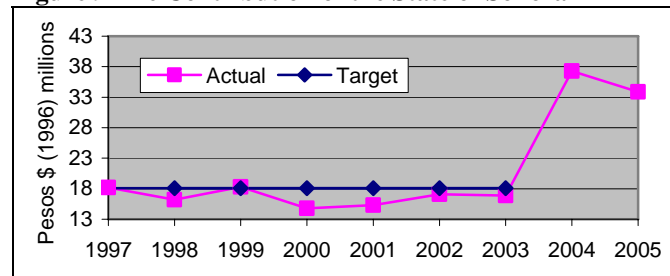
**(a) Government Performance**

Rating: Satisfactory.

Despite the indirect financial support to SOFES, the federal government's performance is considered satisfactory due to its close monitoring in the preparation and implementation phase of the project. The key federal entity involved in project preparation and supervision has been the SHCP which guaranteed the Bank loan to BANOBRAS and the loans from BANOBRAS to SOFES and ICEES. As mentioned, both SEP and CONACYT did not have significant involvement. SHCP exercised close supervision. In particular, the Secretariat strongly encouraged Universities to increase their commitment to the project. Although, this intervention temporarily stalled disbursements, it increased the sustainability of SOFES.

The State of Sonora's performance is equally rated **Satisfactory**. The state government has been politically and financially supportive of ICEES. It timely kept its budgetary commitment to finance MX pesos 18 million per year. Additionally, it doubled investments in 2004 and 2005 to ensure ICEES could repay the Bank loan and continue lending

**Figure 9 The Contribution of the State of Sonora**



Source: ICEES

to students (see Figure 9). It is also true that, the government -- through its significant influence on the Board of ICEES -- could have supported more actively stronger measures to reward good repayment, and sanction well-off non-paying borrowers.

**(b) Implementing Agency or Agencies Performance**

Rating: Satisfactory.

*SOFES' performance was highly **satisfactory** given the innovative nature of the entity and its good management, although commitment and internal collaboration among member universities could have been better.* A key driver behind SOFES' performance was the continuous and detailed supervision from its Board and presidents. In contrast to ICEES, SOFES hired managers with experience from the banking sector and also included external advisors to the Board that had extensive experience from the financial sector. This also is best practice. In short, SOFES is the best student loan institution in the region, something that has been accomplished in only eight years. SOFES is now currently improving the:

- Centralization of collections;
- Increase of training for loan administrators in SOFES units in the universities. Performance in terms of allocation, administration and collections varied significantly between universities, and best practices evolved. These could have been shared better across universities; and
- Increase commitment of all shareholder universities to increase credibility and economies of scale of SOFES. In a few instances, the opinion of shareholder universities differed in the decision making for SOFES. Although, this can be considered part of standard Board discussions, the difference of opinions voiced outside of Board meetings could have led to reduced credibility of SOFES. Further, a number of member universities did not use the credit line or chose to buy back all loans from SOFES.

*ICEES performance was **moderately unsatisfactory** due to minimally reaching institutional targets, particularly on absolute coverage and technical aspects.* On the positive side, ICEES outperformed the relative coverage of needy students while it retained a strong commitment from the State government and adapted some new practices and new technologies. Nevertheless, actions that could have improved performance toward the institutional targets were identified and within the power of decision-makers. For example, ICEES could have changed loan contracts to include the right to report loan status to credit bureaus.

*BANOBRAS, the Borrower, performed **satisfactorily**.* Although, BANOBRAS was the Borrower, it did not assume credit risk, since the federal government guaranteed the repayments from the implementing agencies. Hence, its role was more that of a financial agent, which it carried out well in handling reserve and guarantee funds, ensuring quarterly performance reports from SOFES and ICEES, assisting the implementing agencies in procurement and financial management, and organizing supervision missions.

### **(c) Justification of Rating for Overall Borrower Performance**

Rating: Satisfactory

*Overall, the performance of the Borrower, the federal government, and particularly the implementing agencies are **satisfactory** since they succeeded in achieving the majority of the development goals of the project.* The satisfactory performance of the agency implementing the largest component, SOFES, compensates for the moderately unsatisfactory performance of the implementing agency of the smaller component. Further, all 10 loan covenants reached compliance with effectiveness and onward. In addition, the Borrower and implementing agencies have been consistent in providing the Bank with information on performance in a complete and timely fashion.

## 6. Lessons Learned

*The project yields a significant number of lessons learned for future higher education projects involving student loans.* The high number of lessons learned is not a result of unsatisfactory design or implementation, but rather a result of two factors: (i) the project design was innovative and experimental; and (ii) implementation has been dynamic and guided by substantial monitoring and evaluation efforts.

*Overall, this experience confirms the technical and political difficulties of setting up a successful student loan system.* As identified at the onset of the project, the main challenge is financial sustainability, which is the precondition for scaling-up availability of loans. Efficient operation, effective collections and continued public support with strong accountability are the key instruments. However, the results are encouraging. This is the first student loan project that the Bank has financed in Latin America and the Caribbean that has been evaluated as Satisfactory. The previous two student loan projects in the region were all rated as unsatisfactory; those were in Jamaica (World Bank 1987a, 1987b, 1995a, 1996a, 1996b, 1997a, 1997b and 2002a) and Venezuela (World Bank 1992a, 1992b, and 2000).

*Design of responsibilities and incentives are crucial for student loans given its long-term nature.* The typical student loan contract between the lender, student and education institution lasts 13 years. Hence, unfortunate division of responsibilities and incentives takes considerable time to correct and often carries high costs. A careful design is therefore warranted.

