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Report No: PAD698

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$200 MILLION

TO

INSTITUTO COLOMBIANO DE CRÉDITO EDUCATIVO Y ESTUDIOS TÉCNICOS EN EL EXTERIOR (ICETEX)

WITH THE GUARANTEE OF THE REPUBLIC OF COLOMBIA

FOR A

ACCESS WITH QUALITY TO HIGHER EDUCATION PROJECT - ACCES II - SOP PHASE 2

MARCH 5, 2014

Education Sector Unit
Human Development Department
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 8, 2013)

Currency Unit = Colombian Pesos (COP)
US$1= COP 1,890

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ABI	Friends and Beneficiaries of ICETEX Fund (*Fondo Amigos Beneficiarios de ICETEX*)
ACCES	Access with Quality to Higher Education *(Acceso con Calidad a la Educación Superior)*
APL	Adaptable Program Loan
APOTEOSYS	ICETEX disbursement management software
CD	Certificate of Deposit
CNA	National Accreditation Council *(Consejo Nacional de Acreditación)*
COBOL	Financial information system and programming language
COP	Colombian Pesos
CPS	Country Partnership Strategy
C&CTEX	ICETEX portfolio management software
DNP	National Planning Department *(Departamento Nacional de Planeación)*
DPS	Department of Social Prosperity *(Departamento de Prosperidad Social)*
GDP	Gross Domestic Product
HEI	Higher Education Institution
IBRD	International Bank for Reconstruction and Development
ICETEX	Colombian Institute for Educational Credit and Technical Studies Abroad *(Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior)*
ICFES	Colombian Institute for the Evaluation of Education *(Instituto Colombiano para la Evaluación de la Educación)*
IFC	International Finance Corporation
ILO	International Labor Organization
IFR	Interim Financial Report
ISO	International Organization for Standardization
MEN	National Education Ministry *(Ministerio de Educación Nacional)*
NTCGP	Technical Norms for Quality Public Management (*Norma Técnica Calidad Gestión Pública)*
NIT	Tax Identification Number (*Número de Identificación Tributaria)*
OAP	Planning Advisory Office *(Oficina Asesora de Planeación)*
OCI	Internal Control Office *(Oficina de Control Interno)*
OECD	Organization for Economic Co-operation and Development

OLE	Labor Observatory for Education *(Observatorio Laboral para la Educación)*
PDO	Program Development Objective
PIU	Project Implementation Unit
PND	National Development Plan *(Plan Nacional de Desarrollo)*
PNDE	National Decennial Education Plan *(Plan Nacional Decenial de Educación)*
SENA	National Learning Service *(Servicio Nacional de Aprendizaje)*
SGN	General Secretariat
SISBEN	Identification System for Social Program Beneficiaries *(Sistema de Identificación de Beneficiarios de Programas Sociales)*
SMLMV	Legal Monthly Minimum Wage *(Salario Mínimo Legal Mensual Vigente)*
SOP	Series of Projects
SW	Staff Weeks
T&T	Professional technical and technological higher education institutions
TAE	Educational Savings Bond *(Título de Ahorro Educativo)*
UCP	Project Coordination Unit *(Unidad Coordinadora de Proyecto)*
VCC	Vice-presidency for Credit and Collection *(Vicepresidencia de Crédito y Cobranza)*
VES	Vice-ministry of Higher Education *(Viceministerio de Educación Superior)*
VFN	Vice-presidency for Finance *(Vicepresidencia Financiera)*

Regional Vice President:	Hasan A. Tuluy
Country Director:	Gloria Grandolini
Acting Sector Director:	Mansoora Rashid
Sector Manager:	Reema Nayar
Task Team Leader:	Marcelo Becerra and Janet Entwistle

COLOMBIA

Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

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Access with Quality to Higher Education Project - ACCES II - SOP Phase 2 (P145782)

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

LCSHE

Report No.: PAD698

Basic Information		
Project ID P145782	EA Category C - Not Required	Team Leader Janet K. Entwistle Marcelo Becerra
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ] Financial Intermediaries [ ] Series of Projects [X]	
Project Implementation Start Date 08-Apr-2014	Project Implementation End Date 31-Dec-2018	
Expected Effectiveness Date 08-Apr-2014	Expected Closing Date 30-Jun-2019	
Joint IFC No		

Sector Manager	Acting Sector Director	Country Director	Regional Vice President
Reema Nayar	Mansoora Rashid	Gloria M. Grandolini	Hasan A. Tuluy

Borrower: ICETEX with the guarantee of the Republic of Colombia

Responsible Agency: Instituto Colombiano de Crédito Educativo y Estudios Técnicos en El Exterior (ICETEX)

Contact:	Fernando Rodriguez	Title:	Presidente
Telephone:	(571) 382-1670	Email:	frodriguezc@icetex.gov.co

Project Financing Data(in USD Million)					
[X] Loan	[ ] Grant	[ ] Guarantee			
[ ] Credit	[ ] IDA Grant	[ ] Other			
Total Project Cost:	436.00	Total Bank Financing:	200.00		
Financing Gap:	0.00				

Financing Source	Amount
Borrower	147.00
Government	89.00
International Bank for Reconstruction and Development	200.00
Total	436.00

Expected Disbursements (in USD Million)

Fiscal Year	2014	2015	2016	2017	2018	2019
Annual	6.95	51.60	64.57	40.26	29.67	6.95
Cumulative	6.95	58.55	123.12	163.38	193.05	200.00

Proposed Development Objective(s)

The objective of the Project is to increase student enrollment, graduation and equity in higher education, by: (a) increasing the number of ACCES Student Loans and the ACCES Program's focus on students from disadvantaged socioeconomic backgrounds and in quality higher education institutions and programs; and (b) enhancing ICETEX's institutional capacity.

Components

Component Name	Cost (USD Millions)
Component 1: Student Loans	424.00
Component 2: Institutional Strengthening	12.00

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Institutional Data

Sector Board

Education

Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Education	Tertiary education	100		
Total		100		
☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Human development	Education for the knowledge economy	90
Social protection and risk management	Improving labor markets	10
Total		100

Compliance	
Policy	
Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		**X**
Natural Habitats OP/BP 4.04		**X**
Forests OP/BP 4.36		**X**

Pest Management OP 4.09		**X**
Physical Cultural Resources OP/BP 4.11		**X**
Indigenous Peoples OP/BP 4.10	**X**	
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Project Implementation (Section I.A.2 of Schedule 2)	X		Continuous

Description of Covenant

The Borrower shall maintain, throughout the implementation of the Project, key staff for the Project, including, without limitation, a Project coordinator, all with terms of reference, and qualifications and experience satisfactory to the Bank.

