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RESTRUCTURING PAPER
ON A
PROJECT RESTRUCTURING
OF
COLOMBIA: SECOND STUDENT LOAN SUPPORT PROJECT
(LOAN 7515-CO)
APPROVED BY THE BOARD ON MARCH 4, 2008

TO THE
INSTITUTO COLOMBIANO DE CRÉDITO EDUCATIVO Y ESTUDIOS TÉCNICOS EN EL
EXTERIOR (“ICETEX”)

OCTOBER 6, 2010

ABBREVIATIONS AND ACRONYMS

ACCES	<i>Acceso con Calidad a la Educación Superior</i>
APL	Adaptable Program Loan
DANE	<i>Departamento Administrativo Nacional de Estadística</i>
GoC	Government of Colombia
ICETEX	<i>Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior</i>
M&E	Monitoring and Evaluation
TAE	<i>Título de Ahorro Educativo</i>

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COLOMBIA: SECOND STUDENT LOAN SUPPORT PROJECT

RESTRUCTURING PAPER

SUMMARY

1. The major changes and rationale to the *Colombia: Second Student Loan Project, Loan 7515-CO* (the Project) are as follows:
 - The closing date has been extended by eighteen months, from December 31, 2010 to June 30, 2012, to enable the *Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior* (ICETEX) to fully achieve the objective of diversifying its funding resources while it continues scaling up the provision of student loans to students from the lowest socioeconomic strata.
 - All but four targets have been made more ambitious to reflect the extended implementation schedule and a larger resource envelope than originally anticipated. The other four targets have been made less ambitious to reflect the impact of the financial crisis, and realistic operating environment and costs. Additionally, two indicators have been modified to address current monitoring and evaluation (M&E) data shortcomings and to acknowledge ICETEX's funding diversification efforts to include non-private sources and better capture results.
 - The financing plan has been revised to reflect a larger commitment of resources from the Government of Colombia.

PROJECT STATUS

2. The Project is the first phase of a planned two-phase Adaptable Program Loan (APL) to the *Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior* (ICETEX), a public special-nature¹ financial institution linked to the *Ministerio de Educación Nacional*. ICETEX's mission is to promote access and retention in tertiary education mainly through the provision of student loans to needy but academically talented students. The Project is also the follow-on of a previous project financed by Loan 7155-CO and implemented between 2003 and 2008, under the name *Acceso con Calidad a la Educación Superior (ACCES)*, and is officially referred to in Colombia as ACCES II.
3. Because of the global financial crisis ICETEX has pursued a more conservative financial leverage strategy, using a higher share of fiscal resources than originally foreseen. Therefore, six months prior to the closing date only USD 173 million of the USD 300 million approved by the Bank have been disbursed.

¹ As ICETEX cannot be considered a commercial financial institution or a Bank.

4. Meanwhile, project implementation has progressed well and ICETEX is likely to meet targets for key *Intermediate Results/Implementation Indicators*. As of June 30, 2010, six months prior to the original closing date, 73,375 new students had benefited from an ACCES II student loan (73 percent of the original target). In addition, the number of students from the two lowest socioeconomic strata that received an ACCES II student loan was 62,226 (78 percent of the target). To date, 82 percent and 97 percent of ICETEX beneficiaries come from the two and three lowest socioeconomic strata,² respectively. In addition, ICETEX has managed to significantly reduce operating costs during the last few years, mainly through synergies related to the centralization and virtualization of operations.
5. Diversification of ICETEX resources has proved more challenging than anticipated, for reasons beyond ICETEX's control. To date, ICETEX has only been able to generate 4.4 percent of its resources for student loans through external sources, against an original target of 9 percent by the end of the first phase of the APL. ICETEX's initial plans to diversify its funding sources through capital market mechanisms were strongly affected by the global economic and financial crisis.³ The securitization of a sub-portfolio of its loans became unrealizable amidst the crisis, as Colombian capital markets have not carried out any securitization in the last two years.
6. Given the expected improvement in the local financial markets for the period 2010 to 2012, ICETEX is finalizing plans to raise an additional COP 150,000 million in three tranches over the next two years through the issuance of *Títulos de Ahorro Educativo* (TAE), a fixed-income security that enables parents to save today to cover their children's future costs of higher education enrollment. A portion of the funds raised through TAE will be earmarked to finance new student loans. In addition, ICETEX is exploring alternatives to further increase the financial contributions received from sub-national entities and higher education institutions and to sell a portion of its past-due portfolio, among other funding diversification strategies.
7. ICETEX has also developed an alternative plan to diversify funding sources mainly through additional non-capital market mechanisms. These plans include alliances with private and public sector entities or the creation of a reserve fund to cover default with contributions from participating higher education institutions. Agreements have been recently signed with 206 higher education institutions, due, among other things, to ICETEX's recent efforts to develop an integrated support model to higher education students with the goal of preventing drop-out. The number of agreements significantly exceeds the original target, and is expected to lead to increased funding diversification.

