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STAFF APPRAISAL REPORT

JAMAICA

STUDENT LOAN PROJECT

July 1, 1996

Country Department III
Human and Social Development Group
Latin America and the Caribbean Region

CURRENCY EQUIVALENT

Currency Unit = Jamaican Dollars (J$)

US$1.00 = J$39.7 (December 1995)

FISCAL YEAR

April 1 - March 31

ACADEMIC YEAR

September 1 - June 30

PRINCIPAL ABBREVIATIONS AND ACRONYMS USED

AFIs	Approved Financial Institutions
BOJ	Bank of Jamaica
CAST	College of Arts, Science and Technology
GOJ	Government of Jamaica
HEART	Human Employment and Resource Training Trust Fund
HRDP	Human Resource Development Programme
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
JBA	Jamaican Bankers' Association
LIBOR	London Interbank Offering Rate
MIS	Management Information System
MOEYC	Ministry of Education, Youth and Culture
MOF	Ministry of Finance and Planning
PIOJ	Planning Institute of Jamaica
ROSE	Reform of Secondary Education
SESP	Social and Economic Support Programme
SLB	Students' Loan Bureau
SLC	Survey of Living Conditions
STATIN	Statistical Institute
UTech	University of Technology
UWI	University of the West Indies
WITCO	West Indies Trust Company

JAMAICA

STUDENT LOAN PROJECT

This report was based on the findings of preparation missions which visited Jamaica in January and May 1995 led by Mr. Ernesto Cuadra (LA3HR). A pre-appraisal mission in December 1995 and an appraisal mission in March 1996 were led by Ms. Jill Armstrong (Economist), LA3HR. The appraisal mission included: Patrick Noonan (Financial Specialist, consultant); Reynaldo Pastor (Lawyer, LEGLA); and William Gallagher (Systems Specialist, consultant). Errol Graham, Patricia Shako-Daly and Sarah Adam from the Jamaican Resident Mission all made significant contributions during project preparation. Margaret Grosh (Senior Economist, PHRHD) reviewed targeting criteria; James Hanna and Cesar Fort (LA3PS) helped develop the institutional framework and the sensitivity analyses; Aracelly Woodall (LA3HR) developed the project costing module. Peer reviews were submitted by Nancy Mcinerney-Lacombe (AF2PE) and Jamil Salmi (LA2HR). The project was prepared under the direction of Julian Schweitzer (Chief, LA3HR) and Paul Isenman (Director, LA3).

JAMAICA
STUDENT LOAN PROJECT
LOAN AND PROJECT SUMMARY

Borrower: Government of Jamaica

Beneficiaries and Executing Agencies: Ministry of Finance and Students' Loan Bureau

Loan Amount: US$ 28.5 million

Terms: Seventeen years including a five year grace period at the standard interest rate for LIBOR-based US dollar single currency loans.

Commitment Fee: 0.75 percent on undisbursed loan balances beginning 60 days after signing, less any waiver.

Relending terms: US$ 27.0 million of the Bank loan would be provided by the Borrower to the Students' Loan Bureau (SLB). The SLB would relend the loan proceeds to approved financial institutions (AFIs). The AFIs, in turn, will onlend the proceeds of the loan to eligible students to finance their tuition fees on similar terms and conditions as those between the SLB and the AFIs. During the period students are in school and for a grace period of 6 months after leaving school, 15% fixed interest rate would be charged annually and capitalized. During the repayment period, the average passbook savings rate for deposits in Jamaican Dollars paid by commercial banks in Jamaica plus 5 percentage points would be charged and adjusted annually on January 1st. The maturity of the loans would be a maximum of 7 years, but could be shorter if mutually agreed by students and AFIs. AFIs would receive a margin of 3.5% to cover administrative costs.

Financing Plan: See para. 3.6.

Project Identification Number: JM-PA-38700

COUNTRY CONTEXT DATA SHEET

		Jamaica	Year	Source
A.	**Contextual Country Data**			
	1. Population Estimate (million)	2.5	1993	ESSJ, 1993
	2. Average annual rate of population growth (%)	0.86	1993	ESSJ, 1993
	3. GNP per capita (US$)	1,420	1994	Atlas 1995
	4. Average annual GDP growth rate	1.1%	1991-1994	WB, 1996
	5. Urban population (as % of total)	50.2	1991	ESSJ, 1994
	6. Total fertility rate (births per woman)	2.9	1994	ESSJ, 1994
	7. Infant mortality rate (per 1000 live births)	25.5	1991	WB, 1994
	8. Life expectancy at birth (years)	70.0	1990	WB, 1994
	9. Adult literacy rate (%)	75.7	1994	ESSJ, 1994
	10. Total school age population (5-16)	600,000 (24%)	1994	ESSJ, 1994
B.	**Labor Force Statistics**			
	Overall employment rates, by industry			
	Manufacturing	10%	1994	ESSJ, 1994
	Agriculture	24%	1994	" "
	Services	57%	1994	" "
	Other	9%	1994	" "
	Public/Private employment (% of total)			
	Public	9%	1994	ESSJ, 1994
	Private	49%	1994	" "
	Informal	36%	1994	" "
	Unemployment rates			
	Overall	15.4%	1994	ESSJ, 1994
	Female	21.8%	1994	" "
	Male	9.6%	1994	" "
C.	**Specific Education Data**			
	System Characteristics			
	Net enrollment rates			
	Preschool	85%	1994/5	MOEYC
	Primary (grades 1-6)	98%	1994/5	MOEYC
	Lower Secondary (grades 7-9)	85%	1994/5	MOEYC
	Upper Secondary (grades 10-11)	45%	1994/5	MOEYC
	Tertiary	9.5%	1992/3	Staff est.
	Years to produce primary graduate	7.2	1989	Glewwe, 1995
	Daily attendance rate (primary)	70%	1987	Glewwe, 1995
	Financial Characteristics			
	Total public education spending			
	as % of GDP	4.7%	1994/5	MOF
	as % of total GOJ expenditure	8.5%	1995/6	MOF
	as % of total expenditure net of debt	14.4%	1995/6	MOF

Shares of Public Education Expenditure (%)			
Preschool	3.2	1995/6	MOEYC
Primary	30.0	1995/6	MOEYC
Secondary	28.6	1995/6	MOEYC
Tertiary	27.6	1995/6	MOEYC
Effectiveness Characteristics			
CXC pass rates[1]			
Math	23.6%	1994	ESSJ, 1994
English A	35.6%	1994	ESSJ, 1994

Sources: ESSJ: Economic and Social Survey, various issues, PIOJ; WDR: World Development Report 1995, World Bank; WB 1994: Jamaica: Health Sector Review, 1994; WB 1996: "Jamaica: Country Economic Assessment", draft. Glewwe, P. et al., 1995, "An Eclectic Approach to Estimating the Determinants of Achievement in Jamaican Primary Education," The World Bank Economic Review, Vol. 9, No. 2, pp. 231-258; MOECY: Ministry of Education, Youth and Culture, 1995, statistics; MOF: Ministry of Finance, various budget books.

[1] Proportion of students sitting the regional Caribbean Examination Council exam who attained general proficiency (Grades I & II) required for entry to tertiary institutions or required for some types of employment.

STUDENT LOAN PROJECT

1. BACKGROUND, ISSUES AND STRATEGIES

MACROECONOMIC ENVIRONMENT

1.1 Jamaica is the largest English-speaking Caribbean country. Its population of 2.5 million (1993) is growing at 0.86% per year and is roughly divided between urban and rural areas. In 1994, per capita GNP was US$1,420. Jamaica is well-endowed with natural resources and possesses a well-developed financial system. The economy is highly sensitive to international price and demand changes, and is entirely dependent on imported oil for commercial energy consumption. The principal economic activities are tourism, bauxite/alumina mining and processing, manufacturing, and, in terms of employment, agriculture. Together, these sectors account for over half of the country's GDP and employment, and over three-quarters of its foreign exchange earnings.

1.2 In the 1970s and 1980s, Jamaica went through a long period of economic decline and stagnation coupled with macroeconomic instability and structural disequilibrium. At the end of the period, per capita GDP declined by about 20% in real terms, inflation was running at more than 20% per annum, the public sector was overextended, and the accumulated external debt was claiming over half of public expenditures. In order to break this cycle, the Government that came into office in 1989 adopted a reform program consisting of macroeconomic stabilization, structural adjustment, privatization and rationalization of the public sector. An important feature of the adjustment process was to restore the flow of funds to the social sectors, to reduce poverty and promote human capital development. Despite strong reform efforts from mid-1993 and until mid-1995, growth in the 1990s has been slow (at about 1% p.a.) and there remain deep structural problems (notably the financial and public sectors and the labor market, plus crime and violence). Growth has been uneven across sectors, with the continuing decline in the manufacturing sector dominating minimal growth in others. Since mid-1995, the Jamaican dollar has depreciated against the US dollar, and public sector surpluses have fallen, partly in response to attempts to maintain the Jamaican dollar and sharply rising government wage settlements. Inflation has shown signs of accelerating from a monthly average of 1% during the first six months of 1995 to almost 3% per month during the period September to November, and 4.3% in December 1995, giving an annualized rate in 1995 of 22%, nearly double government's target. Projected real GDP growth for 1995 is marginally positive. The Government's strategy is to continue with short-term macro stabilization policies, while simultaneously enhancing growth prospects through rebalancing public/private sectors, and reducing pervasive poverty.

OVERVIEW OF THE EDUCATION SECTOR

1.3 Because of the importance of education for sustained economic growth and poverty reduction, the Government of Jamaica (GOJ) has assumed the role of principal provider and funder of education.

Declining government resources, however, have resulted in insufficient funds to ensure the standard of education to which the government is committed to providing. Although extensive in its coverage, Jamaica's education system is characterized by poor quality, significant inefficiencies and inequity in the provision of resources and opportunities, particularly across socio-economic groups. Too many students are leaving the formal education system with limited earning potential and without qualifications necessary to fill the country's labor demands.

1.4 The Ministry of Education, Youth and Culture (MOEYC) manages and operates almost 1,400 public primary, secondary, vocational and tertiary institutions employing 20,000 teachers and serving nearly 700,000 students. Primary school education is compulsory and coverage is nearly universal with a 98% net enrollment rate. The ratio of girls to boys is even, and access across consumption groups is relatively equal. However, quality varies greatly among primary and all-age schools as reflected by differentials in repetition and examination pass rates. The high primary enrollment figures also mask average daily attendance rates of 70% with the result that only 70% of students are functionally literate at the end of Grade 6. Reforms are underway at the primary level to improve curriculum, provide other inputs and revise the assessment system. At the secondary level, average enrollment drops sharply from 85% in Grades 7-9 to 45% in Grades 10-11. Secondary level education is provided in a stratified and inequitable system characterized by wide disparities in the type and quality of programs offered. Schools serving children from relatively wealthy families receive more and better quality inputs. Presently, the government is undertaking a Reform of Secondary Education (ROSE) Program which aims to improve the quality and equity of lower secondary education (grades 7-9), especially for those from lower income groups.

1.5 **Tertiary Education**. Public tertiary education is offered by a diverse set of institutions including the Mona Campus of the regional University of the West Indies (UWI), the University of Technology (UTech--until November 1995 known as the College of Arts, Science and Technology), eight teachers' colleges, six multi-disciplinary colleges, the College of Agriculture, Science and Education, the Edna Manley College, and several small institutions. Total enrollment at higher institutions increased from 18,370 in 1988/89 to almost 25,000 in 1992/93, representing approximately 9.5% of the relevant age cohort. Enrollment rates at the tertiary level are above the regional average of 7.8%, but below the average for middle-income countries (14%).

1.6 Access to higher education is constrained by two factors. First, the number of places is insufficient. For example, UWI's social science faculty received 2,250 applications in 1994 for less than 500 places. The medical science faculty admitted 110 students out of 450 Jamaican applicants. The number of qualified students wishing to pursue tertiary education can be expected to increase more rapidly as a result of ROSE. The first cohort to receive the new secondary curriculum could enter tertiary programs in about three years. Moreover, the Government has indicated that tertiary level output needs to double in order to create and sustain an economic turnaround.

1.7 The second factor constraining access to tertiary education is the high private cost of tertiary education (i.e. tuition, other fees, maintenance and books). Coupled with the fact that there are limited financing mechanisms, these costs serve to restrict enrollment, particularly among students from low-income families and rural areas.

1.8 **UWI**. The University of the West Indies--a regional institution serving 14 Caribbean countries--offers certificate, degree, diploma and postgraduate programs in the faculties of Agriculture, Arts and General Studies, Education, Engineering, Law, Medical Sciences, Natural Sciences, and Social

Sciences. There are campuses in Jamaica, Trinidad and Barbados. Ninety percent of all students at the Mona Campus in Kingston are Jamaicans. In 1992/93, there were approximately 6,300 Jamaican students enrolled in first degree, higher degree, certificate and diploma programs (Annex I, Table 1). Female enrollment is about 62% of the total. Since its inception, UWI has awarded approximately 18,000 first degrees, 3,300 certificates, 2,500 diplomas and 270 advanced diplomas to Jamaicans. Jamaican undergraduates are heavily concentrated in social sciences, natural sciences and liberal arts, while most advanced degrees are in social sciences, natural sciences and medicine. Social sciences, especially public administration and management studies, dominate enrollments in certificate and diploma programs.

1.9 **The University of Technology (UTech)** offers degree, professional, diploma and certificate courses in eight departments: architecture, building, commerce, computing, engineering, institutional management, science, and technical teacher training. The School of Architecture offers a masters level program. In 1993/94, there were nearly 6,000 students enrolled in full and part-time programs at UTech (Annex I, Table 2). The Commerce Department enrolls 35% of students followed by Engineering (19%). Total enrollments of men and women are almost equal; however, 95% of the engineering students are male while 70% of the commerce students are female. Enrollment during the 1980s exceeded projections. This was primarily the result of the growth in part-time and modular programs which currently enroll about 56% of all students. The enrollment rate has slowed since 1990/91 as a result of financial and related capacity constraints rather than a decrease in the number of qualified applicants.

1.10 **Teachers' Colleges.** There are eight teachers' colleges with a total enrollment of 3,500 in 1992/93. Approximately 10% of enrollment was in the Post-Certificate program under which practicing teachers are upgraded to the Diploma level. Enrollment in teachers' colleges increased 28% between 1988/89 and 1990/91, but has slowed to a modest 4% to 5% since then. The number of places at teachers' colleges is determined by the projected need of the teaching service and the Ministry of Education's budget.

1.11 **Multi-disciplinary Colleges**. In 1992/93, five multi-disciplinary colleges enrolled approximately 7,300 students in A-level and pre-university programs, professional, commercial and vocational and community-oriented courses. Approximately 46% of enrollment is by part- time students. Women account for 63% of full-time enrollments.