Name	**Recurrent**	**Due Date**	**Frequency**
Project Implementation (Section I.A.3 of Schedule 2)		May 15, 2014	

Description of Covenant

Not later than May 15, 2014, the Borrower shall approve the new methodology described in the Operational Manual, for the allocation ACCES Program resources.

Name	**Recurrent**	**Due Date**	**Frequency**
Anti-Corruption (Section I.B.2 of Schedule 2)	X		Continuous

Description of Covenant

By exercising its rights under the HEI Contracts (in particular under *Cláusula Novena*), the Borrower shall enable the Bank: (a) to inspect accounts, records and other documents of the Eligible HEIs relating to the Project upon the Bank's request to the Borrower; and (b) at its request, to have such accounts, records and other documents audited by or on behalf of the Bank, using the terms of reference agreed with the Bank.

Name	**Recurrent**	**Due Date**	**Frequency**
Student Loans (Section I.C.1 of Schedule 2)	X		Continuous

Description of Covenant			
Prior to the provision of any ACCES Student Loan, the Borrower shall enter into an agreement ("Student Loan Agreement") with the corresponding Eligible Student, under terms and conditions acceptable to the Bank, including, *inter alia*, the obligation of the Eligible Student to repay the ACCES Student Loan.			
Name	**Recurrent**	**Due Date**	**Frequency**
Student Loans (Section I.C.2 of Schedule 2)	X		Continuous
Description of Covenant Prior to the transfer of any proceeds of the Loan (in the form of partial or full ACCES Student Loans) to any given Eligible HEI, the Borrower shall enter into a HEI Contract with said Eligible HEI, under terms and conditions acceptable to the Bank, including, *inter alia*: (a) the Borrower's: (i) obligation to: (A) transfer the proceeds of the ACCES Student Loans to the Eligible HEI to finance the tuition of Eligible Students who have been selected to receive an ACCES Student Loan; and (B) evaluate the Eligible HEI's progress against the benchmarks corresponding to the indicators included in the Scorecard; and (ii) right to suspend or terminate the right of the Eligible HEI to use the proceeds of the ACCES Student Loans, upon the Eligible HEI's failure to comply with any of its obligation under the HEI Contract; and (b) the obligations of the Eligible HEI to: (i) set up an office to provide assistance to recipients of Borrower's loans, including ACCES Student Loans, to graduate and manage their debt, and to support collection efforts after graduation; (ii) monitor their progress against benchmarks corresponding to the indicators included in the Scorecard; and (iii) comply with the Borrower's standards and parameters, including the Operational Manual, as applicable.			
Name	**Recurrent**	**Due Date**	**Frequency**
Safeguards (Section I.D of Schedule 2)	X		Continuous
Description of Covenant The Borrower shall carry out the Project in accordance with the IPP.			

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Janet K. Entwistle	Senior Operations Officer	Team Lead	LCSHE
Marcelo Becerra	Lead Education Specialist	Team Lead	LCSHE
Octavio Medina Pedreira	Junior Professional Associate	Operations	LCSHE
Martha Laverde	Senior Education Specialist	Senior Education Specialist	LCSHE
Jimena Garrote	Senior Counsel	Senior Counsel	LEGLE
Maria Elena Paz Gutzalenko	Program Assistant	Program Assistant	LCSHE
Luz A. Zeron	Financial Management Specialist	Financial Management Specialist	LCSFM
Keisgner De Jesus Alfaro	Senior Procurement Specialist	Senior Procurement Specialist	LCSPT
Victor Manuel Ordonez Conde	Senior Finance Officer	Senior Finance Officer	CTRLN
Carlos Molina Prieto	Social Development Specialist	Social Development	LCSSO
Luis de la Plaza Bringas	Lead Financial Officer/Debt Capital Markets & CBP	Lead Financial Officer/Debt Capital Markets & CBP	FABBK
Leyla V. Castillo	Financial Sector Specialist	Financial Sector Specialist	FFIMS
Ciro Avitabile	Economist	Economist	LCSHE
Dianna Pizarro	Senior Social Development Specialist	Senior Social Development Specialist	LCSDE
Fabiola Altimari Montiel	Senior Counsel	Senior Counsel	LEGLE
Non Bank Staff			
Name	**Title**	**Office Phone**	**City**
[redacted]			

Locations					
Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Colombia	Departments	All 32 departments and Bogota D.C.			

I. STRATEGIC CONTEXT

A. Country Context

1. 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% in 2013, similar to 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 and the Pacific coast. While poverty has gone down markedly in the past few years (42% in 2008 vs. 32.2% in 2013), income inequality remains high. The Gini index for 2012 was 0.54, one of the highest in the region.

2. In December 2010, the Santos administration launched the "Prosperity for All" National Development Plan 2010-2014 (PND, *Plan Nacional de Desarrollo*), 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 PND'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.

B. Sectoral and Institutional Context

3. Colombia´s higher education system is composed of four types of institutions: universities, university institutions, technological institutions and professional technical institutions. Both universities and university institutions can award undergraduate degrees, but only universities can award masters and doctoral degrees, while technological and professional technical institutions (collectively referred to as T&T) offer professional or technical degrees, with technological institutions placing a greater emphasis on science. As of 2013 there were 288 higher education institutions (HEIs), of which 72% were private. The share of private institutions is similar among the 201 universities and university institutions; of these, 70% were private. These numbers exclude Regional Centers of Higher Education (CERES, *Centros Regionales de Educación Superior*) launched in 2003 with the objective of expanding educational opportunities for underserved regions.[1]

4. 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 Organization for Economic Co-operation and Development (OECD) countries and other middle-income countries. The higher education gross enrollment rate (coverage) climbed from 30% in 2006 to 42.4% in 2012 (as of 2012, there were 1,841,282 students enrolled in HEIs compared to 1,281,681 in 2006), with most of the growth in enrollment coming from public rather than

[1] CERES are run through partnerships between HEIs, government (both national and subnational), and the private sector. In 2012, there were 27,233 students enrollment in 155 CERES, which represents 1.4% of total tertiary enrollment. They are overseen by MEN.

private HEIs, due mainly to the expansion of the National Learning Service (SENA, *Servicio Nacional de Empleo*),[2] a public institution which offers professional technical and technological tertiary degrees. There is a large and persistent geographic disparity in HEI enrollment with Bogotá concentrating one third of the enrolled students while its share of the Colombian population is closer to 18%. The number of graduates has increased by more than 50% since 2006 (241,049 students graduated in 2012 compared to 158,561 in 2006), with graduation rates increasing from about 21% in 2006 to almost 34% 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%).