PROPOSED CHANGES

² As measured by the government *Estrato* classification, based on the dwelling location and access to services.

³ Nevertheless, ICETEX's role in helping contain student drop-out during the recent global financial crisis was significant, unlike in the crisis that took place towards the end of the 1990s.

8. **Revised indicators.** One of the 5 *PDO-level/Impact Indicators* and one of the 6 *Intermediate Results/Implementation Indicators* have been modified. The new, proposed indicators, the original indicators they substitute and the rationale behind the proposed changes are presented below and further detailed in Annex 1:

- **Increase in the percentage of students enrolled in tertiary education whose income is below twice the minimum salary.**⁴ This new indicator has substituted for the indicator *Increase in the net enrollment of students in quintiles 1 and 2*. The reason for this change is that there have been difficulties in reporting information on the original indicator by ICETEX, due to data limitations in the Household and Standard of Living surveys carried out by the *Departamento Administrativo Nacional de Estadística* (DANE), which was at Project inception expected to be the main data source for M&E.
- **Percentage of total resources available for student credit generated from new external sources (other than ACCES credit, government/public funding for tuition or interest rate subsidies or equity resources).** This revised indicator has substituted for the indicator *Percentage of total resources available for student credit generated from external private sources (other than ACCES credit, government/public funding or equity resources)*. The reason for this change is to reflect ICETEX's current strategy to diversify its funding sources through both private sources and non-private sources such as public sector alliances. This change will also enable to better capture Project results.

9. **Revised targets.** Targets have been revised for all of the *PDO-level/Impact Indicators* and *Intermediate Results/Implementation Indicators*, and are detailed in Annex 1. All but four of the revised targets have been made more ambitious in light of the extended Project implementation schedule and increased resource availability. Less ambitious targets in the reduction of ICETEX's annual administrative costs, number of new upgraded management and IT systems, portfolio at risk and diversification of funding sources have been agreed. This is because most of the cost synergies from the centralization and virtualization of ICETEX's regional operations have already been achieved and have required investments not originally anticipated, leaving little space for further improvement beyond the already significant improvements made. In addition, the current financial crisis suggests that the ongoing improvements in portfolio quality will require a longer timeframe to materialize.

10. With the rebounding capital markets and ICETEX's alternative plans for funding diversification, ICETEX should be in a position to increase the percentage of total resources from external sources but only at a less rapid pace than originally envisioned. The plans for diversifying resources mainly through the issuance of *TAE* have been found acceptable by the Bank.

⁴ Minimum salaries would be defined according to the official definition of *Salario Mínimo Legal Mensual Vigente* (SMLMV) by the Colombian government. For 2010, it was fixed at COP 515,000.