EDUCATION FINANCING

1.12 Reflecting the priority that the Government places on education, the MOEYC commands the largest share of total government non-debt expenditure--14.4% in 1995/96. However, Jamaica's increasing debt burden has adversely affected efforts to increase education's share of government expenditure and inflation has eroded the value of education expenditures. In real terms, GOJ expenditures on education in 1994/95 will barely exceed 1982/83 expenditures. Tight fiscal conditions have resulted in declining and insufficient funds to ensure quality across all levels of the education system. As a share of public expenditures, education has fallen from just over 13% in 1989/90 to 8.5% in 1995/96. And, as a share of GDP, education spending has fallen from 7% in 1981 to an estimated 4.7% in 1994/95. Within education, the government's stated priority is basic education (Grades 1-9). In terms of the allocation of resources within education, 33% of recurrent spending in 1995/96 was allocated to preprimary and primary programs, 29% to secondary, and 28% to tertiary. However, over the last three years, the share of tertiary has risen from 20% in 1993/94 to 28% in 1995/96. In per student terms, in 1993/94 the GOJ spent J$2,177 for primary, and $4,325 for secondary students; for tertiary students the expenditure was J$34,472 --fifteen times that of primary and almost eight times secondary level per capita expenditures.

1.13 Even though tertiary institutions enjoy high administrative autonomy, they rely heavily on government funding. In particular, the GOJ provides more than two-thirds of UWI's operating expenses. However, the government has little ability to contain costs or impose fiscal discipline at UWI because of the institution's regional nature; Jamaica is only one of 14 Caribbean countries represented on the governing council. The GOJ has now taken a policy stance that it is no longer prepared to finance UWI's overdrafts.[1] The Government also funds about 50% of UTech's budget, 84% of the teachers' colleges expenses and two-thirds of the recurrent costs of multi-disciplinary colleges. Tuition fees, fund-raising and research grants make up the rest of their operating budgets.

1.14 Although the public sector finances the bulk of expenditures for education, a significant source is from students and parents. Until recently, this has been in the form of informal cost sharing at secondary level and more formal cost recovery from students attending tertiary institutions. In the past, inflows from these sources accounted for less than 5% of the MOEYC's recurrent budget. Due to tight fiscal conditions and recognizing the need for mobilizing additional resources to raise the quality of education, the MOEYC implemented a formal cost-sharing program at the secondary level in 1993/94. Secondary schools are required to set and collect fees to cover non-salary recurrent expenditures; government continues to pay school-level salaries.

1.15 At the tertiary level, the governmental university levy (the "Cess"), which was introduced in 1986 and set at approximately 7.3% of economic costs, was abolished in 1993/94. It was replaced by fees collected directly by the institutions based on guidelines that fees cover approximately 15% of economic costs. In subsequent years, however, economic costs were not adjusted for price and wage increases, resulting in declining value of fees as a proportion of total economic costs (currently they are about 10.7%). Beginning in 1996/97, further reductions in funding levels to tertiary institutions are planned given additional expected fee increases. For UWI, proposed fees will cover 15% of economic costs in 1996/97 for new students--equivalent to a doubling of current fees--and rising to 20% by 1997/98. Returning students will pay an increase in fees equivalent to 10.7% of economic costs.

PRIVATE COSTS AND FINANCING OF TERTIARY EDUCATION

1.16 Private costs of tertiary education include tuition, fees, books and maintenance (Annex I, Table 3). Students draw on a combination of private financing (family, relatives and personal savings), student loans, scholarships and bursaries to meet the private costs of tertiary education. Approximately 75% of students attending the University and UTech seek some form of assistance to help meet a share of tuition and other expenses. The two existing student loan schemes meet only a portion of the expenses facing tertiary students: the government's Student Loan Bureau (SLB) scheme covers less

[1] In 1994, the GOJ assumed responsibility on an exceptional basis for outstanding overdrafts and debts of the Mona Campus and University Hospital of UWI for J$1,400 million (about US$42 million).

than half the present level of tuition fees, and only about 10% of total student financing needs; when combined with the Banker's Loan Scheme, students can finance up to 40% of their total requirements.

Existing Student Loan Schemes

1.17 **The Student Loan Bureau Scheme**. A revolving Loan Scheme administered by the Students' Loan Bureau began operations in 1970. Under the 1971 Students' Loan Fund Act, the SLB became a statutory body authorized to make loans to Jamaican nationals pursuing courses of higher education at prescribed tertiary institutions in Jamaica and overseas. A Students' Loan Council establishes policy for the SLB.

1.18 The SLB has approved approximately 53,000 loans since it was established. The average number of loans processed annually increased from 1,000 in 1970 to over 3,100 in 1993 (Annex I, Table 4). During the same period, the average loan increased from J$1,600 to J$9,000. However, the real value of a loan in 1993 was less than one-tenth the value of a loan granted in 1970. The maximum loan available from the SLB presently covers only 45% of fees at UTech, 40% at UWI, 28% at the teachers colleges and 17% at other institutions. The SLB conducts assessments of financial need that determine whether the student qualifies for a loan on income grounds and the amount of the loan (the course of study and related fees are also taken into account). In 1989, approval was granted to over 95% of applicants (with over 90% receiving the maximum), suggesting either some lack of rigor in evaluating applications, self-targeting or a generous family income ceiling (US$12,000 equivalent).

1.19 The Student Loan Fund was intended to operate as a revolving fund maintained by investments, repayments of beneficiaries and government contributions. The Fund has remained heavily dependent on injections from Government and externally funded projects, including two IDB projects (in 1971 for US$8.0 million and in 1976 for US$8.5 million)[2] and by the World Bank's Education Program Preparation and Student Loan Project (1987, US$3.5 million). In 1993, less than a quarter of inflows[3] were derived from the proceeds of loan collections (see Annex I, Table 5). Over half of the SLB's operating budget came from income on investments (32%) plus Government injections and externally-funded projects (more than a quarter).

1.20 Three factors have impacted negatively on the sustainability of the revolving fund scheme: interest rate subsidies; default rates; and, administrative costs. The fixed interest rate of 12% per annum results in **high interest rate subsidies**. In addition to the initial interest-free period (ranging from 1-4 years), prolonged periods of high inflation have meant that the real interest rate charged has been negative. For example, the annual average rate of inflation during 1970-1983 was about 20%. Higher inflation since 1990 has exacerbated this, despite the doubling of the interest rate on student loans after 1987. Second, although the SLB was able to reduce the default rate from about 40% of loan disbursements in the late 1980s to 28% in more recent years by use of vigorous collection efforts,

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[2] In 1971, the loan fund of US$8.0 million consisted of the IDB financing of US$4.7 and US$3.3 million from the Government of Jamaica. In 1976, the SLB received the replenishment of loan fund from the IDB loan of US$5.3 million together with the Government's contribution of US$3.3.

[3] Net of the "Cess" which the SLB collected until 1993/94 on behalf of the Commissioner of Inland Revenue

default rates remain high.[4] A third factor affecting the sustainability of the revolving scheme has been the high share of **administrative costs,** which in 1994 accounted for just over 60% of loans disbursed to students. The combination of these three factors has contributed to the decapitalization of the revolving loan fund over time, necessitating fresh injections of government funds to continue the program.

1.21 The high administrative costs and default rates can be partly attributable to the features of the SLB. First, the SLB has a large number of staff (62 positions) given the annual number of new loans processed (about 3,000) (Annex II, Chart A). Of the filled posts, five staff are on secondment from the Bank of Jamaica. Although the staff complement is high, the SLB suffers from both vacancies of critical staff and high staff turnover reflecting low salary levels.[5] For example, the SLB has been unable to attract a Systems Administrator or Financial Controller, arguably two of the most critical positions given the functions of the SLB. The SLB has been also unable to retain an Internal Auditor. The lack of these staff has resulted in the need to hire expensive consultants, usually billed on an hourly basis (e.g. computer technicians, auditors). The staff the SLB is able to attract tend to be inexperienced (the most glaring example is that the Data Processing Department is less than half staffed with non-computer specialists running the system). A second major factor affecting the ability of the SLB to efficiently run and monitor the Student Loan scheme is the weak financial information system. Recent reviews have revealed that the computer system is not only obsolete, but is unable to handle the volume of work such that loan accounts are maintained manually on green notecards. The system is unable to generate accurate reports for such things as overdue accounts or loans in default; borrowers are also unable to be told when the loan will be paid off or often, even it is has been.

1.22 The GOJ/Bankers' Association Student Loan Scheme. The maximum SLB loan covers only a portion of fees and a fraction of the estimated total financing requirements of the student. In response to the inability of the SLB scheme to meet the demand for student loans, a second student loan scheme was launched in 1993 under the auspices of the Jamaican Bankers' Association (JBA) at the GOJ's request; it is presently in its third year. The Bankers' Scheme consists of the following elements: (i) the funding of loans through an Education Bond issued by the SLB and subscribed to initially by JBA members and later other private companies; (ii) the management of the resulting trust fund by the West Indies Trust Company (WITCO); (iii) loan processing by the SLB which determines eligibility and recommends loans to banks; (iv) loan disbursement and collection by commercial banks; and (v) full GOJ guarantee of principal and interest in the event of default (Annex II, Chart B).

1.23 The SLB issued an invitation for the GOJ-guaranteed Education Bond to the members of Bankers' Association in an amount not to exceed J$100 million annually. The Bond carries a maturity of 10 years, and a fixed interest rate of 15% for first three years and variable rate for the next seven years (i.e. savings rate plus 5 percentage points). In addition to the guarantee against loan default, the Government offered subscribing banks other incentives, including exemptions from incomes taxes on interest income, transfer taxes and stamp duties.

[4] A recent Functional Review, (Nembhard & Associates, 1995) indicated that due to the method of calculating arrears (expected revenue minus actual receipts) plus the antiquated state of the computer system, a portion of collections reflect over- and pre-payment rather than arrears reduction.

[5] The functional review found that most salaries were well below comparable levels in both public and private sectors, even though the SLB is able to offer non-civil service salaries.

1.24 The SLB entered into a Trust Agreement establishing WITCO as trust fund manager. As part of this function, WITCO pays a 1% annual commission on the outstanding loan portfolio to the commercial banks to defray administrative costs. At this point, it is not clear whether actual administrative costs are, or will be covered by this commission, especially when serious collection efforts commence. The SLB will execute the full government loan guarantee on behalf of the GOJ by reimbursing the principal and interest on loan accounts in default (i.e. in arrears for more than 6 months).

1.25 Students submit loan applications to the SLB, which processes them and makes loan recommendations to the bank of students' choice for final approval.[6] There is no means testing for the Bankers Scheme and students may apply to both schemes. Banks then disburse the loans directly to the tertiary institution which pays students the remaining balance after deducting tuition and fees. Finally, banks request reimbursement from WITCO for the amount of loans paid out. In 1993/94, the second scheme mobilized and disbursed J$81 million (US$3.1 million) to 3,291 students, with an average loan size of J$24,650 (US$948). The amount disbursed under this scheme is almost four times that of the SLB.

1.26 While enrolled, the interest rate is fixed at 15% (up to three years), and converts thereafter to a variable rate (i.e. the prevailing savings rate plus 5 percentage point spread). Unlike the SLB loans, interest begins to accrue upon loan disbursement and is capitalized. Loan repayment commences upon graduation with no grace period or if a student leaves school. The **interest rate subsidy** (at about 2% assuming an inflation rate for the life of the loan at 20%) is substantially less than in the case of the SLB loan. Since the scheme has just begun to collect loan repayments, it is not possible to accurately determine **default rates**. However, it is expected that because of the commercial nature of this scheme and its more efficient loan collection infrastructure, the default rate would likely be lower than that of the SLB. Commercial bankers have indicated that they expect the default rate to be similar to other unsecured consumer credit, which hovers around 4% of the outstanding loan portfolio. However, the full government guarantee of principal and interest might create negative incentives for due diligence in loan collection. Firm estimates of the **administrative costs** of this scheme are unavailable, but at a minimum they include a handling fee of 1% of loan portfolio that is reimbursed to the banks from the Education Bond fund, as well as incremental costs incurred by the SLB for processing the loan applications (equivalent to approximately 0.5% of loan disbursements). The long-term viability of this scheme is a serious concern because it was created by a somewhat ad hoc arrangement and understanding (based largely on goodwill) between the Government and the Bankers' Association.

Existing Scholarship and Grant Programs

1.27 UWI and UTech administer scholarships, bursaries, grants and loans to assist students with educational costs. Funding for about two-thirds of the scholarships and bursaries comes from the private sector. In 1993/94, UWI awarded more than 60 scholarships and 80 bursaries worth approximately J$4.8 million and UTech administered over 100 scholarships totaling about J$3 million. For most of the scholarships, eligibility is based on varying combinations of academic achievement,

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[6] The SLB hires additional staff to process the GOJ/Bankers' loan applications. These incremental administrative costs are subsequently reimbursed to the SLB by the Ministry of Education, Youth and Culture (MOEYC). In 1993/94, the MOEYC reimbursed the SLB J$322,929 (equivalent to 0.5% of loans disbursed) and is expected to reimburse J$495,478 in 1994/95.

need, extra-curricular activities, and interview performance. The Government awards a limited number of performance-based scholarships to study at UWI on a competitive basis. The amount of each scholarship varies, but most cover tuition plus a maintenance and book grant. In 1994/95, these awards totaled J$3.6 million.

1.28 The University and UTech also administer small grants and short-term loans to students solely on the basis of need with funds supplied by the Government's Social and Economic Support Program (SESP) and institution-based welfare funds. The eligibility criteria for assistance at both institutions include: enrollment in a full-time course; proof of inability to meet maintenance budget as attested to by a minister of religion, Justice of the Peace, last school principal or employer; and good academic standing except if lack of funds has contributed to poor academic performance. The financial assistance schemes do not fund first-year students, as the grants and small loans are primarily a mechanism for helping students cope with sudden changes in financial circumstances. As students in greatest need are often those most reluctant to request assistance, both institutions rely on referrals of needy students by wardens, lecturers, medical center staff and friends. In 1993/94, UWI disbursed 91 grants worth approximately J$0.2 million and 182 loans worth about J$0.9 million. During the same year, UTech disbursed J$1 million, mostly in grants. About 100 students participate in an Earn and Study Program which provides jobs to students on campus for eight to twelve hours per week. The hourly rate, currently J$30, is set so that students working eight hours can cover their lunch and bus fare.