5. The main guidelines for education policy are set forth in the National Education Ministry's (MEN) National Decennial Education Plan 2006-2016 (PNDE, *Plan Nacional Decenal de Educación*), launched during the Uribe administration, and the PND. 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. The 2010 PND sets specific targets, including a 50% gross enrollment rate for higher education by 2014.

6. Government priorities favor increasing enrollment, graduation and equity mainly through private provision of higher education services, catalyzed by expanded student aid and loan programs. While Government expenditure on higher education has increased from 0.86% of GDP in 2007 to 0.98% in 2011, the share of national transfers to HEIs in the budget has declined over the past decade from 82.6% in 2000 to 54.9% in 2011. On the other hand, Government funds allocated to the Colombian Institute for Educational Credit and Technical Studies Abroad (ICETEX, *Instituto Colombiano de Crédito Educativo y Estudios Técnicos en el Exterior*), an autonomous, state-owned 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. Most of ICETEX recipients (90%) attend private HEIs. The focus on private sector expansion is reflected in overall spending on higher education which, at 2% 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% in Colombia compared to 0.4% in Latin America and 0.5% in the OECD).

7. Student loans and/or grants are available from a number of sources. ICETEX is the sole provider of long-term student loans, in the absence of a private market for long-term

[2] The SENA is a public institution overseen by the Ministry of Labor whose main objective is to promote activities that contribute to the social, technological and economic development of the country. SENA runs the public employment service and provides a wide range of fee-free training programs to millions of students every year, though 96% of trainees are not enrolled in tertiary degrees (Tertiary Education in Colombia, OECD 2012). As of 2012, SENA accounted for 17.6% of total tertiary enrollment in Colombia, 100% of which was in technical and technological degrees. In 2006, 7.6% of graduates were from SENA. This share increased to 17.6% in 2011. Funding for SENA is obtained through a tax on employers equal to 2% of the payroll. SENA students are not eligible for ICETEX student loans, and instead receive grant funding from the *Jóvenes en Acción* (Young People in Action) program. *Jóvenes en Acción* is a program of the *Departamento de Prosperidad Social* (Department for Social Prosperity or DPS) promoting occupational training for vulnerable youth by means of conditional cash transfers.

student loans. Established in 1950, ICETEX has provided loans and scholarships for millions of students (more than 4.1 million beneficiaries in total). In 2013, 22% of the ICETEX targeted population[3] and 9.8% of the total higher education students were financed by an ICETEX student loan. Private banks offer short term consumer loans to creditworthy students, usually with a maturity of 6 months at market interest rates. 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. Some departments and municipalities set aside funds for scholarships or loans for students enrolled in HEIs. In addition, there are some scholarship funds available through private foundations.

8. Since 2002, ICETEX has been implementing a student support program called Access with Quality to Higher Education (ACCES, *Acceso con Calidad a la Educación Superior*). ACCES manages 73% of all of ICETEX's student loans. Under ACCES, new student loans are distributed twice a year based on a formula that first allocates funds by department to cover all of the demand in the *apartados,*[4] and for the remaining departments proportional to the number of secondary school graduates. ICETEX then allocates funds within other departments based primarily on student merit (weighted 73%) and to a lesser extent based on accreditation of the program or HEI that the student plans to attend (11.5%), the student's socioeconomic strata[5] (11.5%) and the existence of an ICETEX contract with the HEI that the student plans to attend (4%). ICETEX loans have a maturity of twice the length of a student's degree program and a 1 year grace period. Since 2011, student loans to students from strata 1-3 have been heavily subsidized by the government in accordance with Laws 1450 of 2011 (which included the PND) and 1547 of 2012, which requires a zero real interest rate be paid by these students.[6] In addition, indigenous students and students (including afro-Colombians, Roma and victims of violence) whose families are registered in the lowest two levels of Selection System of Social Program Beneficiaries or their equivalent (SISBEN II, *Sistema de Identificación de*

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[3] The ICETEX targeted population does not include students enrolled in SENA, students enrolled in public universities charging one minimum salary or less for tuition (99% of public university students as of 2012) and students from strata 5 and 6 enrolled in private universities. Of these non-targeted groups, only students enrolled in private universities from strata 5 and 6 are eligible for ICETEX loans. As of 2013, the ICETEX targeted population makes up around 44.6% of total enrollment; thus, ICETEX loans cover 9.8% of total enrollment.

[4] Ten departments in Colombia are considered *zonas apartadas* (remote areas) or *apartados* due to their low income level and geographic inaccessibility. They are granted special status for loan allocation purposes. The following departments are *apartados*: Amazonas, Arauca, Caquetá, Guainía, Guaviare, Putumayo, San Andrés y Providencia, Vaupés, Vichada, and Chocó.

[5] Socioeconomic strata or *estratos socioeconómicos* were originally created to distinguish which households would get subsidized access to public services and utilities. There are six strata (1-6, from poorest to richest), of which the first 3 receive a subsidy. However, this system has been shown to be overly inclusionary, so that 90% of the population lives in areas classified as strata 1-3.

[6] Law 1450, published on June 30, 2011, pertains to the National Development Plan 2010-2014. It established a subsidy equal to the interest payment for all students in strata 1-3, so that the effective real interest rate became 0%, and increased the living stipend (*subsidio de sostenimiento)*. Law 1547, published on July 5, 2012, made the decrease in loan interest rates permanent (the PND is only valid during a President's tenure, until the next PND is ratified). The law also gave students the possibility to enter a 25% debt forgiveness program if they fulfilled the following requirements: (i) being in the lowest two levels of the SISBEN II database or its equivalent, (ii) finishing the degree in the allocated number of semesters. Additionally, students are eligible for a 100% loan forgiveness program if they place in the 90-100th percentile of the SABER Pro test (taken at the end of the tertiary degree program.

