I. Introduction and Context

Country Context

Colombia is the fourth largest economy in Latin America, home to a large and stable domestic market and a rich natural resources endowment. GDP growth is expected to reach 4.1% in 2013, compared to 4% in 2012. Despite strong macroeconomic performance, economic development remains unequally distributed consistent with the country’s geographic diversity. The central region surrounding Bogotá is responsible for 73% of output with per capita income levels double or triple most other regions, the poorest being those closest to the Amazon rainforest.

In December 2010, the Santos administration launched the “Prosperity for All” National Development Plan, aiming to foster inclusive economic growth through promoting employment, decreasing poverty and improving security. Human capital development plays a key role, especially with regards to two of the Plan’s strategic areas: sustainable growth and competitiveness and
equality of opportunities for social prosperity. To increase human capital development and spur economic growth and equality, development of the higher education system is critical.

Sectoral and Institutional Context

Colombia’s higher education system is composed of three types of institutions: universities, technological institutions and professional technical institutions. The first offer undergraduate and professional degrees, but only universities can award masters and doctoral degrees. The latter two focus on more practical and vocational degrees, with technological institutions placing a greater emphasis on science. As of 2013 there are 346 higher education institutions, almost 70% private. The share of private institutions is smaller among universities; of the 131 universities almost 60% are private.

Expanding enrollment and graduation rates for the overall population and for students throughout the country and from disadvantaged socioeconomic backgrounds, as well as increasing the number of accredited institutions, are key challenges. Gross enrollment rates in HEIs have grown rapidly in recent years, but remain low compared to most OECD countries and other middle-income countries. The higher education gross enrollment rate (coverage) climbed from 32% in 2006 to 43% in 2011, with most of the growth in enrollment coming from public rather than private HEIs, due mainly to the expansion of SENA (National Learning Service), a public institution focusing on vocational training. There is a large and persistent geographic disparity in enrollment with Bogotá concentrating one third of the enrolled students while its share of the Colombian population is closer to 18%. Students from disadvantaged socioeconomic backgrounds, whose families earn less than one minimum salary, made up just 16.2% percent of enrollment in 2012 but about 57.5% of the population. The number of graduates has increased by more than 50% since 2006, with graduation rates increasing from about 19% in 2006 to almost 30% in 2012. While higher than Mexico’s or Brazil’s, Colombia’s graduation rates remain below those of other upper middle income countries such as Chile (38%), and also below the OECD average (38%). In 2013, only 10% of HEIs (up from 6% in 2006) and just 27% of programs, most in Bogotá, had received a high-quality accreditation recognition from the National Education Ministry (MEN).

The main guidelines for education policy are set forth in the National Decennial Education Plan 2006-2016 (PNDE), launched during the Uribe administration, and the National Development Plan, announced by President Santos in 2010. The PNDE emphasizes the importance of equity, choosing it as one of 10 key themes promoted along three axes: access, retention and quality. The goals set in the plan include ensuring that 100% of HEIs have in place access and retention systems that take into account both the academic ability and the socioeconomic background of students (PNDE 2006 – Ministerio de Educación Nacional). The 2010 National Development Plan sets specific targets, including a 50% coverage rate for higher education by 2014.

Government priorities favor increasing coverage, graduation and equity through private provision of higher education services, catalyzed by expanded student aid and loans programs. The share of national transfers to HEIs in the budget has thus declined, dropping from 82.6% in 2000 to 54.9% in 2011. Government funds allocated to ICETEX (Colombian Institute for Educational Credit) an autonomous financial institution linked to the MEN, increased from 7.4% of the total public expenditure on higher education in 2000 to 20.1% in 2011. The focus on private sector expansion is reflected in overall spending on higher education which, at 2.0% of GDP in 2011, is high compared to the averages of both Latin America (1%) and the OECD (1.5%) due to above-average levels of private sector spending (1.0% in Colombia compared to 0.4% in Latin America and 0.5% in the
OECD).

In the absence of a private market for long-term student loans (private banks offer consumer loans to creditworthy students with a maturity of 6 months at market interest rates), ICETEX, whose Board of Directors includes the Minister of Education, and representatives from the universities, the Council on Higher Education, the National Council on Accreditation, the departments and the municipalities, is the main provider of long-term student loans. Established in 1950, ICETEX has provided loans for hundreds of thousands of students. Besides student aid provided by ICETEX, some universities offer assistance in the form of tuition waivers at both public and private universities, often based on merit and in some cases need. In addition, there are some scholarship funds available through private foundations.

Since 2002, ICETEX has been implementing a student support program called Access to Higher Education with Quality (ACCES) which has improved targeting, expanded subsidies, and widened geographic coverage of student loans. In addition, and in spite of improved targeting, ACCES has helped ICETEX improve its portfolio, with the percentage of the portfolio at risk over 30 days declining from 19% in 2006 to 17% in 2012. Funds diversification has improved, with innovations such as the establishment of a Sustainability Fund in which HEIs invest funds directly proportional to dropouts with a matching grant from ICETEX. A 2003 impact evaluation showed that students financed through ACCES had a lower chance of dropping out. Between 2004 and 2012, the annual number of student loans doubled, and in 2012, about 82% went to students belonging to the two lowest socioeconomic strata compared to 30% in 2002. Students belonging to the third lowest strata received 15% of ACCES loans with the rest (3%) allocated to students from strata 4 and above. Twenty-five percent of loan recipients in 2012 were registered in the lowest two levels of SISBEN – Version III (Selection System of Beneficiaries of Social Programs), a proxy means based test tool used to target social programs. ICETEX loans have a maturity of twice the length of a student’s degree program, zero real interest rate for strata 1-3 since 2012 by law, and a high grant element, including a subsistence grant, for students from disadvantaged socioeconomic backgrounds whose families are registered in the lowest two levels of SISBEN.