GOVERNMENT'S EDUCATION STRATEGY

1.29 The Government's stated priority in the education sector is to provide a solid basic education (i.e. Grades 1-9) to produce a literate, numerate and trainable population. Major reforms are underway to improve the quality of both primary and lower secondary levels. In order to support this priority area, the GOJ has indicated that over time it intends to increase the level of resources to basic education by redirecting resources from tertiary education to lower levels where the social returns are higher. A key element of this strategy is that budgetary subventions to tertiary institutions will be reduced, as tuition fees are raised. In order to meet the increased demand for student loans, reform of the student loan program is of high priority to the GOJ as a means to begin to rationalize the use of resources in education, while at the same time contribute to the improvement of higher level human capital development, and lay the foundation for future reforms in the financing of higher education (see Letter of Sector Policy, para.2.1 and Annex III).

BANK'S ROLE AND STRATEGY

1.30 Bank involvement in the proposed project is consistent with the Bank's country assistance strategy: stimulating growth; reducing poverty and building human capital; and, improving public/private sector balance. Reducing the government's share of financing of tertiary education by sharing the costs with students and their parents is consistent with government's (and the Bank's[7]) strategy in the education sector. This would release public resources for priority areas within the education sector (i.e. basic education). At the same time, the project would expand financial access to higher education to students least able to afford the financial costs of tertiary education. Operationally,

[7] World Bank, 1995. *Priorities and Strategies for Education: A World Bank Sector Review*, Education and Social Policy Department, March 31, 1995.

the Bank has already supported the Student Loan Bureau through an earlier project (Education Program Preparation and Student Loan). The Bank is also providing major external assistance for the government's Reform of Secondary Education Project (US$32 million). That project is expected to expand the pool of students eligible for tertiary education, especially those from lower income groups.

LESSONS LEARNED

1.31 Since 1966, the Bank has supported five education projects in Jamaica totaling US$70 million. In particular, the Education Program Preparation and Student Loan Project (US$8.3 million, effective 1988 and closed 12/94) supported the student loan program. With project proceeds the Government transferred US$2.6 million to the SLB on a grant basis. In addition, the project sought to improve the management and operation of the SLB and also provided computer equipment. While some improvements were introduced during loan preparation (e.g. new procedural guidelines for loan appraisal, aggressive collection strategies), an important agreement in the appraisal report, which stated that the interest rate "should remain positive in real terms and in the long term cover normal costs of operation", was not enforced during project implementation. In fact, it was not made an explicit legal covenant, nor was it reviewed during Bank supervision visits (in part due to the rapid disbursement of that component). As noted above, real interest rates were not maintained and contributed substantially to low overall loan recovery rates and called into question the long-term financial sustainability of the SLB's revolving student loan fund. In addition, administrative costs have been high and despite improvements in the default rate due to the more aggressive collection strategies adopted as a result of the project, (from 40% in the mid-1980s to 28% in 1989), non-performing loans (as estimated by the SLB) are still high.

1.32 Experience worldwide with student loan schemes has tended to mirror the Jamaican experience.[8] Heavily subsidized interest rates, high default rates and high administrative costs have resulted in low recovery ratios. A common characteristic of many of these schemes is that they have been administered by government ministries and agencies rather than by financial institutions such as banks. The involvement of banks and other financial institutions can help make loan schemes more financially sustainable, but the public sector must continue to bear some of the risk because banks are generally unwilling to accept students' future earnings as collateral. Other requisites for sustainable schemes include effective collection agents with incentives to minimize evasion and default and the maintenance of positive real interest rates. The proposed project design has sought to address these problems and has built in features which will help to increase the financial sustainability of a student loan scheme. The commercial banks are involved in disbursing loans and will assume some of the repayment risk; graduated payment schedules have been introduced to reduce both repayment burdens and default rates. As opposed to the previous project, this project focuses only on student loans and hence supervision will run the course of the project.

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[8] Albrecht, Douglas and Adrian Ziderman, 1991. *Deferred Cost Recovery for Higher Education: Student Loan Programs in Developing Countries.* World Bank Discussion Paper 137, Washington, D.C.

2. THE PROJECT

PROJECT OBJECTIVES

2.1 At its very broadest level, the project supports the government's objective of shifting public resources towards levels of education where the social returns are highest; (i.e., basic education). Specifically, the project would: (a) provide Jamaican students (especially the neediest) with adequate financing options to pay for their share of higher education on an ongoing basis; (b) increase equitable access to tertiary education and improve targeting of subloans; and (c) increase financial sustainability and administrative efficiency of the SLB through a consolidated student loan program. (Annex III)

PROJECT COMPONENTS

2.2 The project would support: (i) the restructuring of the SLB to focus on loan approval, improved loan targeting and impact evaluation; (ii) the expansion of a targeted student loan program administered by the commercial banking system; (iii) the establishment of a Grant-in-Aid Fund for students least able to pay; and (iv) the development and implementation of a public awareness campaign to inform students and their families of policy changes with respect to cost recovery and financing options for tertiary education, including the Grant-in-Aid program.

Component 1: Institutional Strengthening (US$2.6 million, including contingencies)

2.3 The future role of the SLB will be to process loan and grant applications, monitor the overall loan portfolio to determine performance and impact of the new scheme, and in collaboration with the MOEYC and tertiary institutions, implement a public awareness campaign. In addition, the SLB will continue to manage its existing loan portfolio until it is collected.[9] The SLB will no longer disburse or collect student loans directly to students under the expanded scheme; nor, will it make individual grant disbursements to students. These functions will be handled by approved financial Institutions and tertiary institutions, respectively.

2.4 The project would improve the management efficiency of the SLB through restructuring its organization and staffing. A new SLB organizational structure has been proposed which reflects the revised mandate of the SLB and scope of work (Annex II, Chart C). Overall, the number of positions has been reduced from over 60 in the present Bureau to about 25 full-time staff.

2.5 The project would also strengthen operational procedures, particularly loan application processing, means testing and targeting. An Operational Manual defining the operational procedures for the SLB, including its linkages with commercial banks and tertiary institutions, targeting criteria, and monitorable indicators has been prepared. <u>As a condition of effectiveness, an Operational Manual must be adopted by the Borrower and the SLB and a functioning management information system (MIS) must be operating in a manner satisfactory to the Bank</u> (para. 7.2 (a)). A functioning MIS would be capable of processing student financial assistance applications, determine their eligibility for subloans and/or subgrants and be able to verify information from AFIs regarding the names of the students and

[9] Given the low interest rate (12%) on existing loans and the proportion of delinquent loans that are overdue by more than one year, the net present value of the existing SLB loan book is extremely low. Therefore, the SLB will passively collect existing loans (e.g. maintain a collection window) in order to minimize administrative costs.

the amounts of the corresponding Subloan Agreements and be able to generate an automated withdrawal application request for reimbursement from the Bank's loan account.

2.6 As described below, it has been estimated that approximately one-third of tertiary students would be eligible for student loans. However, the actual distribution of tertiary students by consumption quintile is not known with complete accuracy. So although the means test would target students from the poorest three quintiles (which on a national sample would represent 60% of the population), it is not precisely known what proportion of tertiary students would be eligible. Therefore, this component would support two rounds of a special survey of tertiary students (based on the methodology to carry out the Survey of Living Conditions) to determine both the distribution of benefits of the student loan and grant-in-aid programs by consumption quintiles, and the effectiveness of the targeting and means testing conducted by the SLB (Annex IV). The first round would be conducted in early 1997 based on the loan and grant applications received and reviewed during the first year of the project.

2.7 The following inputs would be supported under this component: (i) technical assistance to restructure the SLB; (ii) recruitment, hiring and training of staff, including local training in upgraded procedures; (iii) technical assistance to prepare the Operational Manual and application forms and support for their reproduction; (iv) upgrading of computer hardware and software for management and financial information systems, including linkages with commercial banks; (v) support for studies, including impact evaluation of which income groups are served by the loan program; (vi) technical assistance for external mid-term and final evaluations; and (vii) one vehicle.

Component 2: Expanded Student Loan Scheme (US$ 27.0 million; including contingencies)

2.8 In order to assist students to meet increased private costs of tertiary education, this component will provide funding for an expanded student loan scheme. The Bank's loan proceeds would be onlent by the SLB to approved financial institutions (AFIs) (Annex V). Funds would then be onlent to tertiary students deemed eligible by the SLB.

2.9 Sub-loan Processing. The SLB would no longer be responsible for the direct disbursement and collection of student loans. Under the existing 1971 Students' Loan Fund Act, the SLB is not empowered to enter into onlending operations with financial intermediaries, therefore, an amendment to the Act is required in order to follow the structure designed by the proposed Project. As a condition of effectiveness, an amendment to the Students' Loan Fund Act must be in full force and effect (para. 7.2 (b)). The SLB's function would be to receive and review a consolidated loan and grant application form to determine eligibility on income grounds and ensure that students are in good academic standing. If eligible, a loan equivalent up to 100% of tuition fees for the given area of study is recommended by the SLB and the application is forwarded to an AFI of the student's choice. The AFI then disburses the funds (a subloan) to the tertiary institution. Subloans are then consolidated by the AFI which then obtains a loan ("Intermediary Loan") from the SLB on similar terms and conditions as those for student sub-loans. In addition, AFIs would receive a 3.5% annual margin on the principal disbursed to cover administration of the subloans. For all subloans, the government would provide a guarantee in the event of death or disability for the period the student is in school and the 6 month grace period. For all loans, the repayment length would be a maximum of 7 years. Shorter terms would be acceptable if mutually agreed by the AFI and the borrower.

2.10 Repayment risk. The risk would be shared by the AFIs and the Government of Jamaica as follows. For subloans with collateral found acceptable by the AFI (at the time of application), the AFI would agree to assume the repayment risk once students have graduated plus 6-month grace period (Class "A" loans). For students, who upon graduating find employment satisfactory to the AFI, the repayment risk (Class "B" loans) would be assumed by the AFI for the remainder of the sub-loan's term (Annex I, Table 6). Those not falling into Class "A" or "B" would receive full GOJ guarantee (Class "C" loans), but the bankers would exercise due diligence in collection to maximize recovery.

2.11 Subloan interest rate. In determining the interest rate to be charged to students, the cost to the Government of borrowing from the Bank, including exchange rate risk, and affordability in terms of the debt burden were taken into account (Annex I, Table 7 and Annex X). The interest rate charged during the in-school and grace periods would be 15% annually but capitalized. Once repayment begins, the interest rate converts to the average savings rate for deposits in Jamaican Dollars paid by commercial banks in Jamaica plus 5 percentage points, adjusted annually on January 1st. The average passbook savings rate has been relatively stable around 19%. With the spread, a 24% interest rate would presently cover GOJ's cost of funds from the Bank (an effective rate of approximately 17%) plus the 3.5% margin to be paid to the banks. Compared to the average commercial bank lending rate (over 50%), the interest subsidy is substantial. However, there are two arguments for adopting the structure as proposed. First, the loan scheme is targeted to the poorest students. Second, because the subloans are disbursed directly to the tertiary institutions for fees, it is unlikely that there will be any leakages to allow for this subsidy to distort the general credit market. During negotiations, agreement was reached that the interest rate will be at average passbook savings rate for deposits in Jamaican Dollars paid by commercial banks in Jamaica plus 5 percentage point spread, adjusted annually on January 1st (para. 7.1 (a)).

2.12 Targeting. Because of the substantial interest rate subsidy, the loans would be targeted to students from poorer backgrounds, approximately one-third of the tertiary student population. Targeting will rely on income data submitted on the application form. Income information will be collected using the question format contained in the 1993 Survey of Living Conditions (SLC) as this format produced valid income data. Information will be collected on earned and unearned income. To determine the applicant's available resources, the applicant's projected education costs (i.e. tuition) and the education costs of any siblings or dependents who are enrolled in secondary or tertiary institutions will be deducted from total income. Available resources will be adjusted for household size. Cutoff points for eligibility will be included in the Operational Manual. As noted above (para. 2.6), given the paucity of information concerning the present composition of the tertiary student body on income grounds, the evaluation study monitoring the distribution of loan beneficiaries during the first year of the project would be used to make adjustments cut-off points. Thereafter, cut-off points for eligibility will be adjusted annually for inflation.

2.13 This component would support: (i) funds to expand the Students' Loan scheme; and (ii) margin of 3.5% per year to AFIs to administer student subloans during the period students are in school plus 6 months grace.

Component 3: Grant-In-Aid Program (US$8.5 million, including contingencies)

2.14 Although students from poorer backgrounds would be eligible to borrow under the student loan program, there will be substantial opportunity costs to them (and their families) in extending their education to the tertiary level in terms of foregone family income. Because subloans would not cover living expenses, which are substantially more than tuition fees, mobilizing the remaining funds will be a significant deterrent for poorer students. And, despite prospective higher earnings, students from poor backgrounds may be reluctant to accumulate excessive debt. Therefore the project will also support a targeted grant scheme for full-time UWI and Utech students only to help meet a share of outlays not covered by subloans for students from low-income families. The component will provide funding for a Grants-in-Aid program with overall administration by the SLB. Under the existing 1971 Students' Loan Fund Act, the SLB is not empowered to provide grants to students, therefore, an amendment to such Act is required in order to follow the structure designed by the Project. As a condition of effectiveness, an amendment to the Students' Loan Fund Act must be in full force and effect (para. 7.2 (b)).

2.15 Student need would be assessed based on a comprehensive review by the SLB of the applicant's overall financial requirements and available resources (including subloans, which would be mandatory before students could receive a grant).[10] Targeting criteria would be an extension of those used to determine subloan eligibility; students from the bottom consumption quintile (representing approximately 10% of the tertiary student body at UWI and UTech) will be eligible for a grant. For second and third year students, UWI and UTech would be consulted in selection of students. Subgrants would cover approximately 25% of housing and maintenance costs and books. Actual disbursements to students will be handled by UWI and UTech in the form of a block grant to be transfered by the SLB. Students would sign for subgrants when disbursed by the tertiary institution.

Component 4: Public Awareness Campaign (US$0.4 million, including contingencies)

2.16 The project would support a public awareness campaign to disseminate information among students, parents and the general public about policy changes for increased cost sharing and the options available for meeting those costs. The project would support technical assistance to develop the public awareness campaign, implement mass media campaigns and produce materials designed to: (i) explain Government's policy regarding higher education; (ii) explain the operation of financial aid programs (loans and grants); and (iii) promote understanding of the significance of debt obligations. In the first and fourth years of the project, the evaluation survey will also provide feedback from students on their experiences and satisfaction with the student loan program (Annex IV).

2.17 The SLB would have overall responsibility of the campaign, but would liaise with the MOEYC's Tertiary Unit, the tertiary institutions, secondary institutions with prospective students and financial institutions in terms of developing and disseminating the materials.

