

## CASE STUDY

# Financing Education in Colombia

## OVERVIEW

Colombia needed a customized loan that the national student loan agency, ICETEX, could on-lend to low-income students. IBRD structured a loan with a longer grace period, longer than average maturity, disbursement-linked repayment schedule, and disbursement in Colombian peso. This loan was the first under a new IBRD policy that extended average repayment maturities.



## Background

Tertiary school enrollment remains low for the poorest Colombians. A government of Colombia study identified lack of access to private capital as one of the key impediments to accessing higher education and promoting human capital development. Upon further examination, the study found that students did not earn enough after graduation to repay loans with maturities less than 16 years. In Colombia, it takes students an average of five years to complete education plus a year to find employment –beyond the limits of grace periods normally granted with traditional loans.

Given Colombia's longstanding relationship with the International Bank for Reconstruction and Development (IBRD) and the Bank's experience with education initiatives in the country, the government approached IBRD for a customized loan that would help Colombia scale up student lending through its national student loan agency, the Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior (ICETEX).

## Financing Objectives

The Colombian Government sought flexible lending terms that would: 1) reduce the students' annual financial burden and allow ICETEX to manage cash flow risk by stretching out repayment terms according to the students' repayment schedule, and 2) reduce currency risk by matching the currency of funding with student loans denominated in Colombian pesos.

## IBRD Financial Solution

The World Bank Treasury customized a loan that would meet ICETEX's needs of lending to low-income students:

- **longer grace period** (six years) to enable students to complete their studies and find employment
- **longer final maturity** (22.5 years) to spread repayments over a longer period
- **disbursement-linked repayment schedule** to help ICETEX manage cash flow risk

- **conversion of loan currency to Colombian peso** upon disbursement (IBRD executes currency swap transactions to transform ICETEX's interest and principal obligations into Colombian peso for the full maturity of the loan)

## Outcome

The Bank provided Colombia with a solution that met its unique requirements. In the past, the maximum maturity available on an IBRD loan was 25 years. In this case, a longer average maturity and grace period was approved by the Bank's Executive Board under a new extended maturity policy on March 4, 2008. These terms would not typically be available to Colombian students borrowing from the private markets.

The World Bank Treasury customizes financial solutions to meet clients' unique financing or risk management needs at the project or portfolio level. The financial terms of on-lending projects can also be customized for other sectors. Even if the required product or service is not currently offered by the Bank, the Treasury can use creative ways to design

a relevant solution for the client.

## Terms & Conditions

<b>Amount</b>	US\$300 million
<b>Approval Date</b>	March 2008
<b>Maturity</b>	6-year grace period; 22.5-year final maturity
<b>Lending Instrument</b>	IBRD Flexible Loan
<b>Lending Terms</b>	Adaptable Programmatic Loan

## For information:

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