

student loans in Europe and the United States, Asia, English-speaking Africa, and Latin America. Their overall conclusion was that student loans can help facilitate cost recovery and improve equity, but only if they are well designed and efficiently administered. Ideally, loans should be regarded as one element of student financial aid policy—supplementing rather than replacing targeted scholarships for the most financially needy students. International experience suggests that to make an effective contribution to cost recovery, while ensuring equitable access to higher education, a student loan program should meet at least six criteria for effective design and management: (1) efficient institutional management, including adequate systems for selection of borrowers, disbursement of loans, record-keeping, data storage and processing; (2) sound financial management, including setting appropriate interest rates to reflect inflation and maintain the capital value of the loan fund, and cover administrative costs; (3) effective criteria and mechanisms for determining eligibility for loans, targeting interest subsidies and deferral or forgiveness of loan repayments; (4) adequate legal frameworks to ensure that

loan recovery is legally enforceable; (5) effective loan collection, using either commercial banks, the income tax system (as in Australia and the United Kingdom), national insurance mechanisms (as in Ghana and Singapore), or employers (as in China and Kenya) to ensure high rates of repayment and minimize default; and (6) information and publicity to ensure understanding and acceptance of the terms for borrowing and repayment of loans.

In the past, many student loan programs failed to meet these criteria, but a number of recently introduced reforms in several countries, including Kenya, have improved the performance of management and loan recovery. A new student loan scheme has been established in China, and several countries—including Hungary, Mozambique, and the Philippines—are currently considering introducing student loans and hope to profit from international experience in designing and implementing an effective and equitable student loan program. As demand for higher education continues to grow—both from individuals and from the labor market—tuition fees and student loans are likely to remain firmly on the international higher education agenda. ■

## Structuring for Success: Planning for an Effective Student Loan Scheme

### Robert Fomer

*Robert Fomer is director of the Colorado Student Loan Program. Address: Denver Place 999 18th Street, Suite 425, Denver, Colorado 80202-2471. E-mail: <Bfomer@cslp.org>.*

Student loan policy goals and the social, political, and economic conditions that drive them certainly vary from country to country. Even within a country, conditions change, and their ebb and flow play a significant role in a loan scheme's success. With 20 years of experience in managing (what I believe to be) a very successful state student-loan agency within the Federal Family Education Loan Program (the largest single source of financial assistance for American students), I offer a few observations on the essential components of an effective student loan scheme.

First, the need for sustained commitment by government to the goal of expanding access to tertiary education for all its citizens is essential. Government does not have to operate a student loan scheme directly, but government must play an essential role in at least overseeing it. Government is in the best position to identify and target its nation's educational needs, for it can mandate eligibility criteria to promote equity in educational opportunity and, if necessary, devote resources to targeted subsidies and other interventions promoting awareness and access among its nation's poorest citizens. In its over-

sight capacity, government can monitor the scheme's effectiveness, administrative integrity, and financial viability.

Clearly, no one single blueprint for a student loan scheme would work in every country or region. However, there are certain characteristics and requirements common to any sustainable system of credit. Under the aegis of reliable, long-term government support and oversight, these factors can be accounted for in the context of student loans by a broad template consisting of “the five M's” of student loan fundamentals.

1. *Mission.* The program's mission is its roadmap, to be used for decision making at all levels. The various stakeholders in the program need to be considered. For example, it is not really enough simply to state that you want to provide educational opportunity for your citizens. Government and lenders require accountability; citizens are entitled to reliable information and responsive, equitable service; schools expect efficient delivery of funds, and so on. The program's scope and specific operational functions should be specified early on as well, along with its short- and long-term objectives.

2. *Money.* How will you finance the program? Will government fund the program directly, or are commercial capital sources available, perhaps backed by a government-subsidized reserve fund as a backstop guarantee against defaults? Once funding is secured, how will loans

be disbursed—directly to students or to schools on the students' behalf? What about additional money to students for books and living expenses? What will the interest rate be for students and should it be subsidized by government?