11. **Extension of closing date.** The closing date has been extended by eighteen months, from the original closing date of December 31, 2010 to June 30, 2012. This has been the first extension. The extension will enable ICETEX to: (i) fully achieve the objective of diversifying its funding resources; and (ii) continue scaling up the provision of student loans to students from the lowest socioeconomic strata.
12. **Revised financing plan.** The financing plan has been adjusted to reflect the larger commitment of fiscal resources by the Government of Colombia (GoC) (see Table below). By June 30, 2012, the GoC is expected to have committed USD 238 million equivalent in Colombian Pesos, significantly exceeding the original plan of USD 88 million.⁵ These resources will continue to finance new loans and renewals of loans to financially needy, but academically talented students who are seeking to enroll in Colombian higher education institutions.
13. **Triggers.** The triggers for advancing from APL I to APL II remain unchanged. It must be noted that the five triggers have already been met.

Revised financing plan (APL 1) (June 2008-June 2012) <i>All financing is Local</i>			
Component	Indicative Costs in USD Million equivalent	Bank lending USD Million equivalent	Bank lending as a percentage of total Project budget
Component 1: Expanding equity and access to tertiary education 1.1 Finance & disburse student loans 1.2 Form alliances with higher education institutions	523.95 (381.62)	293.70 (293.70)	56 %
Component 2: Improving ICETEX's management practices 2.1 Strengthen loan administration, portfolio management & collection procedures; upgrade data technology hardware & software 2.2 Prepare to expand funding base to ensure long-term sustainability 2.3 Project monitoring & impact evaluation	12.60 (6.30)	6.30 (6.30)	50 %

⁵ The estimated USD 238 million of fiscal resources that will have been contributed to the Project by June 2012 are mainly from ICETEX's own equity resources.

Total Project Costs	536.55	300.00	56 %
Front-end fee	0.75	n.a.	
Total Financing Required	537.3	300.0	56 %

* In brackets, financing plan approved at Project preparation in 2008

ANNEX 1: REVISED RESULTS FRAMEWORK AND MONITORING

A. SUMMARY OF CHANGES TO MODIFIED INDICATORS

Old indicator	New indicator
Increase in the net enrollment rate of students in quintiles 1 and 2	Increase in the percentage of students enrolled in tertiary education whose income is below twice the minimum salary
Percentage of total resources generated from external private sources (other than ACCES credit, government/ public funding for tuition or interest rate subsidies or equity resources)	Percentage of total resources available for student credit generated from new external sources (other than ACCES credit, government/ public funding for tuition or interest rate subsidies or equity resources)

B. SUMMARY OF CHANGES TO TARGETS

The old and revised targets are not comparable as previously they were measured as of December 31 and now they are measured as of June 30. In any case, the old targets have been included in brackets in the summary tables below.