*Risk and cost sharing with universities is crucial.* The SOFES model put the financial risk to a large extent on the universities and endowed the task of supervision to the same universities. This ensured a strong incentive for careful and continuous supervision of SOFES, which was lacking in the ICEES model (and many other public student loan systems). This risk and supervision sharing is good practice. Non-governmental universities have a strong incentive to develop a loan system, and they are willing to assume part of the financial risks of a loan system. This potential source of funds needs to be tapped to improve financial sustainability. Involving the universities in the loan delivery to the students equally allows: (i) cost-sharing in the sense that the university through its financial aid office bears part of the costs;<sup>13</sup> (ii) data-sharing between the lender and the universities, which is necessary to ensure reliable and early information regarding academic progress and drop out; and (iii) better contact and higher service to the student. Nevertheless, as discussed below, adjustments to the SOFES model are recommendable to allow for efficiencies in collections and scaling-up. For example, universities are not banks. Therefore, they are not experienced managers of financial risk. Universities could be unwilling to partially or fully guarantee the student loans without retaining control over the lending and recovery processes. Therefore, arguing that the financial risk should not be managed by the universities is a valid one.<sup>14</sup>

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<sup>13</sup> In contrast to SOFES, ICEES does not involve the universities in loan delivery and management, which implies a substantially higher need for manpower and attention to students, as well as substantially higher transaction costs for the student in order to go to the ICEES service points, which are outside campus.

<sup>14</sup> Default stem from at least five risks: low quality and relevance of education; insufficient academic preparation leading to drop; ineffective collections; weak labor market; and personal and family reasons. Universities control the first risk and should evaluate the second risk while the third risk, in the case of SOFES, was in their hands. The fourth and fifth risks are outside universities' control. Risk sharing with universities could be made within risks influenced by the universities, such as in the Chilean student loan system (World Bank, 1998 and 2005b).

*Continued public investment in student loans is required.* The ICEES system benefited substantially from the state government's investment. Through the financial guarantee, SOFES benefited from support from the federal government. However, SEP, the federal government's responsible agency for higher education, could have played a role in the project. This could possibly have facilitated additional public-sector support to SOFES to ensure financial sustainability since in the Bank's experience no large student loan system has been developed in the world without public support. For instance, the student loan system in New Zealand has a 21 percent implicit subsidy. The US-government yearly subsidizes US\$5,000 million to cover defaults, administrative costs and subsidized interest rates in its so-called direct student loan program.

*A public-private partnership in student loans is desirable but difficult when financial risks are uncertain.* The project experience indicates that non-governmental involvement in a student loan system, such as the SOFES model, leads to better performance than a purely public model, such as the ICEES model. However, the non-governmental involvement can lead to a discussion of the necessary (and appropriate) level of public subsidy/financial risk taking. This level of subsidy is inherently difficult to assess given that the actual loss (default) of a student loan is only known after 10 to 15 years. In the absence of a market solution, where non-governmental entities compete on the basis of the lowest required public subsidy, which was not the case in the SOFES model, a negotiated agreement between the non-governmental entities (in this case SOFES universities) and the government is necessary. Negotiating such as an agreement requires a long-term focus on the common interest in a large-scale sustainable student loan system.

*Although student loan is a higher education policy instrument, it is also a financial instrument, and experience from the commercial banking sector is necessary.* An important difference between SOFES and ICEES was the involvement in SOFES of experience personal from the private commercial financial sector. At both the director level and at the board level, SOFES benefited from transfer of best practices, technology, and knowledge from the private financial sector.

*Long term sustainability of the interest rate is important.* The financial development of a student loan agency requires a sophisticated and long-term analysis of a sustainable interest rate on loans offered to students. The rate should be low enough for students to be able to repay, and high enough for the student loan agency to acquire new financing. The extent of an interest rate subsidy must match the commitment of the government to subsidize the system — as in the State of Sonora where high levels of subsidy were supported by the State government.

*Long-term financing of student loans is required.* Despite a record performance and a 34-month extension of the project, SOFES faces difficulties obtaining new financing. The time span needed to achieve a track-record and financial predictability of a student loan system exceeds six to eight years. This limits the system's ability to access the capital market without substantial backing from government guarantees. Therefore, Bank support to new student loans should therefore be longer term; for example, adaptable program lending or alternative financing sources should be identified. For example, as the volume of student loans increase and the program develops, there is need for more sophisticated financial instruments, notably securitization. A long-term financial vision could include the development of a secondary student loan market.

*Attention to collection cannot be overestimated.* Student loan systems in developing countries often fail to grow because of a large implicit subsidy, which in many cases is exaggerated and untargeted due to high defaults. Collection of student loans is to a degree different from consumer

loans, because the borrower is young, often inexperienced, has an unstable income in the first years of repayment, has no collateral or other goods that can be re-assessed. Frequent information and contact to the borrower is therefore even more critical. Collections need to be resolute, efficient, fair and humane. To build such a collection mechanism, it is recommendable to:

- (i) Ensure up-front political commitment to enforce collections. For ICEES, the planned actions to improve collections were instrumental in improving the performance of ICEES, but nevertheless insufficient to meet the component's objective of financial sustainability. The design could have specified in more detail effective measures to improve collections and ensured a commitment of the institution and the state government to take such measures.
- (ii) Report loan status to national credit bureaus. This is one of the strongest collection instruments. It rewards good payment behavior and sanctions bad behavior. Importantly, borrowers should have the option of a deferment in repayments during economic hardship. A significant share of borrowers will experience difficulties repaying the loan at some time during the repayment phase.
- (iii) Rely upon a large-scale professional collection mechanism. In this project, there were large differences in the performance of the universities as collectors. Many specific collection policies, training, technology, and management strategies exist for efficient and effective collections. Universities should probably not be in charge of collection. Although, the university has a "social" relationship with the borrowing student that can increase repayment, a professionalized collection is now recommended by SOFES. A professional collection mechanism could be achieved by either partially or fully outsourced collections to a collection agency (with due supervision), or develop a professional centralized collection capacity within SOFES.

