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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
TERTIARY EDUCATION STUDENT ASSISTANCE PROJECT
(LOANS 7346-ME AND 7349-ME)
APPROVED ON DECEMBER 13, 2005

IN THE INITIAL AMOUNT OF
US\$ 180 MILLION

AND

A RESTRUCTURED AMOUNT OF
US\$ 171 MILLION

TO THE UNITED MEXICAN STATES

February 10, 2010

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ABBREVIATIONS AND ACRONYMS

ANUIES	National Association of Universities and Higher Education Institutions (<i>Asociación Nacional de Universidades e Instituciones de Educación Superior</i>)
APL	Adaptable Program Loan
BANOBRAS	National Bank of Public Services and Works (<i>Banco Nacional de Obras y Servicios Públicos, S.N. C.</i>)
GOM	Government of Mexico
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IPDP	Indigenous Peoples Development Plan
PDO	Project Development Objective
PRONABES	National Scholarship Program for Higher Education (<i>Programa Nacional de Becas para la Educación Superior</i>)
SEP	Secretariat of Public Education (<i>Secretaría de Educación Pública</i>)

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Task Team Leader:	Erik A. Bloom

MEXICO

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Restructuring	Status: Submitted to SECPO
Restructuring Type: Board Approval	
Last modified on date : 02/11/2010	

1. Basic Information	
Project ID & Name	P085593: MX (APL I) Tertiary Educ Student Ass
Country	Mexico
Task Team Leader	Erik A. Bloom
Sector Manager/Director	Chingboon Lee
Country Director	Gloria M. Grandolini
Original Board Approval Date	12/13/2005
Original Closing Date:	03/01/2010
Current Closing Date	03/01/2010
Proposed Closing Date [if applicable]	12/31/2011
EA Category	C-Not Required
Revised EA Category	C-Not Required
EA Completion Date	
Revised EA Completion Date	

2. Revised Financing Plan (US\$)		
Source	Original	Revised
BORR	119.57	119.57
IBRD	180.00	180.00
Total	299.57	299.57

3. Borrower		
Organization	Department	Location

4. Implementing Agency		
Organization	Department	Location

5. Disbursement Estimates (US\$m)		
Actual amount disbursed as of 02/17/2010		82.41
Fiscal Year	Annual	Cumulative
2009	0.00	82.41
2010	0.00	82.41
	Total	82.41

6. Policy Exceptions and Safeguard Policies	
Does the restructured project require any exceptions to Bank policies?	
Does the scale-up of restructured projects trigger any new safeguard policies? If yes, please select from the checklist below.	N

7a. Project Development Objectives/Outcomes
Original/Current Project Development Objectives/Outcomes
<p>The program supports the Government strategy to foster the sustainable and equitable expansion of tertiary education through student assistance. This would be pursued through the development of a coherent student assistance system, compensatory interventions for disadvantaged students, and the development of the national tertiary education policy. In the first phase of the APL, this objective would be achieved through support for: (a) PRONABES national scholarship program and development of the regulatory framework for tertiary education student assistance; (b) development of the national tertiary education policy framework; (c) academic and social assistance to disadvantaged groups through (i) design and testing of a new intervention program to expand the pool of talented low-income upper-secondary students able to enroll in tertiary education, and (ii) assistance to tertiary education indigenous students; and (d) the piloting of a state-level student loans program in one Mexican state.</p>

7b. Revised Project Development Objectives/Outcomes [if applicable]
<p>The objective of the Project is to support the Borrower's strategy to foster the sustainable, equitable and efficient expansion of tertiary education through student assistance through the development of a coherent student assistance system consisting of grant programs and compensatory interventions for disadvantaged students and supporting the national tertiary education policy.</p>

I. Introduction

1. This Restructuring Paper responds to the request of the Government of Mexico (GOM) and introduces the following changes in the Mexico Tertiary Education Student Assistance Project (P085593, Loans 7346-ME (approved by the World Bank Board on December 13, 2005 and signed on April 7, 2006) and 7349-ME (approved by the World Bank Board of Directors on the same date but not signed due to the reasons explained in paragraph 5 below) and accompanying amendments to the Project's legal documents:

- change the formulation of the Project Development Objective to reflect the elimination of student loan program as a mechanism of student assistance;
- eliminate the student loan program (Component 4) and private sector participation (Component 5) and recognize that Subcomponent 2.1 will not be financed with the World Bank loan because the Government's Secretariat of Labor has fully implemented all of the elements in this subcomponent with its own financial resources;
- reallocate funds from these (sub)components to other components;
- adjust result indicators to reflect these changes.

2. In addition, the closing date of Loan 7346-ME is extended by 22 months from March 1, 2010 to December 31, 2011.

II. Background and Reasons for Restructuring

3. The original objective of the Project was to support the Borrower's strategy to foster the sustainable and equitable and efficient expansion of tertiary education through student assistance through the development of a coherent student assistance system consisting of student loan and grant programs, compensatory interventions for disadvantaged students, and supporting the national tertiary education policy. It was designed as a three-phase APL.