COLOMBIA: Second Student Loan Support Project

Hierarchy of objectives	Key Performance Indicators	Data Collection	Assumptions
<p>Sector-related CPS/ CAS Goal:</p> <p>Sustainable growth and poverty reduction.</p>	<p>Sector indicators:</p> <ul style="list-style-type: none"> • Increased GDP per capita • Improved Gini coefficient 	<p>Sector/ country reports:</p> <ul style="list-style-type: none"> • IMF and National data • WB calculation 	<p>(from Goal to Bank Mission)</p> <ul style="list-style-type: none"> • Macroeconomic variables within and beyond control of GoC favorable or neutral
<p>Program Purpose:</p> <p>To assist the GoC in its efforts to improve the tertiary education system by using student credit to improve access, equity, quality, efficiency and relevance.</p>	<p>End of Program Impact (Outcome or PDO level) Indicators to be achieved by June 30th, 2015:</p> <ul style="list-style-type: none"> • Increase in the transition rate from secondary to tertiary education from 62.0 percent to 73.1 percent by June 30th, 2015 • Increase in the number of tertiary education graduates from 146,810⁶ to 229,838 by June 30th, 2015 • Increase in the percentage of students enrolled in tertiary education whose income is below twice the minimum salary from 45.6 percent to 51.0 percent by June 30th, 2015 • Decrease in the annual administrative costs of ICETEX as measured by percentage of total income from 6.1 percent to 3.0 percent by June 30th, 2015 • Decrease in portfolio at risk over 30 days (portfolio quality ratio) from 19.0 percent to 17.0 percent by June 30th, 2015 	<p>Sources and/or Program reports</p> <ul style="list-style-type: none"> • MEN-SNIES, IFCES • MEN-SNIES • Government Household Survey and Standard of Living Survey • ICETEX Project Progress Reports; ICETEX Annual Report • ICETEX Project Progress Reports 	<p>(from Purpose to goal)</p> <ul style="list-style-type: none"> • Students develop skills and competencies that are demanded by the labor market and that translate into higher productivity via their employment high-value added sectors.
<p>Project Development Objectives:</p> <p>The development objectives of the Project (Phase I) are to: (a) improve coverage by increasing the enrollment and graduation rates of students in tertiary education; (b) improve equity by increasing enrollment and graduation rates of tertiary education students from economically-disadvantaged backgrounds; and (c) increase and diversify the sources of alternative funding available to ICETEX to contribute to increasing ICETEX's sustainability</p>	<p>Impact (Outcome or PDO level) Indicators to be achieved by the end of the Project (Phase I) in June 30th, 2012:</p> <ul style="list-style-type: none"> • Increase in the transition rate from secondary to tertiary education from 62.0 percent to 71.5 percent by June 30th, 2012 • Increase in the number of tertiary education graduates from 146,810 to 199,828 in by June 30th, 2012 • Increase in the percentage of students enrolled in tertiary education whose income is below twice the minimum salary from 45.6 percent to 49.9 percent by June 30th, 2012 • Decrease in the annual administrative costs of ICETEX as measured by percentage of total income from 6.1 percent to 3.0 percent by June 30th, 2012 • Decrease in portfolio at risk over 30 days (portfolio quality ratio) from 19.0 percent to 18.0 percent by June 30th, 2012 	<p>Sources and/or Project reports:</p> <ul style="list-style-type: none"> • MEN-SNIES, IFCES • MEN-SNIES • Government Household Survey and Standard of Living Survey • ICETEX Project Progress Reports; ICETEX Annual Report • ICETEX Project Progress Reports 	<p>(from Objective to Goal)</p> <ul style="list-style-type: none"> • Students are targeted effectively, trained at institutions of acceptable quality, learn skills that are relevant to the Colombian economy and are employable by the labor market

⁶ Based on the information provided by ICETEX, the original baseline has been adjusted to reflect MEN's most recent data

<i>Output from each Component of the Project (Phase I):</i>	<i>Implementation (Output or Intermediate Results) Indicators for the Project (Phase I), to be achieved by June 30th, 2012:</i>	<i>Project Reports:</i>	<i>(from Outputs to Objective)</i>
<p>Realized equitable access to relevant institutions of acceptable quality</p> <ul style="list-style-type: none"> • More effective, equitable and financially sustainable student loan programs that increase access to tertiary education for academically qualified but financially needy students • Effective partnership alliances between ICETEX and tertiary education institutions 	<ul style="list-style-type: none"> • At least 134,875 new students obtaining an ICETEX ACCES loan in the period 2008-June 30th, 2012 • At least 650,487 renewals disbursed for continuing students under the loan program in the period 2008-June 30th, 2012 • At least 111,426 new students from strata 1 and 2 obtaining an ICETEX ACCES loan in the period 2008-June 30th, 2012 • At least 206 new partnerships alliances established in the period 2008-June 30th, 2012 	<ul style="list-style-type: none"> • ICETEX Project Progress Reports • ICETEX Project Progress Reports 	<ul style="list-style-type: none"> • Government commitment to sustained subsidy of needy students • Acceptable employability levels and graduates' starting salaries to enable repayment of loans, reflecting sufficient private returns to the investment in higher education • Effective targeting • Absence of a significant economic downturn that will negatively affect unemployment and repayment rates
<p>Improved management practices at ICETEX</p> <ul style="list-style-type: none"> • Improved management systems: <ul style="list-style-type: none"> Improved loan administration procedures Revised portfolio management and collection procedures Finalized MIS improvements • More diversified funding sources 	<ul style="list-style-type: none"> • By June 30th 2012, at least 10 new/ upgraded Management and IT systems in place (cumulative) • By June 30th 2012, at least 7.5 percent of total resources available for credit generated from new external sources other than World Bank disbursements, portfolio repayments and recoveries, special funds under administration and GoC subsidies 	<ul style="list-style-type: none"> • ICETEX Project Progress Reports • ICETEX Project Progress Reports; ICETEX Annual Report 	<ul style="list-style-type: none"> • Absence of significant deviations from initial improvement plans/ systems development schedule, negatively affecting ability to meet implementation deadlines • Effective prioritization of improvement initiatives based on cost-benefit analysis, including time-considerations • Absence of a significant economic downturn and/or financial crisis that will negatively affect ability to raise funds in the local/ international capital markets