*Fear of borrowing is a problem.* Students, in particular from low-and middle-income families, have limited experience with borrowing, and can fear borrowing leads to personal bankruptcy. This potential problem can gradually be reduced as the student loan agency becomes well-known and borrowing for education is better understood and accepted. The student loan product should be designed to help these students. This can involve combining scholarships, tuition discounts and loans, as was in the case of many SOFES institutions. Student surveys identified a variable interest rate as a factor of increased uncertainty causing fear of borrowing among SOFES borrowers.

*Ensure the financial conditions of the assets and liabilities match.* In this project, the student loan agencies were responsible for repaying the loans. In other Bank loans, the state assumed the repayment responsibility. When the loan institution is in charge of repayment, asset and liability management becomes crucial. In this project, unforeseen factors delayed loan origination to students, which delayed repayments from students to SOFES. However, the amortization schedule to BANOBRAS and the Bank remained unchanged. SOFES therefore, a relatively simple timing mismatch resulted in a temporary liquidity gap that could have jeopardized the financial stability of SOFES. This was solved by capital augmentation underwritten by SOFES shareholders and a limited sell back of loans to member universities. More attention should be devoted in the future to adjust World Bank disbursements, student repayments and the Borrower's repayments when financing student loan programs. For example, the amortization schedule could be made dependent upon disbursement.<sup>15</sup>

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<sup>15</sup> During the period of implementation, the Bank developed an adequate loan product, where amortizations are linked to disbursements. However, this loan product was not available at the time of project preparation.

**7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**  
**(a) Borrower/implementing agencies**



**PROJECT COMPLETION REPORT**  
**HIGHER EDUCATION FINANCING PROJECT**  
**LOAN 4332-ME**

**Comments from the National Bank of Public Works and Services (BANOBRAS)**

**Background.**

The financial instrument of the World Bank was not the correct instrument for the project because it did not allow linking the amortizations with the disbursements thus causing SOFES to suffer a lack of liquidity during project execution. The lesson learned and the new products of the World Bank will make it possible to diminish this risk in future operations.

This loan was signed on September 14, 1998 between the National Bank of Public Works and Services, S.N.C. (BANOBRAS) and the World Bank, with the Educational Credit Institute of the State of Sonora (ICEES) and the Society for the Promotion of Higher Education (SOFES) as executing agencies.

Although the project achieved its objectives satisfactorily, the problems faced during its execution highlighted certain shortcomings in its planning mechanisms and the products used for its financing. Even though these problems were not easily foreseeable, various changes in the Bank's products and in its technical assistance have provided valuable lessons for similar future operations. The lessons learned from this project will make it possible to take advantage of many of these innovations in the future.

Initially, the project included the creation of a trust for its operation; however, the FOAEM mechanism was subsequently incorporated. This change in project design delayed execution for almost one year: the loan was declared effective on October 13, 1999.

The following table shows the relevant execution dates:

<b>Event</b>	<b>Date</b>
Loan Signature	September 14, 1998
Effectiveness	October 13, 1999
Original Closing	February 29, 2004
First Disbursement	January 07, 2000
Contract Amendment	August 31, 1999
Last Disbursement	December 29, 2006
Closing Amendment	December 31, 2006

**Comments and lessons learned:** *The project was designed*

*under a series of institutional restrictions that no longer apply. The World Bank has substantially improved its products for better coverage of various risks associated with time lags in the placement of subloans and the financial markets, among other variables.*

*In addition, important advances have taken place at the world level with regard to corporate government practices, control of operations, and information technologies, that today would imply an institutional design different from the one originally proposed. Specifically, there is greater acceptance of the importance of creating executive boards, the application of methodologies to control operational risks, and information technologies for improved decision-making.*

*In order to facilitate the implementation of these changes in future operations, it is important to take stock of the problems encountered during project execution and the currently available solutions. Please refer to the box at the end of this document.*

**Contracts  
(Procurement)**

The ICEES contracted a consultant following the standards of the World Bank while SOFES adopted contracting processes for the procurement of goods and consultant services following the standards set by the World Bank.

There were no significant problems related to the application of procurement regulations.

SOFES opted, from the beginning, not to procure goods or consultant services in accordance with the standards of the World Bank, because the required goods were for lower amounts and the timetables established in such standards did not meet its needs. However, toward the end of project execution the World Bank allowed the incorporation of various expenditures as eligible for reimbursement, thus partially relieving the liquidity problems faced by SOFOL at the time.

**Disbursements**

The resources were not made available according to the initial assignment, because the Disbursement Department of the World Bank was unable to clarify a difference of US\$0.35 cents.

Loan disbursements were as follows:

In 2000 US\$18.06 million were disbursed, US\$17.65 million in 2001, US\$26.13 in 2002, US\$33.67 in 2003, US\$35.56 in 2004, US\$25.93 in 2005 and US\$23.20 in 2006. It should be noted that ICEES completed the disbursement of its resources in August 2003 in accordance with the initial project disbursement schedule.

In addition to the time it took to process the amendment to incorporate the loan to the FOAEM mechanism, the use of an interest rate in Investment Units (UDIS) by SOFES delayed the disbursement of the loan. The delays led to the extension of the project, which closed on December 31, 2006.

By category, the disbursed amounts were:

Student loans: US\$178.70 million; procurement of goods: US\$0.08 million; consultant fees: US\$1.42 million. The total

equals the amount of the loan, which was US\$180.20 million. It should be noted that a transfer of US\$1.79 million from the categories of goods and consultants was made to the student loans category.

In two cases, the Disbursement Department did not disburse the proceeds according to the applications submitted. Although the difference in the amounts is insignificant (35 US\$ cents were not disbursed to ICEES whereas in the SOFES case they were reimbursed without being requested to do so), it shows the possibility of World Bank procedures forcing the breach of contracts by the fiscal agent with the accredited entities.