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(Some analysts, notably Nicholas Barr of the London School of Economics and Political Science, contend that interest subsidies, particularly in an environment of scarce resources, are costly, inefficient, untargeted, and unfair.) How will your program protect its funds against fraud and abuse? How will loans be serviced throughout repayment? Is an income-contingent or a graduated repayment schedule feasible?

3. *Management.* What managing technologies and reporting capabilities will be available? How should the organization be structured to meet its stated goals? How will staff be hired and trained? How will the program's assets be managed for maximum returns? Will management be in a position to develop partnerships among other public and private organizations to enhance program performance with such services as job placement and borrower location assistance?

4. *Marketing.* How will you let people know about your program? What media channels are available and most likely to be effective? What kind of campaigns can develop positive values and attitudes among the public toward debt management and a commitment to repayment?

5. *Maintenance.* Each loan account must be maintained on a centralized system to accurately reflect its repayment status, current balance, and payment history. Decisions to be made include the repayment process itself. How will contact with students be maintained after they graduate? Will students receive monthly statements or coupon books? Will payments be deducted by employers, or will some other repayment system be employed? What channels will be established to respond to borrower inquiries and complaints?

The "five Ms" as presented here are limited in detail, but they can serve as a starting point for creative and productive planning. They are excerpted from the *Student Loan Program Workbook*, developed by the Colorado Student Loan Program. This and other information regarding student loans in developing countries will be posted on the World Bank's website for tertiary education at: <[www.worldbank.org/education/tertiary](http://www.worldbank.org/education/tertiary)>. ■

## The Jamaican Student Loan Scheme

### Kin Bing Wu

*Kin Bing Wu is senior education economist, Department of Human Development, Latin America and the Caribbean Region, The World Bank, 1818 H St. NW, Washington DC 20433, USA. E-mail: <[kwu@worldbank.org](mailto:kwu@worldbank.org)>.*

Jamaica is the largest English-speaking country in the Caribbean, with a population of about 2.5 million and a per capita GDP of about U.S.\$1,680. It has inherited an English education system with a very elitist higher education subsector. In 2000, enrollment of nine years of primary and junior secondary education is practically universal, but only 60 percent of the relevant age group is enrolled in senior secondary education and less than 15 percent in tertiary education institutions. Nonetheless, the demand for tertiary education is growing, particularly from the middle and working classes.

Public resources, however, have been severely constrained as Jamaica experienced either low or negative economic growth throughout most of the 1980s and 1990s. Public expenditures on education are as high as 7 percent of GDP, and tertiary education expenditures account for about 22 percent of the total. Fiscal deficits put pressure on public tertiary education institutions to recover a higher percentage of their cost from students than before. In 2000, tuition fees ranged from about 10 percent at teacher training colleges to nearly 18 percent at the University of West Indies. The combination of the growing demand for tertiary education from the middle and working classes, and the need of the government to pursue cost recovery thus made it necessary to increase student loans and grants to enable students to finance tertiary education.

Student loan schemes in Jamaica have a long history. The Students' Loan Fund Act of 1971 established the Students Loan Bureau (SLB) as a statutory body authorized to make loans to Jamaican nationals pursuing higher education in Jamaica or in other parts of the Caribbean. Eligibility was means-tested. A Students' Loan Council set policies for the SLB. In the early days when tertiary education was practically free, student loans were very small in amount and were used to cover various student expenses. The average number of loans processed annually increased from 1,000 in 1971 to some 6,000 in 2000. In the 1970s, approval rates were over 90 percent of applicants; at present, they are still over 80 percent. In recent years, the average loan amounted to about \$1,000.

The Student Loan Fund was intended to operate as a revolving fund, maintained by investments, repayment, and government contributions. However, because of the historically negative interest rates, high administrative costs, and low repayment rates, the fund has depended mainly on govern-