Beneficiarios de Programas Sociales)[7] -- a proxy means based test tool used to target social programs -- receive a subsistence grant. Students whose families are registered in the lowest three levels of SISBEN II or their equivalent are eligible for partial debt forgiveness if they finish their degrees with high marks.

9. ICETEX leverages its funds through creating alliances (*alianzas*) with other providers of student finance. ICETEX has also introduced innovations such as the establishment of a Sustainability Fund in which private HEIs invest funds directly proportional to the percent of funds overdue from students that are no longer studying, with a matching grant from ICETEX. This fund has the dual purpose of establishing a reserve to offset portfolio loses, and of providing incentives to HEIs to encourage (i) a culture of continuous enrollment through graduation among student loan recipients and (ii) repayment of student loans. ICETEX has also attempted to raise private capital in the past, to decrease its dependence on public funds. This was done through the issuing of educational savings bonds (TAEs, *Títulos de Ahorro Educativo*); however, the bonds were sold at a deep discount, and were found to be an inefficient way of raising funds. ICETEX has explored possible securitization of its portfolio, but for now has not exercised this as a financing option due to deep discounts caused by government regulation and the high share of non-performing loans. In 2013, ICETEX's budget was financed by: (i) 39% loan repayments, (ii) 36% government subsidies (for interest rate subsidies, subsistence grant and loan forgiveness), (iii) 15% through financing, (iv) 5% from *alianzas,* the Sustainability Fund, financial returns and third party fund fees, and (v) 5% from other resources owned by ICETEX (initial available balance and accounting surplus).

10. Between 2004 and 2012, the annual number of student loans through ACCES 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. In 2012, 26% of loan recipients received a subsistence grant, i.e. they were registered in the lowest two levels of SISBEN II or were indigenous or Afro-Colombian. In terms of gender composition, females represented around 54% of new ACCES loans and 57% of the total ACCES portfolio in 2013.

11. ICETEX recently analyzed factors that increase the risk of a student defaulting, including socioeconomic status, academic merit, department, HEI, program of study, type of HEI and gender.[8] Socioeconomically disadvantaged students are the most likely to default. The department of origin of the student also plays a significant role: those from the Amazon and the

[7] Until 2012, 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. The version of SISBEN (version III) introduced in 2012 uses a multi-dimensional approach to poverty that corrects for a previous high correlation with strata by setting a cut-off point tailored to the largest cities, another one for other cities, and another one for rural areas. Since the lowest two minimum wage intervals are closely correlated with the population of students below the SISBEN III cutoff points (which are equivalent to the lowest two levels of SISBEN II), putting more weight on reaching students from families registered in the lowest two levels of SISBEN would help ICETEX reach this population.

[8] Based on two studies carried out by ICETEX: (i) *Metodología para el Cálculo de Provisiones* or Methodology for the Calculation of Provisions (ICETEX – LiSim, 2012) and (ii) *Guía para la implementación del cálculo de la Pérdida Esperada* or Expected Loss Calculation Implementation Guide (ICETEX – LiSim, 2012). The expected loss methodology is based on probabilistic models designed to estimate the probability of non-repayment of an individual.

Atlantic region have, on average, a higher risk of default. On average, students enrolled in non-accredited institutions have a higher risk of default than those in accredited, prestigious institutions, although this is not always the case. Students that study some degrees, for example many of those in the social sciences, are more likely to default than students that study, for example, natural sciences, which has the least risk. Similarly, pursuing a technical or technological option rather than a university degree yields a higher default risk. Having a lower SABER 11 score (a test taken at the end of upper secondary school used for university admissions) also increases a student's risk profile. Female students show, on average, higher repayment rates than male students who have a higher default risk.

12. Taking into account these results, and to take advantage of SISBEN III's improved methodology to reach the poor and thus further improve targeting, ICETEX plans to modify, prior to the second semester of the 2014 academic year, the way it allocates new ACCES student loans. The new allocation formula would have a twofold objective to improve ICETEX portfolio quality by introducing risk of default into the allocation formula and thus decreasing the risk profile of new ACCES student loan recipients, and to improve targeting to the socioeconomically disadvantaged population of high academic achievement. Strata would be eliminated from the allocation formula. Funds would continue to be allocated first by department, with demand in the *apartados* fully financed. ICETEX would then allocate the remaining funds to other departments based on the number of high school graduates in each department. A fixed percentage (based on historical data) would then be allocated to students in these other departments that are eligible for a subsistence grant, with this percentage increasing each year consistent with funds availability for subsidies. Within each of these groups, funds would then be allocated according to a formula that introduces the risk of default of the student. The formula would emphasize, among others, student merit and HEI and program accreditation, since these factors are both associated with lower student default.

13. To compel HEIs to meet minimum quality standards, even those not meeting the high thresholds necessary for accreditation, in 2003 the MEN created the Register of Qualified Programs in which all higher education programs must be listed in order to operate and to enroll students eligible for an ICETEX student loan. As a next step, in parallel to this Project, the MEN plans to intensify its efforts to encourage non-accredited HEIs to embark on a path to accreditation. Accreditation is a voluntary and temporary process, which HEIs must initiate. Both HEIs and programs within HEIs can be accredited; the process, administered by the National Accreditation Council (CNA, *Consejo Nacional de Acreditación*), involves a self-evaluation, an external evaluation and a final evaluation. Accreditation is based on several criteria (9 themes and 33 criteria for HEIs and 64 criteria for programs) that take into account, among others, fulfillment of HEI mission, impact on society, quality of teaching and management and relevance of research. As of 2013, there are 36 accredited HEIs and 903 accredited programs, which represent 12.9% and 7.9% of the total, respectively. The number of new accredited programs grew steadily from 7 in 1998 to a peak of 106 in 2007, after which it stabilized around 70. New accreditations for HEIs have ranged from 2 to 4 a year since 2007. The expectation is that these numbers will stay fairly constant in the next few years, while the number of HEIs and programs that are already accredited and renew their accreditation continues growing.

14. By supporting ICETEX, this Project would respond to a demand from the Government to assist in the improvement of access, graduation and equity of its higher education system. This Project would provide continuity to previous Bank support. The Bank has been supporting ICETEX since 2002, first through the Improving Access to Higher Education Loan (P074138, Loan 7155-CO), and in 2008 through the Second Student Loan Support Project APL Phase I (P105164, Loan 7515-CO). A 2012 Bank/OECD publication "Review of Policies for Education: Tertiary Education in Colombia" highlights ICETEX's key role in improving opportunities for higher education.