***Comments and lessons learned:*** *Good coordination among all the participants made it possible to reach agreements and arrange the timely delivery of the corresponding paperwork to avoid cancellations and take advantage of both the proceeds and the technical assistance of the loan.*

*At the Federal level, during portfolio reviews, the decentralization of services to the country offices of the World Bank has been requested to expedite processes such as disbursement applications. Likewise, the transmittal of loan documents to the representation office should speed up their receipt in Washington, DC.*

#### **Financial Management**

The fiscal years of the World Bank and of Mexico (at the Federal level) are not synchronized, thus knowledge of the processes (and their terms) is very important (budget, flow of resources, disbursements, audit, etc.) in facilitating project implementation with foreign loans.

The policies of the World Bank allow disbursements to cover expenditures made up to the loan closing date up to three months later; however, the budgeting process at the federal level is not carried out in the corresponding fiscal year but one and a half year in advance, which makes it impossible to incorporate expenditures into the execution year. In order to avoid both the lack of budgeted resources for the fiscal agent as well as the implications in the audit report (as was the case with Loan 4443-ME) it was requested that the World Bank make the disbursements in the month of December, which was carried out despite the deadline for receipt of the corresponding documentation at World Bank Headquarters (Washington, D.C.) and not in the representation office.

It should be noted that the new operations of the fiscal agent have facilitated the budgetary process by being regarded as mandates (or trusts); however, the aforementioned situation will continue to affect special account operations.

On the other hand, the policies of the World Bank regarding the exchange rate differ with national legislation because it allows the Bank to use the market exchange rate while national legislation allows only the rate of exchange published by the Bank of Mexico.

At the end of loan execution, the World Bank used the market exchange rate and caused a lag between the passive disbursements (between World Bank and BANOBRAS) and active disbursements (between BANOBRAS and the execution agency).

**Comments and lessons learned:** *The World Bank should be familiar with the Mexican budgeting process in order to improve the implementation of new operations, because it is difficult to change the disbursement of resources from one fiscal year to another.*

## **Conclusions**

The project was unique because of its executing agencies (the State on the one hand and a development Society of limited partnership on the other) and for the support to the education sector from the Federal Government as demonstrated by the contracting of foreign borrowing, payment of the effectiveness commission, and the commitment commissions so that low and medium-income students have access to quality higher education.

Coordination within the project team made it possible to share experiences during project implementation such as the methodology of socioeconomic evaluation for the selection of students developed by SOFES and shared with ICEES; the learning of the SOFES operating system through one-stop windows established in the partner universities for the granting of credits; and, the control measures of ICEES for the recovery of credits (such as the creation of client centers for borrowers of educational credits, information system, extension of repayment terms, incentives for timely payment, interest payments during the course of studies, payroll withholdings, family accountability, judicial collection, foreign collection, payment through the Internet, automatic payment, information campaign, etc.).

## **(b) Cofinanciers**

### **(c) Other partners and stakeholders** *(e.g. NGOs/private sector/civil society)*

## Annex 1. Project Costs and Financing

### (a) Project Cost by Component

Components	Appraisal Estimate (US\$ millions)	Actual Estimate (US\$ millions)	Percentage of Appraisal
Development of the private sector student loan scheme	237.1	335.2	141.4%
Strengthening of the Sonora student loan scheme	50.8	44.3	87.2%
<b>Total Baseline Cost</b>	287.9	379.5	131.8%
Physical Contingencies	0.0	0.00	
Price Contingencies	0.0	0.00	
<b>Total Project Costs</b>	287.9	379.5	131.8%
Front-end fee IBRD	0.0	0.0	
<b>Total Financing Required</b>	287.9	379.5	131.8%

<sup>1</sup> Estimate excludes student contribution.

### (b) Financing

Source of Funds	Appraisal Estimate (US\$ millions)	Actual/Latest Estimate (US\$ millions)	Percentage of Appraisal
IBRD	180.2	180.2	100.0%
Government of Mexico (Federal) <sup>1</sup>	3.7	3.7	100.0%
ICEES (with the support of the Government of Sonora) <sup>2</sup>	1.5	14.3	953.3%
SOFES <sup>3</sup>	19.7	24.6	124.9%
Student/Household Contributions <sup>4</sup>	82.7	156.7	189.5%
<b>Total</b>	286.4	379.5	131.8%

<sup>1</sup> The contribution of the Federal Government depends to a large extent upon future changes in the interest rate and exchange rate, and can therefore not be meaningfully estimated. The appraisal estimate is therefore repeated.

<sup>2</sup> Yearly budget contribution from the State Government to ICEES from 2000 to 2003.

<sup>3</sup> Sum of: (i) SOFES yearly operation costs from 2000 to 2006 where the operational, consulting and training costs financed by the Bank have been deducted. These costs are financed either directly or indirectly by SOFES universities (US\$ 7.8 million), and (ii) Investments in SOFES's own capital as of October 31, 2006 (US\$ 16.8 million).

<sup>4</sup> Estimated based upon share of household payment of tuition in SOFES universities only. The student loans financed on average 44 percent of tuition, according to SOFES management information system. An estimated further 10 percent of tuition was financed by grants. Hence, the remaining 46 percent of tuition is financed by student/household contributions.

**(c) Procurement**

**Table 1 Project Costs at Appraisal by Procurement Arrangements (in US\$ million)**

Expenditure Category	Procurement Methods						Total Cost
	ICB	NCB	National Shopping	Other <sup>1</sup>	Consulting Services	N.B.F..	
Sub-Loans				176.9 (176.9)			176.9 (176.9)
Goods	0.6 (0.5)	0.7 (0.4)	0.5 (0.3)				1.8 (1.2)
Technical Assistance					1.5 (1.5)		1.5 (1.5)
Training <sup>2</sup>				0.6 (0.6)			0.6 (0.6)
Other Educational Costs, Reserve Fund, Recurrent Costs						107.1 (0.0)	107.1 (0.0)
<b>Total</b>	<b>0.6 (0.5)</b>	<b>0.7 (0.4)</b>	<b>0.5 (0.3)</b>	<b>177.5 (177.5)</b>	<b>1.5 (1.5)</b>	<b>107.1 (0.0)</b>	<b>287.9<sup>(3)</sup> (180.2)</b>

Note: Figures in parentheses are the amounts to be financed by the Loan. All costs include contingencies. Figures may not add due to rounding

<sup>1</sup> Not Subject to Procurement

<sup>2</sup> Training expenditures may include didactic material, class room use charges, instructor fees, tuition and travel, and per diem expenses of trainees.