2.18 Project support would include: (i) local technical assistance to develop suitable materials (consultants would work in conjunction with banks and tertiary institutions); (ii) supplies and reproduction costs; (iii) rental of TV, radio, and newspaper spots; (iv) one vehicle and per diem travel expenses for the SLB public relations person and MOEYC staff.

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[10] Exceptions would be made for poor students receiving scholarships or bursaries to cover tuition costs.

3. PROJECT COSTS AND FINANCING

PROJECT COSTS

3.1 **Project costs.** Total project costs, including physical and price contingencies, are estimated at US$38.5 million. Foreign exchange costs and local costs excluding taxes and duties amount to US$0.4 million (1%) and US$ 38.1 million (99%), respectively. Table 3.1 summarizes estimated project costs by component. Annex VI provides a further breakdown of project costs.

Table 3.1 Project Cost Summary

	(US$ millions)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total		
A. Institutional Strengthening	2.1	0.4	2.5	15.0	6.0
B. Student Loan Scheme	28.5		28.5	0.0	72.0
C. Grant-In-Aid	8.1		8.1	0.0	21.0
D. Public Awareness Campaign and Credit Education Program	0.4		0.4	2.0	1.0
Total Baseline Costs	39.2	0.4	39.6	1.0	100.0
Price Contingencies	-1.1	0.0	-1.1	-1.0	-3.0
Total Project Costs	38.1	0.4	38.5	1.0	97.0

3.2 **Basis of cost estimates.** Project costs are estimated at December 1995 prices. Costs of equipment and materials are based on agreed lists of items and on the CIF prices of the items procured in the country. Costs of training, local and international consultants and other services reflect local or international rates, where applicable.

3.3 **Contingency allowances.** There are no physical contingencies, while price contingencies (averaging -3% of base costs) were estimated on the basis of expected annual foreign inflation averaging 3.2% for the life of the project; and local price increases of 15% for 1996, 12% for 1997 and 1998, and 10% per year thereafter.

3.4 **Incremental recurrent costs**. Total incremental recurrent costs generated over the life of the project life are estimated to be US$2.0 million, mostly generated by salaries for the incremental SLB staff and by operations and maintenance costs of the new MIS. These costs will be financed on a declining basis.

3.5 **Foreign Exchange component.** Direct and indirect foreign exchange costs are estimated at about J$18.0 million (US$0.4 equivalent), including contingencies. The foreign exchange component for the major categories was estimated as follows: student loans (0%); grants (0%); equipment (100%), foreign consultants (100%) and training (5%).

FINANCING PLAN

3.6 Total project costs are estimated at US$38.5 million. A Bank loan of US$28.5 million would finance 74% of total project costs excluding taxes. The loan would cover 75% of investment costs; 96% of foreign exchange expenditures (US$ 0.4 million) and 74% of the local exchange expenditures (US$28.1 million). The Borrower will finance the remaining US$10.0 million. While the Bank loan would fully finance the Student Loan Scheme component, the Borrower will be the sole financing of the Grant-in-Aid Program component (Table 3.2). The Bank loan would be a single currency loan denominated in US dollars, to be repaid in 17 years, including 5 years' grace at the standard interest rate for LIBOR-based US dollar single currency loans.

Table 3.2 Financing Plan, by component

	(US$ million)							
	Government of Jamaica		**The World Bank**		**Total**		**For.**	**Local (Excl.**
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Exch.**	**Taxes)**
A. Institutional Strengthening	1.1	44.8	1.4	55.2	2.6	6.7	0.4	2.2
B. Student Loan Scheme	-	-	27.0	100.0	27.0	70.2	-	27.0
C. Grant-In-Aid	8.5	100.0	-	-	8.5	22.0	-	8.5
D. Public Awareness Campaign and Credit Education Program	0.4	97.6	0.0	2.4	0.4	1.1	0.0	0.4
Total Disbursement	10.0	26.0	28.5	74.0	38.5	100.0	0.4	38.1

3.7 **Retroactive financing**. Retroactive financing of up to US$2.8 million will be provided for expenditures made under components A and D as shown in Table 3.2 in accordance with Bank procurement guidelines after August 31, 1995. Disbursements made under the Student Loan Scheme component will not be eligible. Retroactive financing is recommended to ensure that technical assistance and upgrading of computer hardware and software for financial and management information systems necessary for the timely implementation of the project begins with sufficient lead time.

4. PROJECT IMPLEMENTATION AND MANAGEMENT

IMPLEMENTATION SCHEDULE

4.1 The proposed project will be completed in 5 years, however, most technical assistance and all procurement will be completed within 6 months of Loan effectiveness and all recommendations for procedural or organizational changes within SLB should be implemented within 6 months of Loan effectiveness.

PROJECT MANAGEMENT

4.2 The SLB will be the executing agency and under existing legislation, the SLB reports to the Student Loan Council which is comprised of between 9-11 members appointed by the Minister of Finance. The Council in turn reports to the Minister of Finance (Annex II, Chart C). The SLB will have overall responsibility for project implementation. It will directly execute: processing and approval of subloans and subgrants; maintenance of the management information system for the subloans and subgrants; administration of an on-going public awareness campaign; liaison with tertiary institutions. During negotiations, a Project Agreement between the Bank and the SLB was discussed and agreed (para. 7.1 (b)). The SLB will also ensure that budgetary, procurement, contracting, disbursement, administrative, accounting, auditing and reporting requirements are carried out in accordance with the provisions of the Project Agreement.

4.3 Key staff for the SLB have been identified and will be in place as of June 1, 1996. These staff include: Executive Director, Manager of the MIS unit, and the Public Relations Officer. They will work with GOJ staff and consultants to finalize the Operational Manual, adapt and install hardware and software systems to administer the Student Loan Scheme, and begin to prepare materials for the public awareness campaign. During negotiations, agreement was reached that the SLB will implement the project in accordance with the agreed Operational Manual, which shall not be changed without the Bank's consent (para. 7.1 (c)).

4.4 **Institutional Linkages**. The proceeds of the Bank loan will be transferred by the GOJ to the SLB (on a grant basis) under a Subsidiary Grant Agreement in order to enable SLB to carry out the activities under the proposed Project, including the activities under the expanded Student Loan Scheme Component. With respect to the expanded Student Loan Scheme component, the SLB will onlend a portion of the loan proceeds to each AFI under a Participation Agreement (the loan from SLB to a Financial Intermediary will be called an Intermediary Loan). In turn, the Financial Intermediary will onlend a portion of the proceeds of the Intermediary Loan to each eligible student under a Subloan Agreement. As a conditions of effectiveness, the Borrower will: (a) execute the Subsidiary Grant Agreement between itself and the SLB; and (b) confirm that at least two Participation Agreements with Approved Financial Institutions have been signed (para. 7.2 (c & d)).

4.5 For the Grant-in-Aid component, the SLB will disburse block grants to tertiary institutions based on individual student grant awards. A subgrant agreement should be entered into by the SLB, students and the tertiary institutions. Although tertiary institutions will disburse funds directly to beneficiaries, students will sign the agreement on receipt of grant funds.

4.6 The SLB will liaise with secondary and tertiary institutions and the mass media to inform students and their parents about the Students' Loan Scheme and Grant-in-Aid program. The SLB will also liaise with tertiary institutions to validate student status to determine eligibility for both subloans and subgrants. The SLB will report to the AFIs when the academic status of students changes.

PROCUREMENT

4.7 Procurement of goods under the proposed project will be carried out in accordance with "Guidelines for Procurement Under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996. The bulk of the loan proceeds (95%) will be handled through Financial Institutions. Limited amounts of equipment and consultant services will be procured as shown in Table 4.1. Under the Institutional Strengthening component <u>computer equipment</u>, estimated to cost $150,000 or less in total, will be procured through Limited International Bidding (LIB) among all international suppliers with service facilities in Jamaica. <u>Vehicles</u>, estimated to cost US$30,000 or less in total, will be procured using international shopping procedures. <u>Other office equipment and supplies</u>, estimated to cost $15,000 or less per contract and less than $25,000 in total will be procured using national shopping procedures. <u>Consultants</u> will be selected and employed in accordance with the World Bank "Guidelines for the Use of Consultants by World Bank Borrowers" published in August 1981. Whenever appropriate, Bank-issued standard forms of contract will be used for consulting assignments. Prior review would be required for all contracts awarded under LIB and for all consulting services contracts regardless of their value.

Thresholds for Procurement Methods and Prior Review
(US$ '000)

Category	Contract Value (Threshold)	Procurement Method	Contracts subject to Prior Review
GOODS			
Computers	< 150	LIB	All
Vehicles	< 30	International Shopping	None
Other goods	< 15	National Shopping: Price quotations from at least 3 bidders	None
CONSULTING SERVICES			
Firms	No threshold	Selection according to Consultants Guidelines	All
Individuals	No threshold		All

Table 4.1 Summary of Proposed Procurement Arrangements (in millions US$ '000)

	Procurement Method					
	ICB	NCB	Consulting Services	Other	N.B.F.	Total
Training and Seminars	-	-	-		0.1	0.1
Equipment and Software		-	-	0.1 1/ (0.1)	-	0.1 (0.1)
Printing Materials	-		-	0.01	0.1	0.1
Rental	-	-	-		0.1	0.1
Technical Assistance	-	-	0.5 (0.3)			0.5 (0.3)
Subloans & Admin costs	-	-	-	27.0 2/ (27.0)	-	27.0 (27.0)
Grants	-	-	-		8.5	8.5
Recurrent Cost	-	-	-	2.0 2/ (0.97)		2.0 (0.97)
otal			0.5 (0.3)	29.2 (28.1)	8.8	38.5 (28.5)

ote: Figures in parenthesis are the respective amounts financed by The World Bank. Totals may not add due to r
1/ LIB for computers and software; International shopping for vehicles.
2/ Not subject to procurement.

DISBURSEMENT

4.8 The proposed Bank loan would finance about 74% of the total estimated project cost net of taxes. Disbursement percentages for the various categories of expenditure are presented in Annex VI, Table 4. For subloans, 100% of the amount onlent by an AFI to a student will be eligible for Bank financing. The estimated schedule of disbursements is shown in Annex VI, Table 5.

4.9 A Special Account in US dollars would be established and maintained to facilitate implementation. Due to the rapid disbursements expected within the first months after Loan effectiveness, a Special Account with an initial deposit of US$2.8 million would be opened for the SLB in a commercial bank acceptable to the Bank. The SLB would be authorized on behalf of the Borrower to sign applications for withdrawal to implement activities under the project.

4.10 **Required Documentation**. Disbursements for subloans, administration fees, training, operational expenditures, and goods (other than computer equipment and software) costing less than US$150,000 would be made on the basis of SOEs, for which supporting documents would be retained in the SLB and made available to the Bank for review during the course of normal project supervision. The SLB Executive Director will be responsible for submitting aggregated eligible expenditures under each heading and for preparing withdrawal applications for submission to the Bank.

ACCOUNTING AND AUDITS

4.11 During negotiations, agreement was reached that the SLB will maintain records and accounts for each project component and consolidate them into the project accounts and SOEs (para. 7.1 (d)). Expenditures under subloans (i.e. Component B) would be disbursed on the basis of statements of expenditure (SOEs) submitted by the SLB. Supporting documentation will be maintained by the SLB and made available to Bank missions and independent auditors as required.

4.12 Project accounts, including the special account and SOEs will be audited annually in accordance with appropriate auditing principles applied by external private independent auditors acceptable to the Bank, with terms of reference for auditors and reports approved by the Bank. During negotiations, agreement was reached that the audit reports would contain separate opinions regarding the existence and reliability of the supporting documentation for disbursements based on SOEs (i.e. student loans) (para. 7.1 (e)). During negotiations, agreement was reached that the Borrower select independent auditors acceptable to the Bank to audit project accounts, and provide copies of the audited statements to the Bank within six months of the end of each fiscal year (para. 7.1 (f)). The cost of the consultant services to be employed for the annual audits will be eligible for financing under the loan.

PROJECT MONITORING, SUPERVISION AND EVALUATION

4.13 The SLB will be responsible for the timely implementation, monitoring and evaluation of project activities. During negotiations, the SLB and the Bank agreed on monitorable indicators (para. 7.1 (g) and Annex VII). Agreement was also reached that the SLB will: (a) prepare and submit semiannual project implementation reports to the Bank by April 30 and October 31 of each year; (b) carry out, along with the Borrower and the Bank, an annual review of the progress made in the implementation of the project by May 31 of each year; (c) conduct a mid-term review of the project, along with the Bank and the Borrower, by May 31, 1998; and (d) prepare the Project Implementation Completion Report, including a plan for the future sustainability of the SLB (para. 7.1 (h)). Project performance indicators (as specified in Annex VII) will be included in the annual reports in order to track the progress made. In addition to annual reviews which would take place in May, interim visits (e.g. in November) would continue to review the progress in the implementation of the project soon after disbursements have been made to students at the start of the academic year (Annex VIII). The project would require about 15 staff weeks supervision in the first fiscal year (7 of which in the field) and 9 weeks thereafter (4 of which in the field). Where possible use would be made of the social sector specialist in the Resident Mission.

STATUS OF PREPARATION

4.14 The Minister of Finance requested the project to respond to tuition increases at the UWI effective September 1996. Accordingly, a Bank identification mission visited Jamaica in January 1995, followed by a preparation mission in May 1995. A pre-appraisal mission in December 1995 confirmed the participation of commercial banks. The project was appraised in March 1996 and negotiations were held in June 1996. Loan effectiveness is estimated for August 1996.

5. FINANCIAL ANALYSIS & SUSTAINABILITY

5.1 The Bank loan will provide an initial injection to capitalize the student loan scheme for five years. Analysis was done to determine whether it is costlier to the GOJ to administer a student loan program compared to the government giving pure grants to poor students. The level of analysis focuses on the net cost of the loan scheme as opposed to whether or not the program is fully sustainable (see Annex IX for more detail). Examining the net fiscal impact of the program was considered appropriate given that no student loan program could ever be fully financially sustainable (in the sense of being self-financing) because of the offsetting effect of higher interest rates on default rates.

5.2 The net fiscal costs to the Government were estimated for extending student subloans to one-third of tertiary students (about 5,000) over a five year period and compared to the expected tuition revenues from that same group of students. The analysis showed that the annual cost of the student loan program was less than the value of the fees that would be collected from the portion of students receiving loans--thus releasing funds from the tertiary level that could be reallocated elsewhere in the education sector. The net present value of the stream of costs for extending loans over a five year period was also less than the net present value of the fees paid by the borrowing students. On a per student basis, the net subsidy element to a poor student of a J$100,000 loan would be 30%, compared to 100% (plus administrative costs) for a grant scheme and nearly 80% for the present student loan scheme. The magnitude of the costs in part depends on the default rate. For example, under more pessimistic assumptions (i.e. a default rate of 30% with inflation running at 20% annually), the subsidy of the loan is 48%, substantially less than the present loan scheme. Nevertheless, containing the default potential will be an important strategy in keeping net costs reasonable and containing the subsidy element.