Table 1: The Bank's Support to Education in Colombia

	2000-2008 **General Policy across the Education Cycle**	**2009-2011** **Innovations for Learning**	**2012-2015** **Education for a Productive and Peaceful Colombia**
Financial Services	• Rural Education APL I (P050578) • Social Sector Adjustment Loan (P069861) • Higher Education – Improving Access (P074138) • Cundinamarca Education Quality Improvement (P077757) • Programmatic Labor Reform and Social Structural Adjustment Loan I (P079060) • Programmatic Labor Reform and Social Structural Adjustment Loan II (P082865) • 3rd Programmatic Labor Reform and Social Development Policy Loan (P094097)	• Rural Education APL II (2008-2013) (P082908) • Antioquia Upper Secondary Education Project (P052608) • Second Student Loan Support Project APL Phase I (P105164)	• Science, Technology, and Innovation Project (P117590) • Access with Quality to Higher Education Project - ACCES II - SOP Phase 2 (P145782) • Improving Access and Quality of Upper Secondary Education (P145656)
Knowledge Services	• Education Strategy (P056495) • Education Study (P085591) • Public Training Reform Issues (P074786) • Higher Education Strategy (P077435) • CO Education Quality Programmatic AAA Phase I (P106710)	• CO Education Quality Programmatic Advisory Knowledge Services II (P106634) • Skills for Shared Growth (P123144) • Empowering Young Women Affected by Violence Pilot Project (P052608) • Soccer Together Pilot Project (P145734) • Youth Reintegration Pilot Project (P095598) • Enhancing Governance, Transparency and Accountability in Education (2011) (P125541)	• Improving Opportunities for Education PKS (P129612 & P132235), including "Review of National Policies for Education: Tertiary Education in Colombia" (OECD/Bank joint publication) • Improving the Performance of Social Services PKS (P127472) • Peace Consolidation PKS (P144491) • Medium Term Effects of Home-Based ECD (P133512)
Convening Services		• Study-tour for high-ranking Peruvian officials to learn from the Escuela Nueva model in Colombia • International Expert Workshop on Tertiary Education Reform (with OECD)	

C. Higher Level Objectives to which the Project Contributes

15. The World Bank Group's Country Partnership Strategy (CPS) for FY12-16 (Report No. 60620-CO) discussed by the Board on June 12, 2011 is focused on three themes that are closely aligned with the PND 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 Project would contribute to results in both the opportunities and the inclusive growth areas, through support to increase both enrollment and graduation in the higher education system, with a focus on socioeconomically disadvantaged students.

II. PROJECT DEVELOPMENT OBJECTIVE

A. PDO

16. The objective of the Project is to increase student enrollment, graduation and equity in higher education, by: (a) increasing the number of ACCES Student Loans and the ACCES Program's focus on students from disadvantaged socioeconomic backgrounds and in quality

higher education institutions and programs; and (b) enhancing ICETEX's institutional capacity. The Program objective of the Series of Projects (SOP) is the same as the PDO of this Project, both of which have been revised to bring them more in line with good practice.

Project Beneficiaries

17. The direct Project beneficiaries would be: (i) ACCES student loan recipients currently enrolled in or aspiring to attend HEIs, and (ii) ICETEX, which would benefit from institutional strengthening. HEIs would benefit indirectly through enrollment of ICETEX loan recipients and from institutional strengthening efforts committed to in their contracts with ICETEX. In addition, firms, institutions and society in general would also benefit indirectly from a higher number of higher education graduates. It is expected that, from 2014 to 2019, over 238,500 students annually, on average, would benefit directly from the Project.

PDO Level Results Indicators

18. Progress towards meeting the Project Development Objectives would be measured by four outcome indicators: (a) enrollment in higher education, (b) graduation in higher education, (c) percentage of new students enrolled in higher education from families earning less than 2 minimum salaries; and (d) percentage of graduates from families earning less than 2 minimum salaries.

III. PROJECT DESCRIPTION

A. Project Components

19. The Project would achieve its development objective through implementation of two components.

20. Component 1. Student Loans. (Total: US$424 million; Bank: US$200 million; ICETEX: US$135 million; Government: US$89 million). The objective of this component is to increase student enrollment and graduation and improve equity in higher education by increasing the number of new and renewed ACCES student loans provided by ICETEX, and increasingly focusing them on students from socioeconomically disadvantaged backgrounds and quality HEIs and programs. This would also improve the probability of loan repayment, and strengthen ICETEX's financial soundness.

21. It would finance provision of ACCES student loans to eligible students to finance their tuition and/or subsistence (*sostenimiento*) in eligible HEIs to pursue a *pregrado* degree (a higher education degree that is not a graduate degree). It would finance loans through ICETEX's ACCES program for new students pursuing higher education based on the revised allocation method, to be introduced prior to the second semester of the 2014 academic year. Loans would be allocated using the existing method in the first semester of the 2014 academic year. It would also finance loan renewals for students that are continuing their studies. ICETEX would assume the credit risk of the students.

22. Component 2: Institutional Strengthening. (Total: US$12 million; Bank: US$0 million; ICETEX: US$12 million). The objective of this component would be to strengthen ICETEX's management practices, explore further diversification of financing sources and carry out an impact evaluation in order to enhance ICETEX's ability to increase student enrollment and graduation and improve equity in higher education. It would have 4 subcomponents.

Subcomponent 2.1: Strengthening ICETEX's loan administration and portfolio management (including loan collection practices) capacity through, *inter alia*, the development of differentiated collection strategies based on portfolio risks, and the upgrading of information systems (hardware and software).

Subcomponent 2.2: Strengthening ICETEX's capacity to: (i) manage its ACCES program through, *inter alia*, the use of scorecards and the carrying out of HEI contracts implementation supervision activities; and (ii) manage the Sustainability Fund.

Subcomponent 2.3: Provision of support for ICETEX's diversification of financial resources through, *inter alia*, the carrying out of: (i) studies including on alternatives to expand its funding sources and to develop an endowment fund, and on partnerships with the private sector; and (ii) fundraising activities.

Subcomponent 2.4: (i) The carrying out of: (A) impact evaluations of ICETEX's student loans; (B) tracer studies to track employment of HEI graduates that completed their studies and received student loans provided by the Borrower, including ACCES student loans; and (ii) the provision of support for ICETEX's overall Project coordination, implementation, and monitoring including, *inter alia*, the carrying out of audits.