To further improve targeting, ICETEX is modifying the way it allocates ACCES student loans to give more prominence to the lowest two levels of SISBEN. Loans have been distributed based on academic performance with cut-off points varying by department proportional to the number of upper secondary graduates to ensure nationwide coverage, and to a lesser extent based on socioeconomic stratum and accreditation of the HEI or program. Until this year, SISBEN (version II) and strata were very highly correlated, with more than 90% of the population belonging to the bottom three levels of both, and about 75% and 65% of the population belonging to the bottom two strata and levels of SISBEN II, respectively. However, a new version of SISBEN (version III) has been introduced that uses a multi-dimensional approach to poverty that corrects for a previous high correlation with strata by setting a cut-off point tailored to each city for Colombia’s largest cities. Through targeting the lowest strata, ICETEX has sought to increase the proportion of students from the families that earn below two minimum wage intervals, which include about 50% of the population. Since the lowest two minimum wage intervals are closely correlated with the lowest two levels of SISBEN III, putting more weight on reaching students from families registered in the lowest two levels of SISBEN will help ICETEX reach this population.

To compel HEIs to meet minimum quality standards, even those not meeting the high thresholds necessary for accreditation, the MEN created in 2003 the Register of Qualified Programs in which
all higher education programs must be listed in order to operate. As the next step, the MEN plans to
develop quality standards which could put non-accredited HEIs on a path to accreditation, with
clearly designed incentives and targets that could help distinguish quality among non-accredited
HEIs for potential students. Up until now, the weight given to accreditation in the ACCES
algorithm is 15% of the total. To further incentivize quality improvement among non-accredited
HEIs, ICETEX is studying different alternatives to modify the way it allocates loans to put greater
weight on the set of non-accredited HEIs that meet these interim standards.

**Relationship to CAS**
The World Bank Group's Country Partnership Strategy (CPS) for FY12-16 (Report No. 60620-CO)
presented to the Board on June 12, 2011 is focused on three themes that are closely aligned with the
National Development Plan and reflect areas of sustained Bank engagement: (a) expanding
opportunities for social prosperity; (b) sustainable growth with enhanced climate change resilience;
and (c) inclusive growth with enhanced productivity. The proposed Project would contribute to
results in both the opportunities and the inclusive growth areas, through support to increase both the
coverage and graduation rates in the higher education system, with a focus on low income and
otherwise vulnerable students and on higher quality HEIs and programs.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**
The proposed Project Development Objective (PDO) is to increase coverage, graduation and equity
in the higher education system, prioritizing quality higher education institutions.

**Key Results (From PCN)**

Progress towards meeting these development objectives would be measured by two outcome
indicators: a) Increased enrollment rate in higher education and b) Increased graduation rate in
higher education. Both indicators would be measured in three dimensions: overall, among students
whose income is below twice the minimum salary, and in accredited higher education institutions
and programs.

**III. Preliminary Description**

**Concept Description**

At the request of ICETEX, the proposed lending instrument is Investment Project Financing to
ensure ICETEX has sufficient cash, at a favorable interest rate and maturity provided through the
Bank loan, to finance student loans provided through the ACCES program. The total Project amount
of US$1,812 million is composed of US$200 million from the Bank and US$1,612 million in
counterpart funds from the Government and ICETEX. It is the second phase of a two phase Series
of Projects (SOP) Loan: Phase 1 was carried out between March 2008 and June 2013 and close
satisfactorily. The Program objective of the SOP is the same as the PDO. The Project would achieve
its development objective through implementation of two components; the team would explore with
the Government results based financing for Component 1.

Component 1. Increasing Coverage, Graduation and Equity of the Higher Education System,
prioritizing quality higher education institutions. (Total: US$ 1,805 million; Bank: US$200 million;
Government: US$1,605 million estimated – to be confirmed). The objective of this component is to
increase the coverage and graduation from HEIs, including for students from socio-economic
disadvantaged background. It would finance loans through ICETEX’s ACCES Program for students
to pursue tertiary studies based on the revised allocation method which improves targeting on students from families from the lowest two levels of SISBEN III and places greater weight on accredited HEIs, and once the criteria are developed, on HEIs on a path to accreditation.

Component 2: Institutional Strengthening. (Total: US$7 million; Bank: US$0 million; Government: US$7 million estimated – to be confirmed). The objective of this component would be to further strengthen capacity in ICETEX to manage the ACCES program sustainably and to improve the quality of HEIs and programs.

It would finance technical assistance to strengthen ICETEX’s risk management, loan and portfolio administration and collection, information and management systems, and to carry out an impact evaluation of the Project.

It would also finance the development of quality standards which could put non-accredited HEIs on a path to accreditation, with clearly designed incentives and targets, and a monitoring and support program for non-accredited HEIs striving to meet these standards that would be jointly managed by MEN and ICETEX. An agreement will be reached between MEN and ICETEX to institutionalize the coordination and division of responsibilities. It would also continue to support the alliances with HEIs, which encourage increased support and services for low-income students that were forged under Phase 1. They would be revised or amended to explicitly include additional efficiency and quality criteria.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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