6. PROJECT BENEFITS AND RISKS

PROJECT BENEFITS

6.1 The project would: (a) create an enabling environment to mobilize greater private resources at the tertiary level thus increasing government's ability to redirect resources toward basic education; (b) contribute to human resource development by enabling more Jamaican students to pursue higher education; which in turn will provide scarce professional skills in both the public and private sectors; (c) increase access to higher education for students from lower socio-economic backgrounds; and, (d) contribute to improved quality of education, as students are able to place more legitimate demands on quality education commensurate with higher private costs.

PROJECT RISKS

6.1 The principal risk is the extent to which potentially high default rates would increase the cost of the Student Loan Scheme to the Government. Commercial banks have agreed to accept the repayment risk for a portion of students, namely those with adequate collateral at the time of application and those students who after graduation had found acceptable employment. For all other students, the government would continue to provide full guarantee. To reduce default rates of loans carrying government guarantee, banks would treat these as any other commercial debt obligation and fulfill minimum defined collection procedures before seeking recourse under the government guarantee. Collection efforts will also be monitored by the SLB based on quarterly information provided by the banks. Default rates would then be compared across participating banks. Should the default rate for a single AFI greatly exceed that of the average of the participating AFIs, the SLB would retain the right to revoke the certification of the AFI and suspend new student subloan commitments. To minimize default from the perspective of the students, salary deduction orders would be requested by the banks where possible. A disclosure waiver to publish the names of students in default and release their names to credit bureaus would be sought by the banks when students sign subloan agreements. Lastly, in order to reduce the burden of payments, subloan repayment schedules would be graduated.

6.2 A second risk relates to potential backlash from students and families, primarily those who are no longer eligible for subsidized loans (given tighter and more narrow targeting). To address this, a public awareness campaign is included in the project to explain to the general public and to parents and students the government's policy on financing tertiary education.

6.3 Finally, as designed, the Student Loan Scheme involves the participation of the AFIs. In addition, the SLB will also administer the grant-in-aid program. Therefore, the Students' Loan Fund Act (which instituted the SLB and regulates its operations) must be amended to enable the SLB to carry out the mentioned programs under the Project. As of today, such amendment has been approved by the Borrower's Cabinet. However, to be in full force and effect, such amendment must be approved by the Borrower's Parliament and signed by the Governor General. This risk may be minimized by the fact that the current government has a majority in Parliament. Additionally, on June 27, 1996 the Bank has received written assurances from the Minister of Finance and Planning that the amendment will be in full force and effect by late July. The Bank has, however, required that the amendment to the Students' Loan Fund Act be in full force and effect as a condition of effectiveness of the Loan Agreement.

7. AGREEMENTS AND RECOMMENDATION

7.1 During negotiations, it was agreed that:

(a) the interest rate will be average savings rate for deposits in Jamaican Dollars paid by commercial banks in Jamaica plus 5 percentage point spread and that it will be adjusted annually on January 1st (para. 2.11);

(b) there will be a Project Agreement between the Bank and the SLB, the contents of which are also agreed (para. 4.2);

(c) the SLB will implement the project in accordance with the agreed Operational Manual, which shall not be changed without the Bank's consent (para. 4.3);

(d) the SLB maintain records and accounts for each project component and consolidate them into the project accounts and SOEs (para. 4.11);

(e) the audit reports would contain separate opinions regarding the existence and reliability of the supporting documentation for disbursements based on SOEs (i.e. student loans) (para. 4.12);

(f) the Government select independent auditors acceptable to the Bank to audit project accounts, and provide copies of the audited statements to the Bank within six months of the end of each fiscal year (para. 4.12);

(g) on the monitorable indicators (para. 4.13); and,

(h) the SLB:

  (i) prepare and submit semiannual project implementation reports to the Bank by April 30 and October 31 of each year;

  (ii) carry out, along with the Bank, an annual review of the progress made in the implementation of the project by May 31 of each year;

  (iii) conduct a mid-term review of the project, along with the Bank, by May 31, 1998; and

  (iv) prepare the Project Implementation Completion Report (para. 4.13).

7.2 As conditions of effectiveness:

(a) an Operational Manual must be adopted by the Borrower and the SLB and a functioning management information system (MIS) must be operating in a manner satisfactory to the Bank (para. 2.5);

(b) amendment to the Student Loan Fund Act must be in full force and effect (paras. 2.9 and 2.14);

(c) a Subsidiary Grant Agreement between the GOJ and the SLB has been executed (para. 4.4); and,

(d) the GOJ will confirm that it has signed at least two Participation Agreements with Approved Financial Institutions (para. 4.4).

7.3 Recommendation: Subject to the above assurances and conditions, the proposed project would constitute a suitable basis for a Bank loan of US$28.5 million at the standard interest rate for LIBOR-based US dollar single currency loan repayable on 17 years including a five year grace period.

8. ANNEXES

Annex I, Table 1: Registration of Jamaican Students at Mona Campus, 1994/95

Faculty	Type of Degrees Awarded						Overall	
	First degrees		Certifi. and diplomas		Higher degrees			
	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time	Number	(%)
Arts & General Studies	833	397	9	0	54	124	1,417	21.2%
Education	213	5	10	0	29	123	380	5.7%
Law	44	0	0	0	0	0	44	0.7%
Medical Sciences								
Medicine	318	0	0	0	113	33	464	7.0%
Nursing	3	2	8	0	0	0	13	0.2%
Natural Sciences								
Preliminary	175	62	0	0	0	0	237	3.6%
Degree	914	153	0	0	80	58	1,205	18.1%
Social Sciences	1,185	841	51	421	135	276	2,909	43.6%
TOTAL	3,685	1,460	78	421	411	614	6,669	100.0%
(Row %)	55.3%	21.9%	1.2%	6.3%	6.2%	9.2%	100.0%	100.0%

Source: UWI, Mona Campus: *Registration by Faculty and Country, 1994/95.*
Note: The percentage share of full-time students is 62.7%.

Annex I, Table 2: Enrollments at UTech, 1993/94

Faculty	Full-time studies			Part-time studies			Overall	
	Degree	Dip. & Cert.	Modular (summer)	Day release	Eve	Modular	Number	(%)
Building	16	268	64	111	0	0	459	7.7%
CSA	37	79	0	0	0	0	116	2.0%
Commerce	0	756	306	391	620	0	2,073	34.9%
Computer studies	0	167	67	0	0	459	693	11.7%
Engineering	0	424	102	275	23	323	1,147	19.3%
HFS	0	265	15	0	168	0	448	7.5%
Science	0	285	120	0	43	0	448	7.5%
Tech. education	0	324	237	0	0	0	561	9.4%
TOTAL	53	2,568	911	777	854	782	5,945	100.0%
(Row %)	0.9%	43.2%	15.3%	13.1%	14.4%	13.2%	100.0%	100.0%

Source: College of Arts, Science & Technology, *College Summary - Student Enrolment, 1993/94 Academic Year.*

Note: The percentage share of full-time students is 44.1%, and the full-time equivalent enrollment for 1993/94 was 2880 students

Annex I, Table 3: Estimates of Annual Cost of Undergraduate Programs, UWI, Mona Campus, 1994/95

Faculty	Tuition and fees: Tuition & exam fees	Tuition and fees: Other fees & charges	Maintenance: Books & incidentals	Maintenance: Housing & meals	Overall (J$)
Arts & Gen. Studies, B.A.					
Day full time	19,300	1,455	22,113	65,436	108,304
Evening part time	9,650	750	11,057	N/A	21,457
Education	24,900	1,455	22,113	65,436	113,904
Law	22,900	1,455	22,113	65,436	111,904
Medical Sciences					
Med. -- Pre-clinical	33,200	1,455	22,113	65,436	122,204
Med. -- Clinical	49,900	1,455	22,113	86,100	159,568
Nursing	22,100	1,455	22,113	65,436	111,104
Natural Sciences, B.Sc.					
Full time	28,900	1,455	22,113	65,436	117,904
Part time	14,450	750	11,057	N/A	26,257
Social Sciences					
Day full time	16,800	1,455	22,113	65,436	105,804
Part time (evening)	8,400	750	11,057	N/A	20,207

Source: University of West Indies: Mona Campus, *Estimate of Annual Cost of Undergraduate Degree Certificate & Diploma Courses - 1994/95.*
Note: Housing and maintenance costs are for those living at Residence Hall on campus

Annex I: Table 4: Historical Data on the SLB Student Loans, 1970-1994

Year	Loan Approvals			Loan Disbursements [a]		Average Loan Size of Approved Loans	
	Number of Loans	(current J$'000)	(constant [b] 1994 J$'000)	(constant 1994 J$'000)	As % of Approved Loans	(current J$'000)	(constant 1994 J$'000)
1970/71	467	744	70,188	--	--	1,594	150,295
1971/72	1,006	1,380	123,109	--	--	1,372	122,375
1972/73	1,002	1,491	126,204	--	--	1,488	125,952
1973/74	1,121	1,609	116,056	--	--	1,435	103,529
1974/75	1,129	1,055	59,950	--	--	934	53,100
1975/76	1,691	2,791	134,647	--	--	1,651	79,625
1976/77	1,838	3,758	165,865	--	--	2,045	90,242
1977/78	1,943	2,654	104,855	--	--	1,366	53,965
1978/79	2,346	5,267	154,414	--	--	2,245	65,820
1979/80	1,796	2,215	50,347	--	--	1,233	28,033
1980/81	2,192	3,070	54,671	51,726	94.6	1,401	24,941
1981/82	2,319	3,633	57,260	54,864	95.8	1,566	24,692
1982/83	2,576	4,466	65,599	60,648	92.5	1,734	25,465
1983/84	2,644	4,815	62,242	58,397	93.8	1,821	23,541
1984/85	2,677	5,100	49,716	47,066	94.7	1,905	18,571
1985/86	2,160	5,080	39,650	35,185	88.7	2,352	18,357
1986/87	2,394	7,747	54,271	51,663	95.2	3,236	22,670
1987/88	2,481	9,199	61,227	55,944	91.4	3,708	24,679
1988/89	2,528	10,856	66,437	57,451	86.5	4,294	26,281
1989/90	2,315	10,107	53,585	56,620	105.7	4,366	23,147
1990/91	2,593	13,533	57,939	50,390	87.0	5,219	22,344
1991/92	3,121	17,629	46,107	38,193	82.8	5,648	14,773
1992/93	3,179	22,703	35,682	29,219	81.9	7,142	11,224
1993/94	3,162	28,104	35,722	33,402	93.5	8,888	11,297
1994/95 c/	2,298	22,306	22,306	--	--	9,707	9,707

Sources: The Students' Loan Bureau, *Twenty-First Anniversary, 1970-1991*.
Peat Marwick & Co., *Students' Revolving Loan Fund: Financial Statement*, 1980-1993.

a/ Figures for loan disbursement are the amount of loan advances made during the financial year ending on the March 31 of each year.

b/ Deflator time series (CPI) comes from the Ministry of Finance and Planning for 1982/83-1994/95, which has been spliced with the CPI data from the IMF IFS for the earlier period.

c/ Loans processed as of October 1994.

Annex I: Table 5: SLB Source and Application of Funds, 1991-1994

Source and Application of Funds	1991 (million)	(%)	1992 (million)	(%)	1993 (million)	(%)	1994 (million)	(%)
Sources								
GOJ	3.1	9.8	6.4	14.2	8.6	15.1	10.8	15.2
BOJ	-1.9	-6.1	1.7	3.7	5.1	8.9	3.2	4.5
Income from Investment	9.0	**28.9**	12.4	**27.3**	18.4	**32.2**	25.9	**36.6**
Loan collection	8.9	**28.7**	9.9	**21.7**	12.9	**22.4**	14.8	**20.9**
Cess collection a/	4.4	14.2	7.2	15.7	5.0	8.8	2.2	3.1
Other Government	6.6	21.2	7.0	15.4	5.9	10.3	12.0	16.9
Others	1.0	3.2	0.9	2.1	1.2	2.1	1.9	2.7
Total	31.1	100.0	45.5	100.0	57.1	100.0	70.9	100.0
Applications								
Students' loans	12.1	**39.0**	14.9	**32.8**	21.2	**37.1**	25.3	**35.7**
Cash balances and bank deposits	7.6	24.6	12.3	24.8	14.9	26.1	14.4	20.3
Administrative expenses	4.0	**12.9**	5.7	**12.7**	7.2	**12.5**	15.7	**22.2**
Loan repayments (IDB)	3.1	9.8	6.4	14.2	8.6	15.1	10.8	15.2
Cess payments a/	3.2	10.4	4.5	9.9	5.6	9.8	1.0	1.4
Others	0.9	3.4	1..7	3.7	-0.4	-0.7	3.6	5.1
Total	31.1	100.0	45.5	100.0	57.1	100.0	70.9	100.0

Source: Peat Marwick & Co., *Students' Revolving Loan Fund: Financial Statements*, 1991-1994.
a/ The SLB acted as an agent of the Commissioner of Inland Revenue charged with the responsibility for collection and payment to the Commissioner of the Cess imposed on sponsored students.