B. Project Financing

23. At the request of ICETEX, the proposed lending instrument is Investment Project Financing to ensure ICETEX has sufficient cash, at a favorable interest rate, 22.5 year maturity, 6 years grace, and with repayments linked to each disbursement, to finance student loans offered through the ACCES program.

Project Cost and Financing

24. Total Project financing requirements are estimated at US$436 million. The Project would be financed as follows: US$200 million through a loan from the IBRD, the remaining US$236 million by ICETEX (US$147 million) and the Government (US$89 million).

Table 2: Project Cost and Financing

Project Components	Project Cost (US$ Million)	IBRD Financing (US$ Million)	% Financing
1. Student Loans	424.00	200.00	47.17%
2. Institutional Strengthening	12.00	0.00	0.00
Total Project Costs	436.00	200.00	45.87%
Front-End Fees	0.50	NA	NA
Total Financing Required	436.50	200.00	45.82%

Note: The total costs of the ACCES program during the Project period are US$1,915 million. The Project would cost US$436 million.

C. Series of Project Objective and Phases

25. The Project is Phase 2 of ongoing support to the ACCES Program. The two-phase structure was chosen to support a long-term program with long-term development objectives requiring institutional change over an extended period of time. The Second Student Loan Support Project APL Phase I (P105164), with US$300 million financed by the Bank, was approved by the Board on March 4, 2008 and closed satisfactorily on June 30, 2013. It helped increase enrollment in higher education from 1.2 million students in 2006 to 1.8 million in 2012, and it helped increase graduation from 146,810 students in 2006 to 241,019 in 2012. The percentage of disadvantaged students enrolled in the first year of a degree program increased from 45.6% in 2006 to 58.1% in 2012. The activities to be financed in Phase 2 are a natural continuation of those financed in Phase I, thus building on accumulated experience.

D. Lessons Learned and Reflected in the Project Design

26. The Project has been designed taking into consideration and incorporating lessons learned from the Second Student Loan Support Project APL Phase I (P105164), other similar Bank operations in the region and from other national experiences in the fields of higher education and quality assurance. These include:

27. PDO and indicators. The PDO should be expressed in a way that the objectives are expressed upfront. Including PDO indicators in the PDO as a means of achieving Project objectives should be avoided to prevent confusion and clarify aims. PDO indicators should measure progress toward achievement of objectives for the target population, and should be defined in the Results Matrix. When appropriate, it is better to use indicators in absolute numbers rather than rates or percentages which are more difficult to monitor if they depend on census data which is beyond the scope of the Project (i.e. number of students enrolled in tertiary education rather than enrollment rate or number of graduates rather than graduation rates). Under the Project, the three objectives of enrollment, graduation and equity have been clearly spelled out in the PDO and Project indicators in absolute numbers have been chosen carefully to measure each objective. The PDO includes the means through which the Project

would contribute to meeting these objectives. A detailed definition of each indicator is in the Results Matrix and is also included in the Operations Manual.

28. Implementation Arrangements. A transfer of responsibility in 2011 for implementing the Second Student Loan Support Project APL Phase I from a PIU (Project Implementation Unit) to ICETEX improved efficiency and continuity. The absorption of all PIU staff into ICETEX's operational and financial units increased ICETEX's commitment to that project and its sustainability. The institutional arrangements for this Project would be the same; it would continue to be implemented through ICETEX's existing units rather than through a separate PIU.

29. Financial Terms. The financial terms of the Bank loan under the Second Student Loan Support Project APL Phase I that were developed in close collaboration between the Bank and ICETEX were important to reduce ICETEX's financial risk: (i) an extended repayment period of 22.5 years plus a 6 year grace period reduced cash flow risk, (ii) loan maturity tied to the timing of Bank disbursements rather than commitments helped ICETEX further manage its cash flow risk; and (iii) conversion to COP (Colombian Pesos) at the time of disbursement minimized exchange rate risk. These financing arrangements are being maintained under the Project.

30. Funds Diversification. Leveraging ICETEX resources with funds from other sources, including municipalities, universities, and/or departments, through *alianzas* and through the Sustainability Funds has been more successful than raising financing from the private market. Despite ICETEX's repeated efforts and its good credit rating, the expansion of the funding base through private capital markets has not been as successful. ICETEX has securitized parts of its portfolio through TAEs in the past but government regulation and market conditions have so far prevented bond issuances from being large enough to raise funds inexpensively and efficiently. The Project focuses on ICETEX's strategy to increase the number of *alianzas* and the size of the Sustainability Fund, and explore further other funding sources such as public private partnerships, or donations from previous ICETEX recipients through the Friends and Beneficiaries of ICETEX Fund (ABI, *Fondo Amigos Beneficiarios de ICETEX*).

31. Portfolio Risk. The strengthening of the risk administration system of the implementing agency has been critical to ICETEX achieving internationally recognized credit ratings. Since 2008, the continuous improvement of ICETEX's risk management system allowed it to achieve a series of high quality credit accreditations and ratings (ISO [International Organization for Standardization] 9001 in 2008, NTCGP [*Norma Técnica Calidad Gestión Pública*] 1000 in 2009 and Triple-A credit rating from Fitch Colombia in 2011). Nonetheless, as access of students from socioeconomically disadvantaged backgrounds to ICETEX student loans increases, portfolio risk is also increasing. ICETEX's management of portfolio risk thus should be further strengthened through additional measures to lower the risk of nonrepayment. The student allocation model, under development for introduction in May 2014, would contribute to ICETEX's risk reduction strategy by introducing for the first time the risk of nonrepayment as one factor in credit allocation, in accordance with international best practices in financial institutions.

32. Improving HEI Quality. Collaboration between the MEN's Vice Ministry for Higher

Education and ICETEX is critical to increasing the number of accredited HEIs. The CAN, under MEN's Vice-ministry of Higher Education, sets accreditation standards and works directly with HEIs to develop and implement improvement plans critical to accreditation. ICETEX's contracts with HEIs provide an opportunity for ICETEX to also influence HEI quality that could lead to accreditation, if coordinated with MEN's Vice-ministry for Higher Education. Under the Project, ICETEX would develop and systematically monitor through scorecards, with input from the Vice-ministry of Higher Education (VES, *Viceministerio de Educación Superior*), key variables critical to put HEIs on a path to accreditation, such as the dropout rate, and the number of accredited programs in a given HEI. The student loan allocation formula would continue to be ICETEX's primary tool for directing student loans to students in accredited institutions, thus providing an incentive to HEIs to embark on a path to accreditation.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

33. ICETEX would be responsible for implementing both components of the Project. Institutional arrangements for Project implementation have been designed so that the Project is implemented through ICETEX's structure without a separate Project Implementation Unit.

