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?

Government does not have to operate a student loan scheme directly, but government must play an essential role in at least overseeing it.

(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>. ■

The Jamaican Student Loan Scheme

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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 government funding and external borrowing—two Inter-Amercian Development Bank projects (U.S.$8 million in 1971, and U.S.$8.5 million in 1976) and two World Bank projects (U.S.$3.5 million in 1987 and U.S.$28.5 million in 1996).

The scheme has been redesigned a number of times. At first, it was managed by the SLB and funded by government budgetary allocation. In 1993, the Bankers' Association (and its members) was brought in to subscribe an Education Bond issued by the SLB. The trust fund was managed by the West Indies Trust Company and the loans were processed by the SLB, while the government guaranteed principal and interest in the event of default. This scheme proved to be unsustainable for the above-mentioned reasons.

In 1996, the arrangement was changed once again. The SLB continued to determine eligibility of applicants, but commercial banks played a key role. The banks assessed whether the loan recipients could provide collateral. If they could, the banks would assume repayment risks; if not, the government would guarantee the principal and interest. The banks also handled disbursement and collection and were compensated by administrative fees. Interest rates were fixed and capitalized during the course of study, but were floated at 5 percentage points above the passbook saving rates after the student graduated. The interest rates were positive and above inflation rates but were still below the market lending rates. This scheme, however, was not successful because the banks did not find it profitable, classifying almost all loans as government guaranteed, while students were outraged to be asked to provide collateral.

In 2000, the design was again restructured to centralize administration in the SLB from application processing to disbursement and collection in order to make it easier for students to deal with only one organization and for the SLB to have a greater sense of ownership and accountability. The long-term goal is to convert the SLB into a self-funding organization that will borrow from the private sector and sell its loans to a secondary market. The government's role is to reinsure to facilitate liquidity. Thus far, only centralization of administration has been achieved. Collection must be improved before the student loans will be seen as profitable on the secondary market.

Given the long history of providing student loans, many lessons have emerged: how interest rates should be set, how to involve the private sector, and how to improve administrative efficiency by using technology to assist loan processing, disbursement, and collection. The administrative capacity of the SLB, together with the existence of institutions for tracking repayment in society (such as credit bureaus), is critical in determining whether a certain design can be implemented. Ultimately, the sustainability of a student loan scheme hinges on whether the economy is growing, whether students can find employment, and whether emigration is common among graduates from tertiary education institutions. If a student loan scheme is financially unsustainable, governments would be well advised to meet the demand for higher education while containing costs through lower cost alternatives, such as distance tertiary education or twinning programs with other universities to make it more affordable for students. ■

Putting Reality Ahead of Myths: A Key to Reform in Latin America

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Myth, Reality, and Reform

The quest for increased reform in Latin American higher education requires sober but balanced assessment of its reality. Myths have their purposes, but the weight of myth over reality in assessing higher education in Latin America disguises the nature and depth of problems and sheds little light on what has been achieved to date and can realistically be achieved in the near future. Central to an accurate view of both the present and a much-improved future is understanding and appreciating the different functions of higher education. This process is hampered by the overarching myth that a classical university of academic excellence is the appropriate model—desirable and realistic—for higher education throughout Latin America.

These themes of myths versus reality are central to a new book aimed at both analysis and policy for Latin American higher education (*Myth, Reality, and Reform: Higher Education Policy in Latin America*, by Claudio de Moura Castro and Daniel C. Levy, distributed by Johns Hopkins University Press for the Inter-American Development Bank). The book is a longer, more scholarly version of the Inter-American Development Bank's first strategy paper on higher education. Although the focus is on Latin America, much of the evaluation and prescription, notably including the discussion of functional differentiation, could be relevant more widely.

Twin myths often dominate assessment of the performance of higher education in Latin America. One, common within the region's universities, minimizes deficiencies and the need for major change. The other, common in critiques disseminated by governments and international financial institutions, bashes the system and seeks change through the