Annex I, Table 6: Employment of UWI (Mona) Graduates by Discipline, 1989-1993

Employment category by Faculty	Employment distribution of graduates whose placements are known									
	1989		1990		1991		1992		1993	
Arts & General Studies										
1. further studies	6	5.7%	18	16.5%	14	9.8%	9	4.5%	4	2.4%
2. govt. & stat. bodies	26	24.5%	7	6.4%	39	27.3%	34	16.9%	31	18.6%
3. teaching	41	38.7%	39	35.8%	50	35.0%	62	30.8%	55	32.9%
4. private enterprise	16	15.1%	21	19.3%	24	16.8%	54	26.9%	46	27.5%
5. self-emp/migrated/oth	10	9.4%	10	9.2%	4	2.8%	18	9.0%	18	10.8%
6. UWI	0	0.0%	5	4.6%	2	1.4%	4	2.0%	2	1.2%
7. unemployed	7	6.6%	9	8.3%	10	7.0%	20	10.0%	11	6.6%
Overall	106	100.0%	109	100.0%	143	100.0%	201	100.0%	167	100.0%
Education	67	100.0%	50	100.0%	50	100.0%	52	100.0%	37	100.0%
Medical Sciences										
1. MBBS/Hospital Interns	63	79.7%	51	92.7%	50	92.6%	48	80.0%	46	82.1%
2. BSc. Nursing Education	16	20.3%	4	7.3%	4	7.4%	12	20.0%	10	17.9%
Overall	79	100.0%	55	100.0%	54	100.0%	60	100.0%	56	100.0%
Natural Sciences										
1. further studies	2	1.9%	8	7.3%	10	7.0%	11	5.5%	12	7.2%
2. govt. & stat. bodies	41	38.7%	31	28.4%	45	31.5%	1	0.5%	21	12.6%
3. teaching	24	22.6%	9	8.3%	22	15.4%	28	13.9%	35	21.0%
4. private enterprise	39	36.8%	43	39.4%	29	20.3%	39	19.4%	58	34.7%
5. self-emp/migrated/oth	6	5.7%	8	7.3%	2	1.4%	22	10.9%	22	13.2%
6. UWI	2	1.9%	1	0.9%	0	0.0%	1	0.5%	1	0.6%
7. unemployed	3	2.8%	9	8.3%	8	5.6%	18	9.0%	11	6.6%
Overall	117	100.0%	109	100.0%	116	100.0%	120	100.0%	160	100.0%
Social Sciences										
1. further studies	3	2.8%	5	4.6%	14	9.8%	22	10.9%	9	5.4%
2. govt. & stat. bodies	46	43.4%	63	57.8%	75	52.4%	53	26.4%	54	32.3%
3. teaching	12	11.3%	7	6.4%	14	9.8%	27	13.4%	20	12.0%
4. private enterprise	60	56.6%	70	64.2%	118	82.5%	97	48.3%	104	62.3%
5. self-emp/migrated/oth	8	7.5%	13	11.9%	4	2.8%	24	11.9%	26	15.6%
6. UWI	2	1.9%	0	0.0%	5	3.5%	3	1.5%	4	2.4%
7. unemployed	3	2.8%	7	6.4%	8	5.6%	19	9.5%	17	10.2%
Overall	134	100.0%	165	100.0%	238	100.0%	245	100.0%	234	100.0%

Source: University of West Indies: Mona Campus, *Annual Report: 1992-93*, Placement and Career Services.

Annex I, Table 7: Starting Annual Salaries of University and College Graduated by Job Title, 1993-1994

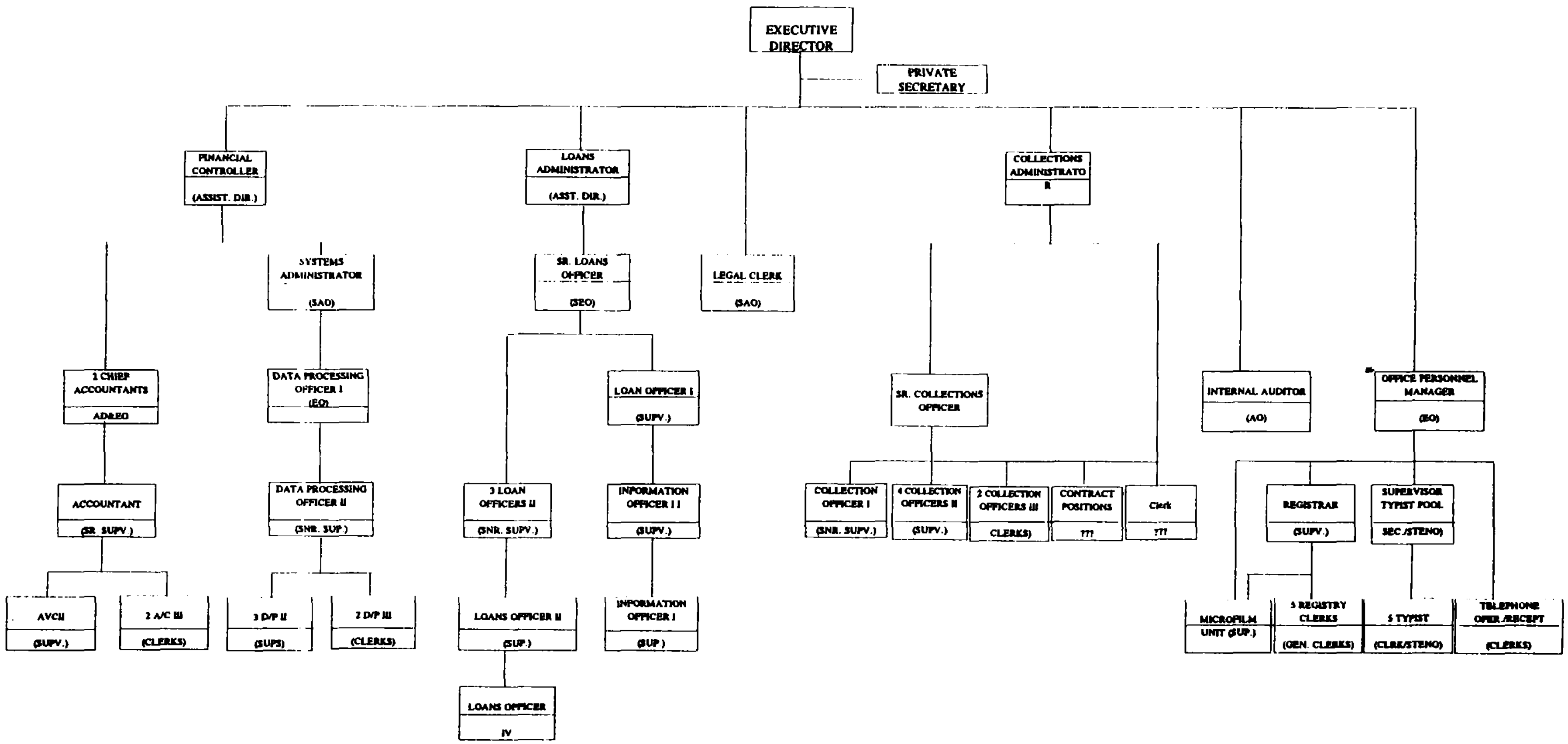
Occupation/Institution/Faculty		Year	Range of Salaries	Average Annual Salary
Teaching Job				
UWI	None educ. (arts)	1993	--	87,144
	Education degree	1993	--	120,078
Teachers'	Certificate	1993	--	69,723
College	Diploma	1993	--	81,774
Medical Profession				
UWI	Medicine	1993	--	212,766
	Nursing	1993	--	102,344
Public Sector (research assistant, junior economist and other non-managerial positions)				
	Social Science	1994	280,000-305,000	292,500
Private Sector (management trainee)				
	Social Science	1994	650,000	650,000
Architect				
CAST	Architecture (dip.)	1994	200,000	200,000
Engineer				
UWI (St. A)	Engineering	1994	180,000	180,000
CAST	Engineering (dip.)	1994	160,000	160,000
Program Analyst				
	Computer	1994	243,000- 484,000	340,000
Lab Technicial				
	Natural Science	1994	200,000-270,000	235,000
Quality Control Officer				
	Natural Science, etc.	1994	370,000-464,000	417,000
Hospitality				
	Tourism, Hospitality	1994	300,000	300,000
Business and Finance (Marketing analyst)				
	Business, Finance	1994	263,000-470,000	400,000

Note: The range of salaries estimated by staff of placement and counseling service of educational institutions was much lower than the sample salaries by Peat Marwick or salary figures mentioned by staff of Jamaica Employers' Federation. For instance, Placement and Career Services, UWI estimate the normal range of start-up salaries for the 1994 graduates to be J$ 180,000-230,000, while the counselor of CAST put it at the J$ 150,000-220,000.

Annex II: Organizational Charts

Chart A: Present Student Loan Bureau

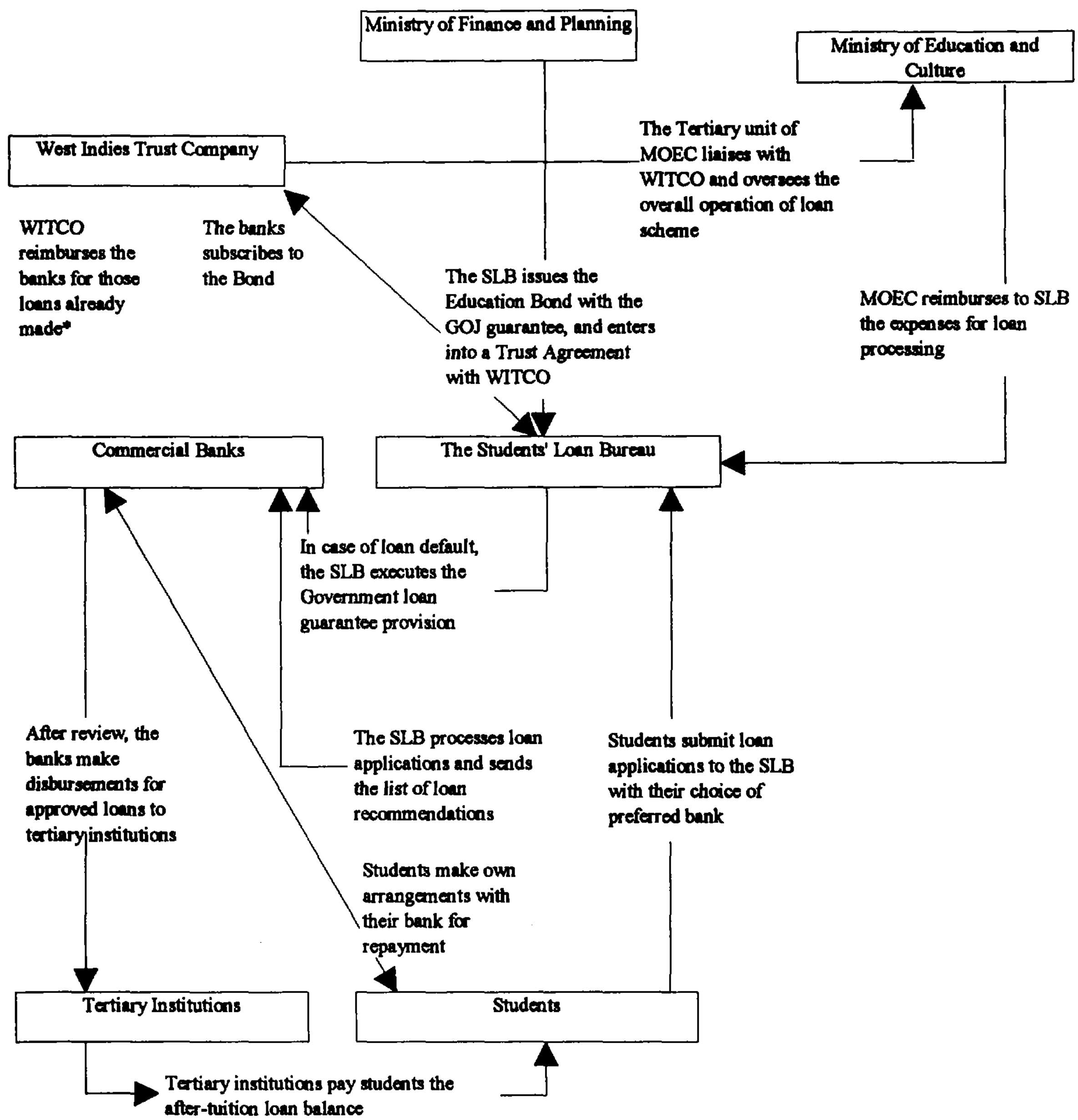
STUDENT LOAN BUREAU ORGANIZATIONAL CHART



Annex II: Organizational Charts

Chart B: Flow of Funds, WITCO

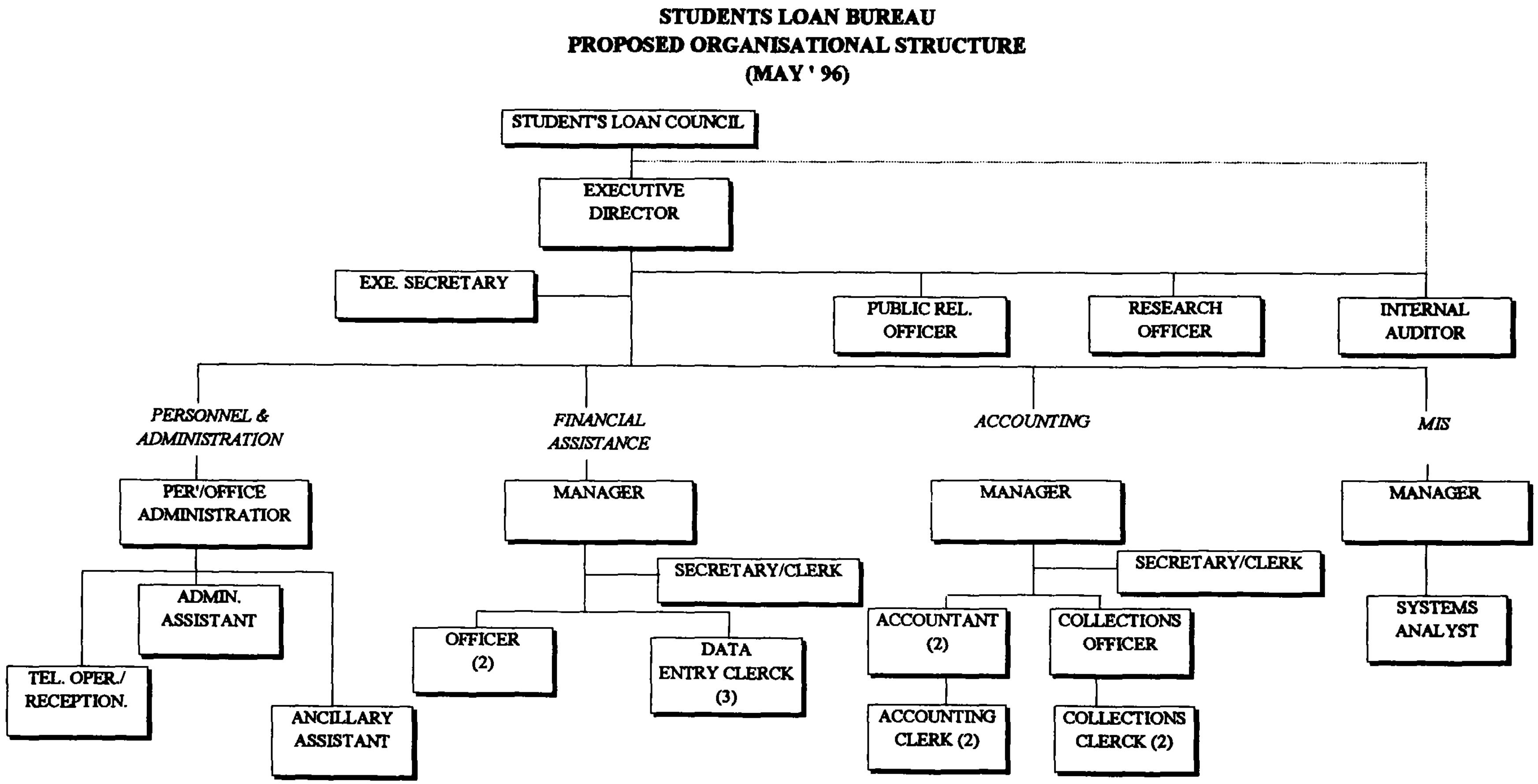
Schematic of the GOJ/Bankers' association Student Loan Scheme, 1994



* Includes the 1% handling fee

Annex II: Organizational Charts

Chart C: Proposed Structure of Student Loan Bureau



ANNEX III: Letter of Education Sector Policy

ANY REPLY OR SUBSEQUENT REFERENCE TO THIS COMMUNICATION SHOULD BE ADDRESSED TO THE PERMANENT SECRETARY AND THE FOLLOWING REFERENCE QUOTED:-

NO. ___________

MINISTRY OF EDUCATION YOUTH & CULTURE
2 NATIONAL HEROES CIRCLE
P.O. BOX 498,
KINGSTON, JAMAICA

10th June, 19 96

Ms. Jill Armstrong
Population & Human Resources Division
Latin America amd Caribbean Region
The World Bank
1818 H. Street N.W.
Washington D.C. 20433
U.S.A.