34. Eight ICETEX units would be responsible for implementing the Project: (i) the Planning Advisory Office (*OAP, Oficina Asesora de Planeación*) which includes a Project Coordination Unit (*UCP*, *Unidad Coordinadora de Proyecto,* composed of a Project Coordinator and a Deputy Coordinator), which would be responsible for the management, coordination and supervision of the Project, (ii) the Vice-presidency for Credit and Collection (*VCC*, *Vicepresidencia de Crédito y Cobranza*); (iii) the Vice-presidency for Finance (VFN, *Vicepresidencia Financiera*); (iv) the Vice-presidency for Operations and Technology (VOT, *Vicepresidencia de Operaciones y Tecnología)*; (v) the General Secretariat (SGN); (vi) the Commercial and Marketing Office (OCM, *Oficina de Comercio y Mercadeo*), (vii) the Vice-presidency for Funds in Adminisration (VFA, *Vicepresidencia de Fondos en Administracion*) and (viii) the Internal Control Office (OCI, *Oficina de Control Interno*). The roles of each unit, as detailed in Decree 380 published on February 12, 2007, are described in Annex 3.

35. ICETEX student loans that fund tuition would be wired directly to the HEI; those that fund a stipend would be wired directly to the student. Prior to the provision of any ACCES student loan, students would enter into an agreement with ICETEX, including the obligation of the student to repay the ACCES student loan. Similarly, the transfer of any Bank loan proceeds to an HEI would require the previous signing of a contract between the HEI and ICETEX, the content of which would be in compliance with ICETEX's procedures under the ACCES program and the Project requirements included in the Loan Agreement and the Operational Manual.

B. Results Monitoring and Evaluation

36. The UCP would be responsible for monitoring and evaluation, with input from each of the units implementing the Project (see Annex 1). It would send Biannual Progress Reports to

the Bank, including on progress toward targets in the Results Matrix. Contract supervisors, presently assigned to OCM, would be responsible for monitoring ICETEX's contracts with HEIs. The UCP would also be responsible for the impact evaluation.

C. Sustainability

37. ICETEX was subject to an appraisal process to ensure satisfactory compliance with eligibility criteria for Financial Intermediary Financing. Current financial capacity and future sustainability of ICETEX is highly dependent on Government budget support and on the planned improvements in management and loan collection practices that would ultimately improve total debt recovery and overall portfolio quality.

38. ICETEX has received a triple A rating from Fitch Ratings in Colombia. ICETEX estimates show that the proceeds from the Bank loan are critical to maintain ICETEX's current coverage of students for the period 2014-2018. Thereafter, ICETEX would be able to achieve a sustainable operation—while maintaining current coverage ratio—through government transfers (which would stabilize around 45% of ICETEX's total income by 2016), improved portfolio collection, and an increase in other alternative sources of income. Efforts have also been made on the cost side. Total administrative costs have been decreasing from 6% of total costs in 2006 to 3.1% in 2012.

39. In a worst case scenario, in the absence of external credit and with all other conditions being equal, portfolio simulations suggest that ICETEX would still be sustainable in the long term. In this case, however, the coverage ratio would need to be adjusted from the current 22% of the targeted population to 15% for the period 2014-2040.

40. Student loan programs worldwide, especially those that include subsidies, are dependent on transfers from the Government, since education and human capital have positive social externalities and suffer from underinvestment from the private sector in the absence of public intervention.

41. ICETEX is nonetheless reducing its dependency on governmental transfers. Through a number of initiatives. Loan repayment would be enhanced through a program of increased contact with students during and after their tertiary studies. Collection efficiency would be strengthened through improved and targeted strategies for debt recovery, which will be based on recently developed risk management models, paying particular attention to the portfolio at risk between 0 and 60 days. Collection of the portfolio past due more than 60 days would continue to be outsourced to specialized collection companies. ICETEX is currently working on improving the existing contracts to enhance performance and strengthen overall monitoring of these companies. ICETEX would also receive technical assistance under the Project to explore other possible funding sources including the creation of an endowment, public-private partnerships, and the ABI through which former recipients of student loans would fund current students.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Low
- Governance	Low
Project Risk	
- Design	Low
- Social and Environmental	Low
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Low
Overall Implementation Risk	Low

B. Overall Risk Rating Explanation

42. The overall risk rating is low, notwithstanding moderate stakeholder risk. This low rating reflects especially ICETEX's strong institutional capacity and an established Board of Directors with a proven track record of good decision making and accountability.

VI. APPRAISAL SUMMARY

A. Economic Analysis

43. From 2014 to 2043, graduating from an HEI thanks to an ACCES loan financed by the Project is expected to offer beneficiaries an internal rate of return ranging from 16% (for technological degree graduates from upper strata) to 29% (for university graduates from lower strata receiving subsidies). The internal rate of return for the investment is also positive for HEIs (15%-24% depending on the degree and stratum) and ICETEX (0.2% as a whole). The estimated Project social rate of return is 18%.

B. Technical

44. The approach selected is based on both previous experiences with Bank support to ICETEX and international evidence and best practices. The Project incorporates lessons learned and captured in the ICR of the Second Student Loan Support Project APL Phase I, building on its current technical design. The Project also draws on previous international evidence, especially under Component 2 in terms of emphasizing the importance of (i) management practices, (ii) detailed monitoring and evaluation mechanisms and (iii) the

sustainability of the student loan portfolio in the long run. ICETEX would also introduce a revised allocation formula for student loans, currently under development, based partly on risk repayment models that follow best practices amongst financial institutions worldwide.

C. Financial Management

45. A Financial Management (FM) Assessment of ICETEX was conducted in accordance with the Bank's Policy OP/BP 10.00. Based on the results of the assessment, ICETEX continues to have adequate FM arrangements for the implementation of the Project. The FM arrangements are the same as those under the Second Student Loan Support Project APL Phase I. Given that there are some areas which need to be strengthened in terms of flow of funds and monitoring mechanisms for transfers made to the HEIs, additional mitigating controls have been taken into account in the Project design, including new contract provisions with HEIs, and reporting tools, such as arrangements for the concurrent reconciliation of transfers to HEIs. In addition, the Internal Control Office would include in its audit work program a review of the program on a semi-annual basis and on-site visits to HEIs. The overall FM risk for the Project is Moderate, considering the Project mitigation measures agreed with ICETEX.