**Table 2 Actual Project Costs by Procurement Arrangements (in US\$ million)**

Expenditure Category	Procurement Methods						Total Cost
	ICB	NCB	National Shopping <sup>2</sup>	Other <sup>1</sup>	Consulting Services	N.B.F..	
Sub-Loans				178.7 (178.7)			178.7 (178.7)
Goods	0.0 (0.0)	0.0 (0.0)	0.1 (0.1)				0.1 (0.1)
Training and Technical Assistance <sup>2</sup>			(0.5) (0.5)		0.9 (0.9)		1.4 (1.4)
Other Educational Costs, Reserve Fund, Recurrent Costs						199.3 (0.0)	199.3 (0.0)
<b>Total</b>	<b>0.0 (0.0)</b>	<b>0.0 (0.0)</b>	<b>0.6 (0.6)</b>	<b>178.7 (178.7)</b>	<b>0.9 (0.9)</b>	<b>199.3 (0.0)</b>	<b>379.5<sup>(3)</sup> (180.2)</b>

Note: Figures in parentheses are the amounts to be financed by the Loan. All costs include contingencies. Figures may not add due to rounding

<sup>1</sup> Not Subject to Procurement

<sup>2</sup> The project portal system does not contain procurement method for 0.5 million. This is assumed to be procurement through National Shopping.

<sup>3</sup> Expenditures to Training and Technical assistance was combined in one expenditure category, and is therefore reported as one expenditure category, which is a difference from the Table above.

## Annex 2. Outputs by Component

**Table 3 Key Indicators for Project Development Outcome**

Indicator	Baseline (1997)	Appraisal Target	Actual End of Project (2006)	% of Appraisal
Increased Mexican higher education enrollment rate	14.0%	17.9%	23.4%	130%
Enrollment in SOFES universities as a % of total higher education enrollment	14.2%	24.6%	n.a.	n.a.
Increased Higher education enrollment in the State of Sonora	26%	33%	35.4%	107%
Enrollment in SOFES universities by socio-economic status	Low: 20.7 Middle: 61.7	Low: 22.8 Middle: 60.9	n.a.	n.a.
Enrollment in the State of Sonora by socio-economic status	Low: 72.4 Middle: 26.4	Low: 73 Middle: 26	Low: 63 (2003) Middle: 29 (2003)	Low: 86% Middle: 127%
Drop-out rate of Students in the State of Sonora	n.a.	35%	38%	92%
Dropout rate in SOFES universities	25.0%	18.9%	10.4% (2003)	182%

**Table 4 National Enrollment in Higher Education**

Year	1998	1999	2000	2001	2002	2003	2004	2005
No. of students		1,837,884	1,962,763	2,047,895	2,147,075	2,236,791	2,322,781	
Gross Enrollment rate (%)	n.a.	18	19	20	22	22	23	n.a.

Source: Staff Calculations with data from EdStats (2007), SOFES (2007) and ICEES (2006)

**Table 5 Students financed in share of National Enrollment**

Increase in enrollment 1999-2004	484,897
% Increase 1999-2004	26%
Students financed by the project (SOFES and ICEES) in 2004	36,934
Students finance in percent of student population in 2004	9.2%
Students financed in percent of increase in student population (1999-2004)	2%

**Table 6 SOFES Project Output**

<b>Project Output: Increase access to higher education for academically qualified but financially needy students</b>				
<b>Indicator</b>	<b>Baseline (1997)</b>	<b>Target (at end of component)</b>	<b>Result (at the end of component,2006)</b>	<b>Result (% of target)</b>
Expanded availability of loans	102	25, 600	27,030	105%
% of undergraduate students in SOFES receiving loans	0%	18.2%	n.a.	n.a.
Students receiving loans with low SES	n.a.	39.6%	28%	71% <sup>1</sup>
Students receiving loans with middle SES	n.a.	57.7%	70%	121% <sup>1</sup>
Dropout rate of SOFES beneficiaries	n.a.	1.0%	1% (2003)	100%
SOFES beneficiaries by gender	n.a.	48% (women)	47%	98%
<b>Project Output: More effective and financial sustainable student loan institution</b>				
<b>Indicator</b>	<b>Baseline (1997)</b>	<b>Target (at end of component)</b>	<b>Result (at the end of component,2006)</b>	<b>Result (% of target)</b>
Operational costs as % of portfolio	n.a.	2%	1%	200%
% of loans in arrears (more than 180 days)	44%	3%	7.1%	72%
Loan recovery (% of loans in the repayment phase)	n.a.	More than 14%	21%	Unclear <sup>2</sup>
Product and Satisfaction Index	n.a.	n.a.	90.1% (2003)	n.a.

Source: PAD (1998), SOFES (2007), and EdStats (2007).

<sup>1</sup>

<sup>2</sup>

**Table 7 SOFES indicators not collected and reason**

<b>Indicators</b>	<b>Reason</b>
Number of Applications received	The SOFES units in the over 70 campuses only entered eligible and approved applications in the central SOFES computer system. It is estimated that almost all eligible students were approved.
% of loan in arrear (overdue 61 to 90 days)	This indicator was aggregated with the indicator measuring loans overdue in 61 to 180 days, which is the key indicator reported to the national banking commission.
% of loan undergoing legal process to collect (overdue 61 to 90 days)	SOFES was not responsible for the legal process to collect. SOFES sold back loans overdue more than 180 days to the universities.
% of students receiving loans that obtain a job 6 months after graduation	SOFES collected the reason for non-performing of loans, which was directly linked to operations.