Dear Ms. Armstrong

Re: Government of Jamaica Policy and Financing Education

1. **Cost-Sharing**

The Government of Jamaica has embarked on a number of activities aimed at improving the quality of the nation's education system. The Government recognizes that most of the problems facing the system can be attributed to the inadequacy of the resources available to the sector. However, Government's efforts to finance education compares well with international norms hence, sizeable increases in government expenditure on education will not be feasible in the short term.

The Government has embarked on cost-sharing schemes which form an integral part of its policy on financing education. The schemes now operate on the following bases:

i) Government provides full support for Primary Education;

ii) Private participation through fee payment at the Secondary and tertiary levels;

iii) Careful targeting accompanied by support schemes to assist those who cannot afford to pay the full fees. Support schemes will operate as follows:

a) At the secondary level - Grants

b)..../Over

2.

b) At the tertiary level - Loans and Grants

iv) Ensure efficeint use of all resources.

2. **Allocation of Government Resources**

The prioritization of primary education and constraint on Government allocation to the sector will require an allocation of resources which maintains the viability of the system while skewing resources to the basic levels. Government will therefore pursue strategies which will re-allocate recurrent expenditures within the the next ten years as follows:-

Early Childhood and Primary	**50%**
Secondary	**33%**
Tertiary	**15%**

With the proposed reduction in allocation to tertiary education, Government will maintain a targeted students loan and grant programme. The loan being negotiated with the World Bank will be used to initiate this programme.

Yours sincerely

Burchell Whiteman

Burchell Whiteman
Minister

BW:sm

Annex IV: Evaluation Impact Study
Terms of Reference

Objective
To determine:
- the distribution of benefits of the student loan and grant-in-aid programs by consumption quintiles;
- the effectiveness of the targetting and means testing conducted by the SLB; and,
- the effectiveness of the public awareness campaign.

Methodology
The Survey of Living Conditions is a household survey which has been conducted each year in November since 1988. Although the information collected through these surveys has enabled the GOJ to estimate the population by consumption quintiles, it has not been useful for estimating the distribution of tertiary students by such quintiles for the simple reason that most students are not living at home when the survey is conducted. However, using the core modules of the SLC, (expenditure data, durable goods, housing etc.), it is possible to design a special module to assess:

- incidence of loans by consumption quintile
- incidence of grants by consumption quintile
- actual education costs and sources of financing for those costs, including the loan and grant program, as well as other sources
- public awareness and knowledge of the loan and grant programs
- credit education
- transaction costs and consumer burden
- consumer experiences and satisfaction with different aspects of program operation

Using the SLC as a basis will allow the students' welfare to be compared with the existing national distribution. This will make data interpretation relatively simple. It also greatly reduces the costs by eliminating the need for most of the design and testing stages of an instrument as well as the need for a control group.

Sample Composition
The sample of a minimum of 300 students should be drawn from *each* of four pools:

Group	Sample Frame
All students or non-applicants	Registrars' lists
Rejected applicants	SLB
Accepted applicants	SLB
Grant recipients	SLB or registrar

It may be necessary to gather information on both the student's household and that of his/her parents. This would certainly be the case for dependent students. It may also be desirable to gather information on parents of independent students to determine whether "independence" is being manipulated to qualify on income grounds for a loan. It is assumed that for each student in the sample, two households would have to be interviewed. Therefore, the total sample should consist of 2,400 interviews.

Implementation

It is proposed that the evaluation be carried out twice during the project. It should be done in the first year, after the award of loans and grants. This would allow for adjustments in procedures and thresholds early in the project to ensure that the there is not either substantial leakage of loans to higher income groups or, under coverage of the poorest students for either loans and/or grants. The evaluation would be repeated in the fourth year, again after loan and grant decisions had been made, to assess how the mature system was functioning. It is proposed that STATIN would carry out the data collection, data entry and construction of the consumption aggregates. The design of the new module and the analysis should be contracted out.

Timing

Round One: The design of the special module should be done as soon after project effectiveness as possible. Following the award of loans and grants by September 1996, fieldwork could be carried out in January/February 1997 with analysis to follow in March. Incorporation of the findings of the evaluation should be done no later than May 1997 in order in enable dissemination of any changes in thresholds or loan processing procedures for the following academic year.

Round Two: As above, in the fourth year of the project.

Annex V: Certification Criteria for Participation of Approved Financial Instituitions (AFIs)

Background

1. Exposure of potential Financial Institutions for students loans is very low under the current GOJ/Bankers' Scheme Student Loan Program. As Annex V, Table 1 shows, the proportion of student loans as a share of both loans and assets is currently less than 1%.

2. Assuming that students' expressed preference for banks in the expanded Student Loan Scheme continues to be diversified among the handful of banks currently involved in the GOJ/Bankers Scheme, and that these banks' asset base and total loan portfolio does not grow, then by Year 5 of the project student loans as a share of assets remain below 3% for all banks. Even for the largest participating bank in the student loan market, the share of student loans in total loans is only 7%.

3. Under an ongoing World Bank supported project, *Private Investment and Export Development Project (Ln. 3720-JM, signed April, 1994),* technical assistance is being provided to the GOJ to improve currently weak reporting requirements for and financial regulation governing Financial Institutions. The project also calls for legislation to be updated to support these improvements. A dated covenent in this Project requires that regulations to the Banking Act and the Financial Institutions Act be adopted and that the Prudential Regulations be revised by March 31, 1997.

Certification Criteria

4. Given the size of the student loan portfolio in any potential Financial Intermediary and the current weakness of reporting requirements and the general paucity of data on which to assess the financial soundness of Financial Intermediaries in great detail, the certification criteria for AFIs for the Student Loan Program will be:

(i) that the Financial Institution is in compliance with the Financial Institutions Act (1992), the Banking Act (1992) or other laws and prudential regulations as determined by the Bank of Jamaica. AFIs should also be current in meeting their obligation of having their financial statements audited by external auditors. The SLB would have the right at any time to revoke the certification of Financial Institutions found by the Bank of Jamaica to be in violation of these Acts or regulations.

(ii) the SLB also retains the right to revoke the certification of the AFI and suspend new student sub-loan commitments should:

(a) the AFI not exercise due diligence in the collection of subloans in accordance with indicators set forth in the Operational Manual; or

(b) the default rate expressed as the number student sub-loans (Class "C") exceed the average of participating AFIs.

Annex V: Table 1 Selected Financial Institutions in Current GOJ/Bankers Student Loan Scheme

	Bank A	Bank B	Bank C	Bank D
Share of SL portfolio under GOJ/Bankers Scheme	66.0%	21.0%	10.0%	3.0%
Based on 1993 Portfolio				
% of total loans	0.6%	0.2%	0.3%	0.2%
% of assets	0.2%	0.1%	0.1%	0.1%
Projected Year 5 Portfolio				
% of total loans	7.0%	3.5%	3.8%	3.0%
% of assets	<3.0%	1.0%	1.0%	<1.0%

Annex VI: Project Cost Tables

Table 1: Project Components by Year

	Totals Including Contingencies (US$ '000)					
	96/97	97/98	98/99	99/00	00/01	Total
A. Institutional Strengthening						
Management Information System	306.7	12.4	10.6	10.9	11.3	351.9
Reform Student Loan Bureau	493.1	384.5	409.5	405.8	449.9	2,142.8
Evauation and Monitoring	-	50.8	-	53.6	-	104.4
Subtotal Institutional Strengthening	799.7	447.7	420.1	470.4	461.1	2,599.0
B. Student Loan Scheme	4,273.2	5,309.2	5,562.1	5,837.1	6,056.8	27,038.5
C. Grant-In-Aid	1,596.7	1,650.6	1,688.3	1,742.1	1,782.9	8,460.7
D. Public Awareness Campaign and Credit Education Program	119.5	73.6	101.3	77.7	45.3	417.4
Total PROJECT COSTS	6,789.1	7,481.2	7,771.8	8,127.4	8,346.1	38,515.6

Table 2: Summary Accounts by Year

	Totals Including Contingencies (US$ '000)					
	96/97	97/98	98/99	99/00	00/01	Total
I. Investment Costs						
A. Technical Assistance						
Local Consultants	125.3	19.0	19.5	20.1	-	183.9
Foreign Consultants	192.9	-	16.2	-	34.6	243.7
Subtotal Technical Assistance	318.1	19.0	35.7	20.1	34.6	427.6
B. Training and Seminars	34.6	12.7	13.0	13.4	13.7	87.4
C. Equipment and Software	119.5	2.1	-	-	-	121.6
D. Printing Materials	39.3	15.2	41.6	16.1	2.7	114.9
E. Rental	28.3	29.2	29.9	30.8	31.5	149.7
G. Subloans	4,118.3	5,039.1	5,218.3	5,436.0	5,610.9	25,422.5
H. Grants	1,596.7	1,650.6	1,688.3	1,742.1	1,782.9	8,460.7
I. Fees	154.9	270.1	343.8	401.1	445.9	1,615.9
J. Studies	-	50.8	-	53.6	-	104.4
Total Investment Costs	6,409.6	7,088.9	7,370.5	7,713.3	7,922.3	36,504.7
II. Recurrent Costs						
A. Salaries	368.5	380.9	389.6	402.1	411.5	1,952.6
B. Operation and Maintenance	11.0	11.3	11.6	12.0	12.3	58.3
Total Recurrent Costs	379.5	392.3	401.3	414.1	423.8	2,010.9
otal PROJECT COSTS	6,789.1	7,481.2	7,771.8	8,127.4	8,346.1	38,515.6

Annex VI: Project Cost Tables
Table 3: Summary Account by Components

Totals Including Contingencies

	Institutional Strengthening: Managemen Informatio System	Institutional Strengthening: Reform Student Loan Bureau	Institutional Strengthening: Evaluation and Monitoring	Student Loan Scheme	Grant-In-Aid	Public Awareness Campaign and Credit Education Program	Total
I. Investment Costs							
A. Technical Assistance							
Local Consultants	73.7	19.7	-	-	-	90.6	183.9
Foreign Consultants	101.5	142.2	-	-	-	-	243.7
Subtotal Technical Assistance	175.2	161.8	-	-	-	90.6	427.6
B. Training and Seminars	22.3	-	-	-	-	65.1	87.4
C. Equipment and Software	101.3	10.2	-	-	-	10.2	121.6
D. Printing Materials	-	13.0	-	-	-	101.9	114.9
E. Rental	-	-	-	-	-	149.7	149.7
G. Subloans	-	-	-	25,422.5	-	-	25,422.5
H. Grants	-	-	-	-	8,460.7	-	8,460.7
I. Fees	-	-	-	1,615.9	-	-	1,615.9
J. Studies	-	-	104.4	-	-	-	104.4
Total Investment Costs	298.8	185.0	104.4	27,038.5	8,460.7	417.4	36,504.7
II. Recurrent Costs							
A. Salaries	-	1,952.6	-	-	-	-	1,952.6
B. Operation and Maintenance	53.1	5.2	-	-	-	-	58.3
Total Recurrent Costs	53.1	1,957.8	-	-	-	-	2,010.9
Total PROJECT COSTS	351.9	2,142.8	104.4	27,038.5	8,460.7	417.4	38,515.6
Taxes	-	-	-	-	-	-	-
Foreign Exchange	226.7	152.3	-	-	-	10.2	389.2

Table 4: Allocation of Loan Proceeds

Disbursement Category	Amount of Loan Allocated (US$)	% of expenditures to be financed
(1) Subloans	25,000,000	100%
(2) Goods	103,000	50%
(3) Consultants' Services	230,000	50%
(4) Training	70,000	50%
(5) Operating Expenditures	1,000,000	100%until withdrawals under this Category have reached an aggregate amount of $400,000; 75% until withdrawals under this Category have reached an aggregate amount of $750,000; and 50% thereafter.
(6) Administrative fees	1,500,000	100%
(7) Unallocated	597,000	
LOAN TOTAL	28,500,000	

Annex VI: Project Cost Tables
Table 5: Estimated Schedule of Disbursements

	Disbursements (US$ million)		
IBRD Fiscal Year and Semester	Quarter	Cumulative	Percentage
1997			
December 31, 1996	3.0	3.0	10%
March 31, 1997	1.0	4.0	14%
June 30, 1997	1.0	5.0	17%
1998			
September 30, 1997	3.7	8.7	30%
December 31, 1997	1.0	9.7	34%
March 31, 1998	0.5	10.2	35%
June 30, 1998	0.5	10.7	37%
1999			
September 30, 1998	3.8	14.5	50%
December 31, 1998	1.0	15.5	54%
March 31, 1999	0.5	16.0	56%
June 30, 1999	0.5	16.5	58%
2000			
September 30, 1999	4.0	20.5	72%
December 31, 1999	1.0	21.5	75%
March 31, 2000	0.5	22.0	77%
June 30, 2000	0.5	22.5	79%
2001			
September 30, 2000	4.1	26.6	93%
December 31, 2000	1.0	27.6	96%
March 31, 2001	0.5	28.1	98%
June 30, 2001	0.4	28.5	100%

Assumptions:	
Loan Signing Date	August 1996
Effectiveness Date	August 1996
Project Completion	December 31, 2001
Loan Closing Date	June 30, 2002