DETAILED ROADMAP TO ACHIEVE PROJECT'S (APL PHASE I AND PHASE II) EXPECTED IMPACT (OUTCOME OR PDO-LEVEL) TARGETS UNTIL JUNE 30, 2015:

Impact Indicators (core indicators)	D=Dropped C=Continue N=New R=Revised	Actual / Target Values (as of June 30 each year) (Data collection and reporting		
		Baseline (2006) / Actual 2008/ 2009 (as of Dec. 31)	Actual 2010 (As of June 30, 2010)	2011	2012 (End of APL I)	2013	2014	2015 (End of APL II)	Frequency and reports	Data source	Responsibility for Data Generation/ Responsibility for Data Collection
Increase in transition rate between secondary and tertiary education	C	62.0%/65.0 %/66.9%	69.2 %	70.5% (old as of Dec 31 2010 67.4%)	71.5 %	72.5%	72.8% (old as of Dec 31 2013 72.2%)	73.1%	Annual	SNIES for new students; ICFES for those taking the exam	MEN-SNIES ICFES/ ICETEX
Increase in the number of tertiary education graduates	C	146,810 ⁷ / 175,977 ⁸ / 169,818	179,821 (as of June 30 2010)	189,825 (old as of Dec 31 2010 182,270)	199,828	209,831	219,835 (old as of Dec 31 2010 210,770)	229,838	Annual	HEIs send information to SNIES	MEN-SNIES/ ICETEX
Increase in the percentage of students enrolled in tertiary education whose income is below twice the minimum salary	R	45.6%/ 50.1%/ 49.7%	49.7%	49.8%	49.9%	50.3%	50.7%	51.0%	Annual	Government Standard of Living Survey	DANE/ ICETEX
Decrease in the annual administrative costs of ICETEX as measured by percentage of total annual income	C	6.1%/4.0%/ 3.1%	3.0 %	3.0% (old as of Dec 31 2010, 3.7 %)	3.0 %	3.0%	3.0% (old as of Dec 31 2010, 2.3 %)	3.0 %	Biannual	Project Progress Report	ICETEX/ ICETEX
Decrease in portfolio at risk over 30 days (portfolio quality ratio)	C	19.0%/ 14.7%/ 18.9%	20.0%	19.0% (old as of Dec 31 2010,	18.0%	18.0%	17.0% (old as of Dec 31 2010,	17.0%	Biannual	Project Progress Report	ICETEX/ ICETEX

⁷ Based on the information provided by ICETEX, the original baseline has been adjusted to reflect MEN's most recent data

⁸ Recent adjustment by MEN. Potential further adjustments are likely.