**Table 8 ICEES Project Output**

<b>Project Output: Increase access to higher education for academically qualified but financially needy students</b>				
<b>Indicator</b>	<b>Baseline (1997)</b>	<b>Target (at end of component)</b>	<b>Result (at the end of component, 2005)</b>	<b>Result (% of target)</b>
Expanded availability of student loans	10,972	21,000	14,714 (2003) 11,665 (2005)	70% 55%
% of undergraduate students in the State of Sonora receiving ICEES loans	16.3%	22.7%	18.1% (2003) 14.2% (2005)	80%
Students receiving loans with low SES	75.3% low income	75.3% or more, low income	75% low income	100%
Students receiving loans with low SES	24% middle income	24% or more, middle income	22.9% low income	95%
ICEES beneficiaries by gender	53% women	Equal to general student population (53%)	55%	103%
Dropout among ICEES beneficiaries	23.5%	n.a.	23%	-
<b>Project Output: More effective and financial sustainable student loan institution</b>				
<b>Indicator</b>	<b>Baseline (1997)</b>	<b>Target (at end of component)</b>	<b>Result (at the end of component, 2005)</b>	<b>Result (% of target)</b>
Contribution to ICEES from the state of Sonora (in million pesos)	18.1	18.1 in real terms, or more	16.9 (2003) 33.9 (2005)	93% 187%
Loans Due as % of Portfolio	14%	7%	65% <sup>1</sup>	Unclear <sup>2</sup>
Implicit subsidy <sup>3</sup>	28.9%	21.2%	25%	81%
% of loans in arrears (1-6 months past due) <sup>4</sup>	n.a.	n.a.	19.6%	n.a.
Loan Recovery within a year	n.a.	n.a.	48%	n.a.
Default Rate	13%	n.a.	17%	77%
Operational costs as a % of portfolio	4.37%	1.3%	4.4%	0%
Product and Satisfaction Index	n.a.	n.a.	85%	n.a.

<sup>123 4</sup> **Table 9 ICEES indicators not collected and reason**

<b>Indicators</b>	<b>Reason</b>
Number of Applications received	ICEES registers only eligible and approved application in the system. It is estimated that almost all eligible students were approved.
% of loan undergoing legal process to collect (overdue 61 to 90 days)	The indicator did not match the revised operational manual. ICEES did not send loans overdue 61 to 91 days for legal process, but outsourced collections to collection agents and subsequently if the loan was deemed unrecoverable by normal collection, the loan was sent to legal process.
% of students receiving loans that obtain a job 6 months after graduation	ICEES did not survey graduates regarding the timing of their first job.

### Annex 3. Economic and Financial Analysis

#### Economic Analysis

##### 1. Implicit subsidy (ICEES)

The implicit subsidy measures the subsidy involved in a loan expressed as a percentage of the cost of the average loan (disbursed loan amount and administrative costs). The subsidy can come from three sources: interest rate, administrative costs, and default. The calculation of the implicit subsidy follows the methodology of (Albrecht and Ziderman, 1991).

**Table 10 Estimation of Implicit Subsidy**

	1997	2005
<b>Data</b>		
Unit Adm. costs (in start year)	\$1,000	\$1,000
Default rate	14%	17.3%
Interest rate	19%	6%
Inflation	20.6%	4%
<b>Results</b>		
NPV Adm. costs	\$10,779.44	\$12,500.00
NPV Disbursed Loan amount	\$33,167.50	\$38,461.54
NPV Repayments	\$36,393.24	\$46,368.95
Subsidy (No Default)	17.2%	9.0%
NPV Repayments (With Default)	\$31,225.40	\$38,208.02
Subsidy (With Default)	28.9%	25.0%

*Note: NPV: Net Present Value*

*Source: Authors' calculation based on data from ICEES*

##### Assumptions

1. Students receive equal real value loans over a four year disbursement period in lump sums at the beginning of each year.
2. Administrative costs are spread out evenly during the life of the loan and equal the average unit cost of administrating a loan (total administration costs divided by number of loans).<sup>16</sup>
3. Default is the frequency of loans that fail to repay. It is expressed as a probability for each year of repayment
4. Grace periods have been rounded to the nearest year.
5. Repayments are in equal nominal amounts in yearly installments, at the beginning of each payment period.
6. Inflation is constant throughout the life of the loan.
7. Defaulted loans carry an administrative cost equal to good loans.

##### 2. Efficiency Gains (Fiscal Savings, SOFES) (Million US Dollars)

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<sup>16</sup> This is the only difference from the methodology of (Albrecht and Ziderman, 1991) that assumes administration cost is a fixed percentage of outstanding loan amount. The adjusted cost methodology is believed to better reflect the actual costs, since collections costs depend less upon outstanding amount.

Year (a)	2000	2001	2002	2003	2004	2005	Total	Average
Expenditure per pupil as % of GDP per capita (b)	48.85	37.09	49.84	49.84	49.84	49.84	-	-
GDP per capita in 2000 US\$ (c)	9048	8873	8788	8785	8985	9132	-	
Expenditure per pupil in 2000 US\$ (d)	4420	3291	4380	4378	4478	4551	-	-
Students (e)	1,690	2,049	3,437	4,647	6,820	5,407	25,705	3672.1
Fiscal Savings, US\$ million (f), with 100% enrolled in public universities	7.1	9.1	11.3	20.4	29.9	24.2	109.4	15.6
Fiscal Savings, US\$ (f), with 50% enrolled in public universities	3.6	4.5	5.7	10.2	14.9	12.1	54.7	7.8
Fiscal Savings, US D (f), with 16% enrolled in public universities	1.1	1.4	1.8	3.3	4.8	3.9	17.5	2.5

Notes: (b) in 2000 is taken from 1999. (b) for 2003-2005 is assumed to be equal to 2002

Source: Staff Calculations with data from WDI (2007) and SOFES (2007)

Formula:  $f = (d, a) * (e)$

**Table 11 Private Economic Returns to Higher Education (in %)**

Year	Higher
1998	15.4
2000	18.0
2002	16.2
2005	

Source: World Bank (2005), Psacharopoulos and Patrinos (2002).

