

Project Name Mexico-Higher Education Financing Project

Region Latin America and Caribbean

Sector Education

Project ID MXPE49895

Borrower Government of Mexico

Implementing Agencies Sonora Student Loan Institute (ICEES)
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Main Sector Issues and Government Strategy:

1. The main issues that the Mexican higher education system faces are: (a) a low participation rate that is insufficient to meet the country's growing needs a qualified graduates; (b) a scarcity of budgetary resources to spur enrollment growth, particularly after the 1994 financial crisis; (c) deficiencies in the quality of services rendered by the institutions; (d) equity problems, particularly in light of the limited expansion capacity of public universities and the growing role of private universities; and (e) a lack of responsiveness to the nation's evolving economic needs.

2. During the first five years of this decade, efforts in the sector were focused on improving the quality and relevance of the higher-education institutions. Evaluation tools and procedures were designed and set up to assess the performance of higher education institutions and to direct increases to ordinary financing. Efficiency, quality and relevance criteria of academic programs, research projects and services were used to guide the assessments.

Thus, indiscriminate subsidies were put to an end and improvements in the efficient use of public resources and in the quality and relevance of education were fostered.

3. The Ministry of Higher Education is now focusing efforts on increasing higher education participation levels. The Government's long term goal is to achieve the needed increases in the tertiary enrollment rate while improving equity of access. However, the Government is aware that the planned expansion cannot be funded exclusively with public resources. Increasing coverage can be achieved only if public higher education institutions are able to generate additional resources, through tuition fees and other income-generation measures, and if private universities manage to absorb a growing share of higher education enrollments (25 percent at present). This expansion strategy requires therefore the existence of appropriate and effective financial support mechanisms to guarantee equal access opportunities to students from low and medium income families. In this context, the Mexican Government is very keen to promote the development and strengthening of student loan schemes.

Project Objectives

4. The general development objective of the project is to assist the Government in promoting greater equity and quality in the preparation of university graduates.

5. Specific goals are to: (i) increase demand-side financing sources to improve access to higher education, particularly for academically qualified but financially needy students; and (ii) develop more effective and financially sustainable student loan institutions.

Project Description

The proposed project would consist of two components:

6. A: Development of the Private Sector Student Loan Scheme: This component would support FIMPES in establishing a private student loan agency to provide financial support to students seeking to enroll in private universities. The component would also assist the Ministries of Finance and Higher Education in establishing an efficient student loan monitoring and control system. The estimated loan amount for this component is US\$270 million.

7. B: Strengthening of the State of Sonora Student Loan (ICEES) Program: This component would support the State of Sonora in increasing its coverage and reducing the overall level of subsidy and making the Institute less dependent on State funding. The estimated loan amount for this component is US\$30 million.

Costs and Financing

8. The estimated total project costs are US\$612.6 million, of

which 50% would be financed by the World Bank, and the remainder by the Government of Mexico.

Implementation

9. The Government of Mexico would take the primary responsibility for the World Bank loan and lend-on to the corresponding implementation agencies: (1) the Sonora Student Loan Institute (ICEES) for the strengthening and expansion of its present loan program and (2) the Society for the Promotion of Higher Education (SOFES) for the establishment of the FIMPES student loan scheme. To increase the likelihood of success, the project would establish a comparable and coordinated Management Information System to monitor and control the efficiency, sustainability and appropriate targeting of the loan programs.

Benefits and Environmental Impact

10. By increasing access to loans for academically qualified and financially needy students, the project would have a positive impact on the coverage, quality and equity of higher education. The student loans contribute to increased equitable opportunities for participation in higher education and ICEES managers and university administrators have observed that students who take loans tend to be more motivated and academically successful. ICEES has estimated that its increased coverage could lead to an 11% reduction in the annual undergraduate dropout rate. The FIMPES loans, according to estimates from a market study prepared by Booz Allen & Hamilton of Mexico, could potentially decrease dropout rates by approximately 20 percent. The same study also estimated that these loans alone could lead to a 7% increase in the percentage of secondary students pursuing university studies. Furthermore, the increased educational purchasing power of students would allow them to place more legitimate demands on the quality of education. In other words, the demand-side financing supported by the project can also stimulate improvements in the quality of public and private higher education in Mexico by promoting competition. The project would not have any adverse impact on the environment and would be classified as C.

Program Objective Categories

11. This project consists of activities included in the categories of Education and Public Sector Reform.

Project Risks

12. The main project risks are associated with: (i) the terms and conditions of student loans with the objective of achieving a financially viable and equitable loan program; (ii) the effectiveness of loan collection strategies, especially for the new scheme (FIMPES); and (iii) the effectiveness of the beneficiary targeting strategy - effective targeting.

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.

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