To be achieved by the end of the Project (Phase I)

				15 %)			13 %)			
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DETAILED ROADMAP TO ACHIEVE PROJECTS' (PHASE I AND PHASE II) EXPECTED IMPLEMENTATION (OUTPUT OR INTERMEDIATE RESULTS) TARGETS UNTIL JUNE 30th, 2015:

Implementation indicators for each component (core indicators)	D= Dropped C= Continue N=New R= Revised	Actual/Target Values (as of June 30 each year)							Data collection and reporting		
		Actual 2008/ 2009 (as of Dec. 31)	Actual 2010 (as of June 30 th , 2010, cumulative since 2008)	2011	2012 (End of APL I)	2013	2014	2015 (End of APL II)	Frequency and reports	Data Source	Responsibility for Data Generation/ Data Collection
Component 1: Expanding equitable access to tertiary education											
Number of new students obtaining an ICETEX ACCES loan ⁹	C	30,801/ 59,348	73,375 <i>Jan-June 2010</i> 14,027	103,375 <i>Annual 30,000</i> (old 100,000)	134,875 <i>Annual 31,500</i>	167,875 <i>Annual 33.000</i>	202,375 <i>Annual 34.500</i> (old 210,000)	238,375 <i>Annual 36.000</i>	Biannual	Project Progress Reports	ICETEX/ ICETEX
Number of renewals disbursed for students currently under the loan program ¹⁰	C	132,124/ 268,485	338,649 <i>Jan-June 2010</i> 70,164	491,337 <i>Annual 152.688</i> (old 432,000)	650,487 <i>Annual 159.150</i>	816,084 <i>Annual 165.597</i>	988,114 <i>Annual 172.030</i> (old 929,000)	1,166,564 <i>Annual 178.450</i>	Biannual	Project Progress Reports	ICETEX/ ICETEX
Number of new students from strata 1 and 2 obtaining an ACCES loan ¹¹	C	25,512/ 50,712	62,226 <i>Jan-June 2010</i> 11,514	86,226 <i>Annual 24,000</i> (old 80,000)	111,426 <i>Annual 25,200</i>	137,826 <i>Annual 26,400</i>	165,426 <i>Annual 27,600</i> (old 168,000)	194,226 <i>Annual 28,800</i>	Biannual	Project Progress Reports	ICETEX/ ICETEX
Number of agreements signed with participating tertiary education institutions ¹²	C	0/0	206	206 (old 30)	206	[n.a.]	[n.a.]	[n.a.]	Annual	Project Progress Reports	ICETEX/ ICETEX

To be achieved by the end of the Project (Phase I)

⁹ Numbers cumulative, except those in *italics* that reflect annualized targets
¹⁰ Numbers cumulative, except those in *italics* that reflect annualized targets
¹¹ Numbers are cumulative
¹² Numbers are cumulative

		Actual/ Target Values (as of June 30 each year)							Data collection and reporting		
Implementation indicators for each component (core indicators)	D= Dropped C= Continue N= New R= Revised	Actual 2008/ 2009 (as of Dec. 31)	Actual (until April 30, 2010, cumulative since 2008, except otherwise footnoted)	2011	2012 (End of APL I)	2013	2014	2015 (End of APL II)	Frequency and reports	Data source	Responsibility for Data Generation/ Data Collection
Component 2: Improving ICETEX's management practices											
Percentage of total resources available for student credit generated from new external sources (other than ACCES credit, government/ public funding for tuition or interest rate subsidies or equity resources)	R	4.3%/ 6.3 ¹³ %	4.3 % ¹⁴	7.0%	7.5%	8.0%	8.5%	9.0%	Annual	Project Progress Reports	ICETEX/ ICETEX
Number of New/ Upgraded Management and IT Systems in place ¹⁵	C	0/9	9	10	10	[n.a.]	[n.a.]	[n.a.]	Annual	Project Progress Reports	ICETEX/ ICETEX

To be achieved by the end of the Project (Phase I)

¹³ As reported by ICETEX's Planning office, the original value reported to the Bank was subsequently adjusted to reflect additional COP 6,600 million from alliances. This is a non-recurrent contribution.

¹⁴ Cut-off date as of April 30, 2010

¹⁵ Numbers are cumulative