Notes: 1998 returns taken from Psacharopoulos and Patrinos (2002), 2000 and 2002 are taken from World Bank (2005).

## Annex 4. Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
<b>Lending</b>			
Jamil Salmi	Lead Education Specialist	LCSHE	Task Team Leader
Vicente B. Paqueo	Country Sector Coordinator	LCSHE	Task Team Leader
Andreas Blom	Sr. Education Economist	LCSHE	Task Team Leader / education economist
Eduardo Velez Bustillo	Education Sector Manager	LCSHE	Sector Leader
Regis Thomas Cunningham	Senior Finance Officer	LOAG1	Finance Officer
Cecilia Maria Balchun	Finance Analyst	LOAG1	Finance Analyst
Marta A. Cervantes-Miguel	Program Assistant	LOAG1	Finance Assistant
Antonio S. Davila-Bonazzi	Portfolio Officer	ACTCF	Loan Accounting Officer
<b>Supervision/ICR</b>			
Andreas Blom	Sr. Education Economist	LCSHE	Task Team Leader, ICR Team Leader
Mark V. Hagerstrom	Country Sector Leader	LCSHD	Sector Leader
Martha Belem Hernandez	Junior Professional Associate	LCSHD	Economist
Efraim Jimenez	Lead Procurement Specialist	LCSPT	Procurement
Felix Prieto	Sr. Procurement Specialist	LCSPT	Procurement
Catherine D. Mayes	Consultant (former Sallie Mae)	LCSHE	Student Loan Advisor
Patrick Noonan	Consultant	-	Student Loan Financial advisor
Jorge Tellez	Consultant (Director of the Pan- American Student Loan Association)	-	Student Loan Advisor
Victor Manuel Ordonez Conde	Sr Financial Management Specialist	LCSFM	Financial Management Specialist
Domenech Ruiz Devesa	Junior Professional Associate	LCSHE	Economist, ICR Author
Eduardo Velez Bustillo	Education Sector Manager	LCSHE	Sector Manager
Hanan G. Jacoby	Lead Economist	DECRG	Evaluation
Silvia Moran-Porche	Procurement Assistant	LCSPT	Procurement
Luis M. Schwarz	Sr. Financial Management Specialist	LCSFM	
Jamil Salmi	Lead Education Specialist	HDNED	Higher Education Coordinator
Harry Anthony Patrinos	Lead Education Economist	HDNED	
Gizella Diaz	Program Assistant	SASEI	Team Assistant
Norbert R. Schady	Sr. Research Economist	DECRG	Evaluation
King Bing Wu	Lead Education Specialist	LCSHE	Economist
Claudia Contreras-Arias	Language Program Assistant	CICFA	
Brenda C. Lagonera	Consultant	-	Operations Analyst
Rosa G. Valencia De Estrada	Consultant	LCSPT	Procurement
Alejandra Gonzalez	Language Program Assistant	LCSFM	
Maria E. Colchao	Senior Program Assistant	LCSHD	Operations Specialist
Jorge Moreno Trevino	Junior Professional Associate	LCSHD	
Jesus Garcia-Hernandez	Information Officer	-	Information Officer
Juan Carlos Serrano- Machorro	ET Consultant	LCSFM	

**(b) Staff Time and Cost**

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	US\$ Thousands (including travel and consultant costs)
<b>Lending</b>		
FY97		99.33
FY98		141.11
FY99		0.00
FY00		0.61
FY01		0.00
FY02		0.00
FY03		0.23
FY04		0.04
FY05		0.00
FY06		0.00
FY07		0.00
<b>Total:</b>		241.32
<b>Supervision/ICR</b>		
FY97		0.00
FY98		0.42
FY99		21.88
FY00	18	73.28
FY01	6	40.62
FY02	18	110.32
FY03	6	73.00
FY04	14	77.85
FY05	11	45.05
FY06	17	52.38
FY07	12	44.97
<b>Total:</b>	102	539.77

Note: data on Staff Weeks during preparation is not available due to a change in management information systems.

## Annex 5. Beneficiary Survey Results

Beneficiary surveys and focus group were conducted at regular intervals during project implementation to ensure borrower satisfaction and identify opportunities for improvements. The following is a summary only.

In the summer of 2003, SOFES conducted a large-scale survey among 1818 students in Mexico. The survey was designed for this impact study. Four groups were surveyed: students with a SOFES credit, students without a SOFES credit, graduates with a SOFES credit, and graduates without a SOFES credit. Three universities participated in the survey: *Universidad Tecnológica de México*, *Instituto Tecnológico de Educación Superior de Monterrey*, and *Centro Universitario Grupo Sol*. These three universities form a small but fairly representative sub-sample of the more than 40 universities offering SOFES loans, and the outcomes must therefore be treated with care. The Table below summarizes the information collected from the survey. Besides findings previously mentioned, the survey gives a picture of a balanced student loan where the vast majority of borrowers are satisfied with the loan product and the SOFES service: (i) 90 percent characterizes the SOFES overall performance as good; (ii) 80 percent think the requirements for obtaining a loan are reasonable; (iii) 94 percent accepts the repayment conditions, (iv) 73 percent rates the interest rate as acceptable, and (v) 85 percent believe the share of costs financed by the student loan suffice. The survey equal indicates that SOFES could do more to inform borrowers, especially on deadlines. Box 1 provides some representative examples of who were financed under the project.

Another survey of SOFES students carried out in 2002 among 368 students indicated two major constraints for demand: the variable interest rate and the need for collateral and guarantors. 4 out of 10 cited the latter as a major difficulty in loan application. This echoes findings from Colombia.