4. As designed, Phase I of the APL had the following components:

- 1) Support for the PRONABES national scholarship program and the development of a national regulatory framework for tertiary education student assistance
- 2) Institutional strengthening
- 3) Support to disadvantaged students
- 4) State-level student loans

5. It was anticipated that Phase II of the APL would partly overlap with Phase I and expand State-level student loan programs. Phase II was intended to provide additional support for the promotion of private investments in student loans should the need arise; it also included an additional Project component: Component 5- promotion of private investment in student loans. Phase III of the APL was expected to (a) continue to support the strengthening of PRONABES; (b) continue to support the scaling-up of state-level student loans programs; (c) further expand the interventions to assist disadvantaged students, and (d) continue to support the development of the tertiary education policy and institutional capacity-building at national and state level.

6. APL 1 was expected to be financed by two loans. The first loan of US\$171.0 million (7346-ME) was to the United Mexican States and covered Components 1, 2, and 3. It was signed on April 7, 2006 and declared effective on October 24, 2006. The second loan of US\$9 million (7349-ME) was expected to be made to the National Bank of Public Services and Works (BANOBRAS); BANOBRAS was expected to on-lend the Loan proceeds to the State of Quintana Roo to finance said State's student loan program (Component 4). However, the newly elected State authorities never reached final agreement on the legal and financial terms of the on-lending arrangement. No other State expressed interest in such a program either. The second loan was therefore never signed and the IBRD withdrew the loan offer on June 17, 2007, 18 months after Board approval.

7. In addition, after launching the Project, institutional and political barriers made it clear that the original scope of the Project was too broad. In particular, it was difficult for a relatively small office in the Secretariat of Public Education (SEP) to coordinate and lead programs in other areas of the Secretariat and other federal-level secretariats and at the State level. The National Scholarship Program (PRONABES) director, who was expected to manage the Project, has no authority outside of this program. The Project was declared effective at the beginning of the term of a new administration and implementation was very slow as the new team took over. At the same time, the economic crisis has increased the demand for PRONABES scholarships, thus leading GOM to shift its focus to this and other scholarship programs. PRONABES has seen a significant increase in its size since the program was first proposed and now has an annual budget of US\$107 million compared to US\$77 million in 2005.

8. The Project does not have the capacity to implement all of the components initially designed, particularly the student loan program, as described above. Therefore the Government requested that Component 4 be formally eliminated (which confirms the de facto elimination of the component when the offer of the second loan was withdrawn) and a subsequent reallocation of Loan proceeds. In addition, the Government does not intend to pursue Phases II and III of the APL which were initially intended to continue to provide support to the cancelled student loan component.

9. The Labor Market Observatory envisaged under Component 2.1 has been developed and implemented by the GOM's Secretariat of Labor with the support of the Inter-American Development Bank (IDB). The Bank did provide some technical support for the Observatory as part of project preparation and supervision but most of the work was carried by the GOM with the IDB. The Labor Market Observatory is functioning adequately and does not need any additional funding or technical support from the World Bank. Therefore, the objectives of Component 2.1 have been successfully met. The Government has requested that the Bank acknowledge this development in the implementation completion report.

10. Finally, there have been delays in initiating Component 3.2 (expansion of the indigenous students' assistance program) because of coordination problems between SEP and the National Association of Universities and Higher Education Institutions (ANUIES). These delays have not materially impacted the implementation of the Indigenous People's Development Plan (IPDP) as ANUIES had alternative financing. To

compensate for the slow start, the Borrower has requested an extension of the closing date from March 1, 2010 to December 31, 2011.

III. Benefits and Risks

11. The original program was highly ambitious and could not be implemented due to a lack of demand at the state level. The proposed restructuring will refocus the operation and allow it to better carry out its broad objectives, including full supervision of the IPP, increased technical dialogue, and improving the operation of higher education scholarship programs.

12. The Project is expected to reach the same development targets as originally envisaged (number of graduates from tertiary education in Mexico and share of 18-24 year-old students in tertiary education from households classified at the two lowest quintiles of the income distribution). Reallocation of Bank loan proceeds will not affect the overall size of the various project components; it will only slightly change the share of Bank financing versus counterpart financing. Increased Bank funding of the scholarships program benefits additional students and therefore allows more people to pursue higher education.

13. The restructuring poses no additional risks. There are no overdue audits for Loan 7346-ME and the audits received so far have been satisfactory to the Bank.

14. Safeguards: The restructuring will not trigger new safeguard requirements. The environmental classification for the Project is C. Since all the activities are part of the Project's original design, the safeguards applied will remain unchanged.

ANNEX 1:
Proposed Changes:

- a. What are the proposed changes, as applicable, in the project's development objectives, outcomes, design, and/or scope?

Project Development Objective: The original Project Development Objective was: "to support the Borrower's strategy to foster the sustainable and equitable and efficient expansion of tertiary education through student assistance through the development of a coherent student assistance system consisting of student loan and grant programs, compensatory interventions for disadvantaged students and supporting the national tertiary education policy." The revised PDO is: "The objective of the Project is to support the Borrower's strategy to foster the sustainable, equitable and efficient expansion of tertiary education through student assistance through the development of a coherent student assistance system consisting of grant programs and compensatory interventions for disadvantaged students and supporting the national tertiary education policy."