Initial deposit into Special Account of US$2.8 million

Annex VII: Project Performance Indicators

Table 1. Input and Output Indicators for Project Implementation

Component/ Subcomponent	Project Activity	Monitorable Indicator	Date (loan covenants in bold)	Status
A. Institutional Strengthening	Reorganize SLB structure	New organizational chart and job descriptions accepted		
	Hire staff	Hire critical staff Hire remainder staff		
	Produce Operational Manual	Operational Manual	**Condition of Effectiveness**	
	Install new MIS/FIS	System fully functional	**Condition of Effectiveness**	
	Train staff in MIS/FIS	All relevant SLB staff trained		
	Conduct Evaluation studies	Evaluation Survey of Year 1 Evaluation Survey of Year 4	Results by 5/1997 Results by 5/2000	
	Produce semi-annual reports		By Oct 31st and April 30th	
B. Student Loan	Assess and Extend loans to eligible students	No.of loan applications No. of loans approved No. of loans, by institution No. of loans, by program of study No. of loans, by gender No. of loans, by bank Average loan size Average loan size, by institution	Annually, by October 31st	
C. Grant-in-Aid program	Assess and award grants to eligible students	No. of grant applications No. of grants awarded No. of grants, by institution No. of grants, by program of study No. of grants, by gender Average size of grants	Annually, by October 31st	
D. Public Awareness Campaign	Promotion of GOJ's policy on tertiary education financing Education of sources of financial assistance	No. of secondary institutions visited No. of tertiary institutions visited No. info pkg distributed to 2° schools No. info pkg distributed to parents No. info pkg distributed to 3° instit No. phone calls received Frequency of airtime/May-August Frequency of radiotime/May-August Frequency of newspaper/May-August	Annually, by October 31st	

Annex VII: Table 2. Process Indicators

	Indicator	Description	Date	Status
Financial Indicators				
	Loan approval rate	Loan applications approved/loan applications received	Annually	
	Default rate	Percent of the number of Class A, Class B and Class C loans that are in arrears for 60, 180, 270 days	Annually, beginning April 30, 1999	
Physical Indicators				
	Conduct First Year Review	Report on Evaluation survey and recommend adjustments	**By May 31, 1997**	
	Conduct Mid-Term Review	Review in conjunction with World Bank based on monitorable indicators	**By May 31, 1999**	
	Public Awareness campaign	No. of applicants learning of loan program in 2° school	Years 2 and 4 from Evaluation Study results	

Annex VII: Table 3. Impact Indicators

Policy Goal	Indicator	Significance	Acceptable Range	Frequency to measure indicator
Reallocate resources toward basic education	• Share of recurrent budget of the MOEYC to tertiary education	GOJ's policy goal is to shift a larger share of resources from tertiary (presently 28% of recurrent education budget) to basic education (grades 1-9).	*Long-term target (2006)* Tertiary 15% Secondary 33% Primary 50%	Annually
Increase equity of access to tertiary education by poorer students	• Share of loan recipients in bottom 3 quintiles	Bottom three consumption quintiles based on national sample covers 60% of population; however, of tertiary student population this share would be smaller. Given subsidy of loans, intent is to target narrowly on poorest groups.	75-80% for loans	Annually
	• Share of grant recipients in bottom 2 quintiles	As above.	85-95% for grants	Annually
Increase efficiency of Student Loan Program	• Turn-around time of loan application in SLB	Maximum number of days from time application received in SLB (during peak period) to when application, if successful, is forwarded to AFI, or unsuccessful student notified.	< 3 weeks	Annually
Increase sustainability of Student Loan Program	• Administrative costs • Default rates • Interest rates	These three factors are key elements which determine sustainability of loan scheme. Admin costs defined as portion of total value of loans outstanding; and real interest rates defined as inflation minus nominal interest rate.	• Admin costs < 5% (based on 3.5% to AFIs and 1% for SLB) • Default Rates < 10% of all loans • Real interest rate > 0	Annually

Annex VIII: Supervision and Mid-Term Review

Supervision

- Project Launch October 1996 (1 week)
  Composition:
  - ◊ Team Leader
  - ◊ Facilitator
  - ◊ Disbursement Officer
  - ◊ Procurement Officer
- Annual Supervision Mission Each May (1 week)
  - ◊ Team Leader
  - ◊ Banking Specialist
  - ◊ Targetting Specialist (May 1997 to review distribution of beneficiaries and effectiveness of targetting instrument; agree on adjustment to cutoff points)
- Semi-Annual Supervision Each November (2-3 days)
  - ◊ Team Leader

Mid-term Review By May 31, 1998 (1 week)

- ◊ Team Leader
- ◊ Banking Specialist
- ◊ Targetting Specialist (May 1997 to review distribution of beneficiaries and effectiveness of targetting instrument)

Annex IX: Fiscal Impact of Proposed Scheme and Alternative Interest and Default Rates

This Annex analyzes the proposed project in terms of its fiscal impact in the context of government policy of cost recovery at the tertiary level. It addresses the question of whether it is costlier to the Government to administer a student loan program compared to giving pure grants to poor students. The second section discusses alternative interest rates considered during project preparation, while the third section presents a sensitivity analysis of the impact of different levels of the default rates on the net cost of the proposed program.

A. Net Cost of the Proposed Program

The level of analysis focusses on the net cost of the loan scheme and not whether the program is fully sustainable. Examining the net fiscal impact of the program is appropriate given that no student loan program could ever be fully financially sustainable (in the sense of being self-financing) because of the negative effect of higher interest rates on default rates. The fiscal impact of two options--a loan scheme and a grant program--are considered.

The net fiscal costs to the Government have been estimated for a ten year period. The main cost factors of student loan programs are: (i) interest subsidies; (ii) default rates; and (iii) administrative costs. Also included in the cost of the proposed student loan program is the cost of borrowing from the World Bank to finance a five-year injection of funds. Table 1 compares the cost of extending student loans to one-third of tertiary students (about 5,000) over a five year period to the expected tuition revenues from that same group of students. Under given assumptions[1], the cost of the student loan program in each year is less than the value of the fees that would be collected from the portion of students receiving loans--thus releasing funds from the tertiary level that could be reallocated elsewhere in the education sector. The net present value of the stream of costs for extending loans over a five year period is J$690.4 million; the net present value of the tuition fees paid by the borrowing students is J$1,466 million. Even under more pessimistic assumptions (i.e. inflation running at 20% annually and a default rate of

[1] Macro-economic assumptions include: Inflation at 15% over the next 10 years; for the devaluation of the J$ it is assumed that the 7.5% interest rate on the WB US dollar loan translates into a 17% cost of funds figure (assuming an average annual devaluation of 8.5% over the next 5 years); a discount factor of 20% representing the opportunity cost of money.

30%), the net present value of the stream of costs (J$1,189 million) is still less than the net present value of the stream of revenues.

Annex IX, Table 1
Student Loan Project
Fiscal Cost of SL Program
(in millions, current J$)[a]

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Expected Student Fees[b]										
UWI	350	537	617	710	816	939	1079	1241	1428	1642
UTech	150	230	265	304	350	402	463	532	612	704
Teachers Colleges	38	44	50	58	66	76	88	101	116	134
Multi-disciplinary	47	54	62	71	82	95	109	125	144	165
Other	10	12	13	15	17	20	23	27	31	35
Total Cost Recovery Revenues	**595**	**876**	**1,007**	**1,158**	**1,332**	**1,532**	**1,762**	**2,026**	**2,330**	**2,679**
of which from poorest 1/3	198	292	336	386	444	511	587	675	777	893
Cost of SLP to 1/3	(5)	(114)	(257)	(298)	(330)	(436)	(322)	(115)	(74)	16
Net Revenues with SLP	**193**	**178**	**79**	**88**	**114**					
NPV of Cost	**690**									
NPV of Revenues from 1/3[c]	**1,466**									
Memorandum Items:										
Ratio cost:revenues	0.8	13.0	25.5	25.7	24.8	28.5	18.3	5.7	3.2	-0.6
Ratio cost: MOE recurrent	0.1	1.5	3.0	3.0	2.9	3.3	2.1	0.7	0.4	-0.1
MOE Recurrent Budget[d]	6,500	7,475	8,596	9,886	11,369	13,074	15,035	17,290	19,884	22,866
Tertiary Recurrent Budget[e]	1,600	1,600	1,600	1,600	1,600	1,840	2,116	2,433	2,798	3,218
Tertiary (as % of total)	25	21	19	16	14	14	14	14	14	14

a. Inflation assumed at 15% throughout period.
b. UWI and UTech fees 15% of economic costs for 1996, rising to 20% in real terms in 1996 and constant thereafter. All other fees kept constant in real terms over 5 years.
c. Net present values of disbursements to students over life of project.
d. MOE budget assumed to be constant in real terms.
e. Tertiary budget constant in real terms for 1996; constant in nominal terms for 1997-2000 and remaining constant in real terms through 2005.

The net costs *per student* of a J$100,000 loan are given in Table 2.[2] Given the assumptions, the loan program would have a net subsidy (in terms of net present value) to poor students of 30% compared with 100% subsidy element under a grant scheme, and compared to nearly 80% under the government's present student loan scheme. Under the more pessimistic assumption of higher inflation (20%) and default rates (30%), the subsidy of the loan is 48%, substantially less than the present loan scheme.

Annex X, Table 2
JAMAICA STUDENT LOAN
NET COSTS PER STUDENT
(In nominal J$)

ASSUMPTIONS							
Discount rate		20%					
Interest rate		25%					
1st loan		J$					
2nd loan		100,000					
3rd loan							
Interest rate		25%					
Interest rate (study period)		15%					
Maturity		10	years				
Graduation rate		12%					
Inflation rate		15%					

Year	a Student Pmt to GOJ	b GOJ PMT to WB	c Risk premium	d Default	e Adm. Costs Banks	f Adm. Costs SLB	g Net cost
		17%	0%	10%	3.5%	1%	a-b-c-d-e-f
0	-			-			
1	-	-		-	-	1,000	(1,000)
2	-	17,000	-	-	3,500	1,161	(21,661)
3	-	19,733		-	4,063	1,347	(25,143)
4	31,674	22,905		3,167	4,716	1,370	(484)
5	35,475	23,289		3,548	4,795	1,356	2,488
6	39,732	43,054		3,973	4,746	1,291	(13,333)
7	44,500	41,942		4,450	4,517	1,153	(7,562)
8	49,840	39,606		4,984	4,037	917	295
9	55,821	35,596		5,582	3,211	548	10,883
10	62,519	29,319		6,252	1,919	0	25,030
						NPV	(30,014)
	Scenario I: Proposed Student Loan Scheme					30.0	
	Scenario II: Existing Student Loan Scheme					78.8	
	Scenario III: Inflation @ 20%, default 30%					47.6	

[2] These per student costs have been grossed up to arrive at the figures in the preceeding Table.

B. Interest Rate Structures

During project preparation, consideration was given to an interest rate structure that ideally would cover repayment of World Bank loan (including any potential foreign exchange risk) and reflect a debt burden that is perceived to be, and is, manageable by the borrowers. In determining an appropriate interest rate to charge students, it became apparent that a trade-off exists between setting **nominal interest rates** high enough to cover real costs and acheiving an acceptable **debt burden.** As Table 3 shows, as interest rates increase, the burden on the student to repay becomes higher, in turn triggering a likely increase in the default rate. In particular, two options of benchmarking the interest rate were considered: Treasury Bills and average savings rate.

Option 1: Treasury Bill (TBill) Charging the students a market interest rate based on some relationship with the Treasury bill was explored during project preparation. The TBill has the advantage of offering an objective benchmark and reflects local market forces, but is lower than local lending rates. The yield on 6-month TBills jumped from 36% in November to 42.5% in December 1995; average commerical bank loan rates rose from 53% to 55% over the same period. The TBill rate includes market expectations regarding the inflation and devaluation risks, thus cost recovery (in terms of cost of funds plus currency risk) should be achieved. The TBill, however, has wide fluctuations, but could still be used as a benchmark by smoothing the fluctuations using a six-month or annual moving average of the (6-month) TBill rate.

Although the TBill rate would cover exchange rate risks and inflationary expectations, it was not considered appropriate as a benchmark for student loans for several reasons. At a time when Government is pursing an aggressive monetary policy to mop up excess liquidity, it would not be fair to ask students, particularly those from poor families, to bear the cost of the policy. Second, given that students will be faced with a two-fold increase in fees, market interest rates may not be politically feasible, making tertiary education *appear* even less accessible for students from poor backgrounds. High interest rates may also discourage them from even applying for a loan. Finally, the initial debt service burden of an interest rate (based on the TBill) of even 35% would be equivalent to 26% of a reasonable initial salary of J$230,000, based on a flat repayment plan (see Table 3). Under a graduated repayment plan, the initial burden drops to just over 20%. Commercial bankers in Jamaica were of the opinion that the debt service burden on student loans should not exceed a range of 17-18% of income. An official from the U.S. student loan program noted that the rule of thumb in the United States was that debt service burden should be in the range of 5-6%.[3]

Option 2: Average savings rate A second option that was proposed was the average (passbook) savings rate plus a spread of 5 percentage points (the same rate charged on the GOJ/Bankers' Scheme). It has the advantage of being relatively stable

[3] Personal communication, J. Davis, SALLIE MAE, December 1995.

over time--it remains at 18%, but runs a greater risk than the TBill rate of being negative in real terms. In terms of debt service, an interest rate of say, 25% would give 20% debt service burden assuming a flat repayment schedule. Under a graduated schedule, the initial debt service burden falls to 15.8%.

Annex IX, Table 3 Initial Debt Service Burden, by interest and repayment graduation rates

		Repayment Graduation Rates				
		0%	12%	15%	20%	30%
	20%	18.0%	13.6%	12.7%	11.2%	8.8%
Interest	25%	20.5%	15.8%	14.8%	13.2%	10.5%
Rates	30%	23.1%	18.2%	17.2%	15.4%	12.4%
	35%	25.9%	20.8%	19.7%	17.8%	14.6%
	40%	28.8%	23.6%	22.3%	20.4%	16.9%

C. Default Rates

The principle risk of the proposed operation is the extent to which potentially high default rates increase the cost of the loan program. Table 4 presents a sensitivity analysis of the net cost under varying assumptions for default rates. A doubling of the default rate from 10% to 20% results in a 30% increase in the net cost of the program.

Annex IX, Table 4: Costs of Alternative Default Rates

Default rates	NPV of Cost per J$100
5%	25.6
10%	30.0
15%	34.4
20%	38.8
25%	43.2
50%	65.1

Annex X: List of Selected Documents and Data Available in Project File

Operational Manual

Job Descriptions, Key SLB Staff

Terms of Reference, Public Awareness Campaign

Functional Review of SLB, September 1995

IMAGING

Report No: 15594 JM
Type: SAR