**Table 12 Biggest obstacle obtaining a SOFES student loan**

What was the biggest obstacle in obtaining a SOFES student loan?							
Guarantor	Collateral	Written documents	Paperwork	Academic average	Proof of meeting requirements	None	Total
33.7%	5.2%	9.5%	6.5%	0.5%	4.1%	40.5%	100%

**Box 1 Five examples of SOFES beneficiaries**

The SOFES component benefited 27,033 students. This box presents five beneficiaries from *Centro Universitario Grupo Sol* as examples of who borrowed, for what reasons and what impact the loan had:

- Edgar, bachelor in computer science. Edgar borrowed to access higher education and complete his degree. He now owes an internet café that enables him to repay his loan.
- Verónica, bachelor in business administration. Veronica asked SOFES for a loan to cover tuition and living costs in order to move closer to the campus. Without the loan, she daily spent up 6 hours to come to class. Thanks to the loan, she graduated and found a job that allows her to repay the loan.
- José, bachelor in computer science. The SOFES loan was the only option for José to finance his studies, since he or his family did not have sufficient recourse to pay the tuition. José sought the higher education as means to reach his goals in life. He is currently a manager of an IT Support group.
- Beatriz, bachelor. As a single mother to three children, the SOFES loan was necessary for Beatriz to finance her career. She now studies at the graduate school.
- Jorge, bachelor in computer science. Jorge borrowed in order to complete his semester. Jose chose to borrower and enroll in order to improve his living conditions and find a job that could provide a salary sufficient to support his family, which he was not able to without a degree.

ICEES equally undertook regular user surveys from 1998 to 2003. 83 percent of beneficiaries expressed satisfaction, although the trend declined slightly from a high of 85 in 1998 and to 80 percent in 2002. The decline in satisfaction could be caused by an increase in the real interest rate and initiatives to increase collections.

A focus group study carried out in 2004 among studying and repaying beneficiaries found that it was common knowledge that ICEES did not punish non-repayment. The focus groups supported tougher actions to penalize graduates that dispose of means to repay as long as ICEES meticulously assured that penalties would not fall upon graduates without means to repay.

<b>Table 2: Summary statistics of the SOFES survey.</b>				
	Students without SOFES-credit		Students with SOFES-credit	
	Mean	St. dev.	Mean	St. dev.
<b>I General information</b>				
Age	22.63	4.09	22.47	3.56
Percentage of female students	42.32%		38.03%	
<b>II University information</b>				
Humanities and Social Sciences, Area I	13.25%		19.15%	
Economics and Administration, Area II	50.05%		42.00%	
Engineering and Natural Sciences, Area III	36.71%		38.85%	
Centro Universitario Grupo Sol	13.34%		13.27%	
Universidad Tecnológica de México	63.20%		73.46%	
Instituto Tecnológico de Monterrey	23.46%		13.27%	
GPA	8.06	0.70	8.20	0.59
Percentage of repeated courses	4.99%	7.45	4.35%	6.87
Percentage of students who took entry exam at public university	45.81%		45.48%	
Percentage of students who passed entry exam at public university from students who took an entry exam. (Percentage of total sample who passed entry exam at a public university)	34.88% (15.98%)		36.45% (16.58%)	
Tuition fee level	19,226	15,266	15,240	12,048
<b>III Educational attainment</b>				
Percentage of students at public high school	37.26%		51.44%	
GPA at high school	7.98	0.72	8.13	0.68
<b>IV Family information</b>				
Family income	20,348	37,383	13,757	10,224
Father's educational attainment				
None	0.65%		1.26%	
Primary	7.85%		8.40%	
Lower Secondary	13.93%		12.46%	
Lower Secondary Technical	6.36%		8.54%	
Upper Secondary	20.28%		23.67%	
University	39.44%		36.55%	
Graduate	11.50%		9.10%	
Estimated Years of Schooling	13.2		12.8	

Mother's educational attainment				
None	0.65%		1.10%	
Primary	10.85%		12.40%	
Lower Secondary	19.85%		21.35%	
Lower Secondary Technical	15.49%		17.36%	
Upper Secondary	21.80%		18.32%	
University	25.97%		24.93%	
Graduate	5.29%		4.55%	
Estimated Years of Schooling	11.7		11.4	
<b>V Student's employment and income information</b>				
Percentage of students with job on the side	35.83%		38.21%	
Income from job on the side	7,572	5,904	6,128	4,693
<b>VI Information on SOFES credit program</b>				
SOFES credit			53.98%	15.19
Student's perception of credit level				
Low			11.51%	
Sufficient			85.34%	
High			3.15%	
Student's perception of interest rate				
High			14.29%	
Normal			73.49%	
Low			12.23%	
Student's perception of repayment period				
Short			1.30%	
Normal			94.04%	
Long			4.66%	
Student's perception of requirements				
Less than expected			3.98%	
Reasonable			80.11%	
Excessive			10.97%	
Difficult to meet			4.94%	
Percentage of students indicating that SOFES-credit has affected their university enrollment decision			47.95%	
What would have happened if student would not have received a credit?				
Would not study			28.89%	
Study at another university			9.22%	
Need more time			38.93%	
Would not finish			11.97%	
No effect			11.00%	
Percentage of students who know people that did not enroll in university because of economic reasons	68.97%		69.45%	
Percentage of students indicating that SOFES-credit has affected their effort			59.40%	
Percentage of students indicating that the credit affected their choice of discipline			22.33%	
<b>VII Performance of SOFES credit program</b>				
Percentage of students indicating that provision of information is insufficient			5.50%	
Percentage of students indicating that they were not informed on time about deadlines			8.80%	

Performance of SOFES representative				
Bad			4.13%	
Normal			5.78%	
Good			90.10%	
Number of observations	1087		731	
Source: SOFES 2003 survey.				

## **Annex 6. Stakeholder Workshop Report and Results**

A stakeholder workshop was not carried out.

## **Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR**

See section 7.

## **Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders**

N/A

## Annex 9. List of Supporting Documents

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