Key outcome indicators of Phase 1 will remain unchanged (number of graduates from tertiary education in Mexico and share of 18-24 year-old students in tertiary education from households classified at the two lowest quintiles of the income distribution).

Project Design and Scope: The student loan program (Component 4) and private sector participation (Component 5)¹ will not be implemented. In addition, Component 2.1 will not be financed with the World Bank Loan because the Secretariat of Labor has fully implemented all of the elements in this subcomponent; it will not be formally eliminated and will be reviewed in the Implementation Completion Report.

- b. What are the other complementary changes, as applicable:

Institutional arrangements ___Yes **X**_No
If, yes, please explain:

Financing mechanism/Conduit ___Yes **X**_No
If, yes, please explain:

Outputs **X**_Yes ___No
If, yes, please explain:

Implications for the indicators: All seven intermediate results indicators for Component 4 will be eliminated. The restructuring will have no impact on the other indicators or targets.

Project Costs and financing plan (include summary tables) **X**_Yes ___No

¹ No activities were planned for component 5 in Phase I of the APL. Component was to become active in Phase III of the APL.

If, yes, please explain:

Reallocation of funds: Funds from components and subcomponents that will not be implemented will be moved to the scholarship program component. This will allow the GOM to increase the number of scholarship beneficiaries and therefore, the number of students attending higher education. In total \$3.8 million (2% of the loan amount) will be reallocated as follows:

- Transfer **\$428,500** from Category 1 (goods) and Category 7 (unassigned) to Category 3 (scholarships), since no resources are needed in either category.
- Transfer **\$1,606,882** from Category 4 (subsidy to ANUIES) to Category 3 (scholarships), due to savings in Component 3.2.
- Transfer **\$1,812,875** from Category 2 (consultancies) to Category 3 (scholarships), due to savings in various components including subcomponents 2.1 and 3.1.

Category	Original amount	Amount after restructuring	Change +/-(-)
(1) Goods	210,500	0	(210,500)
(2) Consultants' services and training	3,254,000	1,441,125	(1,812,875)
(3) Scholarship grants provided by SEP pursuant to Part A.1 of the Project	161,960,000	165,808,257	3,848,257
(4) Grants provided by SEP pursuant to Part C.2 of the Project	4,930,000	3,323,118	(1,606,882)
(5) Front-end fee	427,500	427,500	0
(6) Premia for Interest rate caps and collars	0	0	0
(7) Unallocated	218,000	0	(218,000)
TOTAL	171,000,000	171,000,000	0

Financial management

☐ Yes ☒ No

If, yes, please explain:

Disbursement arrangements

☐ Yes ☒ No

If, yes, please explain:

Procurement

☐ Yes ☒ No

If, yes, please explain:

Closing date

☒ **Yes** ☐ **No**

If, yes, please explain:

Project Closing Date: Implementation delays, especially in Components 3.1 and 3.2 require an extension of the closing date. Loan closing date is therefore postponed by 22 month (to December 31, 2011) to allow time to supervise technical elements in Component 3.

Implementation schedule

☒ **Yes** ☐ **No**

If, yes, please explain:

See above

ANNEX 2:
Appraisal Summary Update:

Do the proposed changes result in significant change of impact (from original Appraisal Summary of the PAD) in the following:

Economic and financial analysis ☐ Yes ☒ No
If, yes, please explain:

Economic and Financial Analysis. The proposed changes do not modify the original economic and financial aspects of the Project as appraised. The cost-benefit analysis focused on PRONABES beneficiaries because 90% of the total project costs are devoted to the financing of scholarships. This component will not be altered by these proposed changes. According to the sensitivity analysis the economic rate of return (ERR) ranges from 5% to 10% depending on assumptions. The cost-benefit estimations do not take into account the positive externalities from investment in tertiary education, such as improved technology absorption, which would increase the ERR.

Technical ☐ Yes ☒ No
If, yes, please explain:

Technical. The Project will reduce its focus on student credit to finance tertiary education. Although the Government continues to support the use of credit as a means to promote access, it is moving away from the state-to-state approach. At the same time, the economic crisis has reduced interest in student loans among many sectors. This change in approach has no impact on the PDO in Phase I but complicates plans to proceed to Phase II and III.

Social ☐ Yes ☒ No
If, yes, please explain:

Environment ☐ Yes ☒ No
If, yes, please explain:

Exceptions to Bank Policy ☐ Yes ☒ No
If, yes, please explain:

ANNEX 3:
Updated Critical Risk Framework:

**New Risks Identified During Implementation/Restructuring That Might Jeopardize
Achievement of the Restructured Project DOs or Outcome Targets:**

N/a

ANNEX 4:
Results Framework and Monitoring

The following intermediate results indicators will be dropped:

Component 4: Support for State-level student loan program (State of Qunitana Roo)

- Coverage of student loans
- Tertiary education absorption rate (undergraduate)
- Terminal efficiency (undergraduate)
- Retention rate in tertiary education (undergraduate)
- Tertiary education coverage rate by income level
- Default rate
- Efficiency in operational costs

All other indicators will remain the same.