

Project Name	Brazil-Higher Education Improvement... Project
Region	Latin America and the Caribbean
Sector	Education
Project ID	BRSE65527
Borrower	Federative Republic of Brazil
Implementing Agency	Secretaria de Ensino Superior (Sesu/MEC)
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1. Country and Sector Background. Coverage/Access is Inadequate: Less than 12% of the age cohort is enrolled in higher education. This is quite low compared to other countries in the region (Argentina 41%; Peru 40%; Uruguay 30%; Venezuela 29%; Chile 27%. [Unesco 1995]) and to the OECD country average of 49%. Simply doubling the number of spaces offered, however, will not double the rate of coverage, because a demographic bulge of young Brazilians is reaching university age. Over the past 15 years, growth in private provision of higher education was roughly equal to the moderate growth of the university-age cohort, but now large absolute increases in enrollments would be needed simple to maintain the current (inadequate) rate of coverage. In addition, graduation rates from secondary schools are rising sharply and more older, working Brazilians are seeking tertiary degrees. In short, a larger percentage of a growing number of Brazilian are demanding higher education, and the system cannot keep pace with this demand under existing conditions.

Public Institutions are Inefficient: Cost per student in public institutions (e.g., roughly R\$14,000 per year in federal system) is on par with OECD country averages while quality is not. Rigidities in funding and regulation (especially personnel policy) create strong disincentive for cost-efficiency or quality. Public university have been funding on the basis of input. Federal policy toward higher education, until recently, did not attempt to control costs or correlate funding to productivity. Other legislation and regulations, outside the control or influence of MEC, created built-in cost increases that did not improve the coverage, quality, or relevance of the education. University rectors have traditionally concerned themselves more with obtaining resources from the federal government than with managing the resources effectively within their institutions.

Quality and Relevance are Low: With a few notable exceptions, the quality of instruction and the relevance of the curriculum are below desirable (reasonable) standards. Historically, the Brazilian system--like those of continental Europe--is oriented to provide professional training rather than general or interdisciplinary education. Holders of a first university degree (graduacao) are licensed to practice their profession by virtue of their diplomas. Such systems have been successful, productive, and of high quality under a variety of conditions. However, in Brazil, thanks largely to

restrictive labor market regulation, the influence of professional associations in setting the curricula and the numbers of courses/places (cursos/vagas) has served to limit the supply of professional labor rather than to satisfy the demands of the labor market. Furthermore, in the Brazilian public system a lack of coherence in research, teaching, and career advancement policies in public institutions has often led to a concentration of professors doing specialized research at the expense of undergraduate teaching. By contrast, many private institutions are driven by profit, and therefore do not undertake any research or pay salaries necessary to attract and retain high-quality professors.

The System is Inequitable: The public system provides higher quality education, charges no tuition, and limits the number of places. Competition for admittance is fierce, and wealthy students do best because they can afford elite private high schools and special preparation courses for the entrance exams. Estimates on enrollment by income quintile show that two thirds of students are from the highest income quintile, while only about 5% are from the two lowest. It is a generally recognized problem that students from lower and lower middle class backgrounds have greater difficulty gaining entrance to the free, public system. If these individuals study at all, they students are more likely to be in the private system, where they must pay tuition. Some financial assistance is available from the government and the institutions themselves, but it does not sufficiently address the needs of the students in the system, and much less the potential student who are excluded due to inability to pay.

Access and Quality are Regionally Disparate. In 1996, seventy-eight percent of higher education institutions (which represented 74% of total enrollment) were in the South and Southeast regions of the country. The highest quality institutions are also mainly concentrated in these regions. In cities like São Paulo, there are currently more offered places than enrolled students. In most of the rest of the country, the situation is the opposite.

2. Project Objectives. The project development objective is to increase access to tertiary education and to facilitate the transition to a more relevant (diverse), higher quality, and more efficient system. The main means for increasing access in the private system will be a loan program for qualified but needy students. The main means for increasing quality, efficiency, and relevancy will be the support of a new funding system and regulatory framework under which institutions are free to make decisions, but resource allocation is tied to performance as defined by the governments policy priorities.

3. Project Description. The program purpose is to improve human capital formation in Brazil by increasing the access to, and the quality, relevance, and efficiency of, higher education. Improved human capital formation is expected, in the long run, to contribute to economic growth and to have positive spill-overs for civil society. At the end of the program, higher education coverage will have increased (as a proportion of the relevant age group), cost-per-graduate will have decreased, thanks to a restructured funding system, and the quality of the education provided will have increased, thanks mostly to increased autonomy for higher education institutions and a decentralization of decision making throughout the system.

4. Project Financing. The total project cost is estimated at \$1,345 million,

of which the Bank loan would cover \$615 million.

5. Project Implementation. The project implementation is to be determined during Preparation

6. Project Sustainability. The first critical issue in sustainability revolves around the financial solvency of the student loan program. Repayment options and collection methods will have to overcome a tradition of default rates that have been unacceptably high. The incentives must be structured to keep both defaults and administrative costs within a reasonable minimum.

The second critical issue for sustainability surrounds incomplete or partial adoption of the new autonomy framework by the federal institutions. Many of the leading federal universities (those with the strongest administrative capacity) have indicated a willingness to become "early adopters" of the freedoms to be provided. Others may show greater resistance. The policy of MEC will be to structure the new funding formula so it incentivates institutions to implement the new strategy and become more cost efficient, and selective while improving the quality of their programs.

7. Lessons Learned from Past Operations in the Country/Sector. The Bank has extensive experience in the region in higher education, much of it in projects task-managed by members of the preparation team for this project. There are two principal lessons for project design: First, fundamental changes to systems is accomplished by making the means of funding support policy goals. Complementary investments may be necessary, but it is difficult for these to promote deep-seated reform. Second, regarding student loans, strong technical analysis of the financial viability of the design, and the credibility of repayment assumptions, is essential to solvency of the program.

8. Poverty Category. Not applicable

9. Environmental Aspects. Category C

10. Program Objective Categories. Education

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Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

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Brazilian higher education is, largely, a non-tradable service whose cost is not significantly affected by the price of higher education in other countries. Therefore, stating the costs in terms of other, more stable currencies can be misleading because of fluctuations in Brazil's exchange rate. When the real was "overvalued", the costs appeared exorbitant. After the recent devaluation, a comparison in dollar terms would falsely show a 40% cost decrease from 1998 to 1999. Cost are best measured by comparison to domestic prices (such as percentage of average starting salary of a graduate, or the cost of a car, a home, or some other basket of goods). Such a comparison show the cost public higher education at least as great as in OECD countries.