D. Procurement

46. There is no Bank financed procurement under the Project. Component 1 (Student Loans) would finance only student loans, which are not subject to the Bank Procurement Guidelines ("Procurement of Goods Works and Non-Consulting Services", January 2011; and Selection and Employment of Consultants Under IBRD Loans and Credits & Grants by World Bank Borrowers, January 2011). Student loans would be awarded in accordance with an allocation formula, as described in Component 1. Under Component 2 (Institutional Strengthening), all contracts for procurement of goods and services would be completely financed by ICETEX and not by the Bank.

47. The Procurement Guidelines provide, in paragraph 1.5, that the Borrower may adopt other procurement procedures for contracts that fall under the description of the Project but which are not financed using the loan's proceeds. The Bank would be satisfied that the procedures used would fulfill ICETEX's obligations to carry out the Project diligently and efficiently if the goods, works, and non-consulting services to be procured: (a) are of satisfactory quality and are compatible with the balance of the Project (ICETEX would share with the Bank TORs for key contracts, including external audits and impact evaluations); (b) are delivered or completed in a timely fashion; and (c) are priced so as not to affect adversely the economic and financial viability of the Project. During implementation, the Bank would oversee management of procurement and periodically assess whether the procedures and results meet Bank requirements in terms of quality, time and price.

48. Since 2002, ICETEX has been involved in management of procurement under Bank financed projects. In the period 2008-2013, ICETEX fully implemented the Second Student Loan Support Project APL Phase I using Government regulations for procurement of goods and services with own its funds, as proposed in this Project. If at any time during Project implementation ICETEX submits a request to the Bank for procurement of goods and/or services financed with Bank proceeds, the Bank would carry out a fiduciary capacity

assessment of ICETEX and/or any other agency otherwise involved to determine their proficiency to implement procurement and would define an action plan for procurement strengthening and risk mitigation accordingly.

E. Social (including Safeguards)

49. Indigenous peoples, Afro-Colombians, Roma, victims of violence, and other socioeconomically disadvantaged population are among the main beneficiaries of the Project. The average age for the indigenous and Afro-Colombian population is lower than the national average; the distribution is especially skewed towards the bottom of the pyramid, thus making the indigenous and Afro-Colombian school and college-aged cohorts larger relative to the rest of the age groups. The school attendance levels for these two groups are lower than the national average: In 2005, whereas nationwide school attendance for 12-17 year olds was 77.8%, the figure was 58.8% and 77.1% for indigenous peoples and Afro-Colombians respectively. Attendance is low for 18-24 year olds, with only 16.9% of the indigenous population and 23.7% of Afro-Colombians currently attending school or HEIs, compared to 27.1% nationwide. The Roma, on the other hand, are, on average, older than the national population. School attendance indicators vary depending on the age group, but are generally closer to, or even better than the national average. In 2005, Roma school attendance for 12-17 year olds was 75.8%, and 37.9% for 18-24 year olds. Victims are a large and ethnically heterogeneous group, which makes aggregate numbers harder to obtain. As of 2013 there were 157,000 people registered as victims, which represents around 0.3% of the Colombian population; however, the real number is likely much larger.

50. The Project triggers OP/BP 4.10 (Indigenous Peoples) because indigenous peoples (and afro-Colombians) are present in the Project area and could benefit from improved targeting of systems for higher education financing. An IPP (*La Educación Superior en Colombia en Población de Grupos Étnicos y Víctimas*) has been prepared with appropriate measures to monitor it. It focuses on further strengthening ICETEX's capacity and lays out measures and policies that help ensure that ICETEX programs are successfully tailored to the needs of indigenous, afro-Colombian, and Roma students, as well as those that are victims of violence. Building on the successful increase in access to ICETEX loans for indigenous and afro-Colombian students in the Second Student Loan Support Project APL Phase I (their numbers increased from 1.9% of ACCES loans in 2008 to 9.7% in 2012), the IPP takes into account cultural characteristics of these groups to ensure inclusion. The IPP was consulted on October 1, 2013 with 15 indigenous, Afro-Colombian and Roma national and local organizations, 4 Afro-Colombian and indigenous members of the legislature, university officials from 3 universities, indigenous students from 3 universities, and government representatives from 6 institutions. A total of 35 stakeholders participated. The IPP incorporates their feedback and recommendations accordingly and in line with the Project's scope. A draft of the IPP, satisfactory to the Bank, was disclosed on ICETEX's website and on the Bank website on October 7, 2013 and the final on December 20, 2013.

F. Environment (including Safeguards)

51. The Project is classified as category C. It does not include construction or rehabilitation of infrastructure, therefore the OP/BP 4.01 on Environmental Assessment is not triggered.

Annex 1: Results Framework and Monitoring

COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

Project Development Objectives

PDO Statement

The objective of the Project is to increase student enrollment, graduation and equity in higher education, by: (a) increasing the number of ACCES Student Loans and the ACCES Program's focus on students from disadvantaged socioeconomic backgrounds and in quality higher education institutions and programs; and (b) enhancing ICETEX's institutional capacity.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
Increase student enrollment in higher education. 1. Enrollment in higher education.		Number	1.84M	2.17M	2.21M	2.24M	2.28M	2.32M	Annual	Project Progress Reports/ SNIES	ICETEX UCP/ MEN-VES	Enrollment is defined as the population enrolled in any given year in undergraduate university degree programs, as well as professional technical and technological degree programs. Enrollment is expected to increase faster than population growth based on DANE projections. Baseline is 2012.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
Increase graduation in higher education. 2. Graduation in higher education.	☐	Number	241K	289K	316K	345K	375K	406K	Annual	Project Progress Reports/ SNIES	ICETEX UCP/ MEN-VES	This is defined as the number of students who have completed, in any given year, an undergraduate university degree program, or a professional technical or technological degree program. Graduation is expected to increase faster than population growth based on DANE projections. Baseline is 2012.
Increase equity in higher education. 3. Percentage of new students enrolled in higher education from families earning less than 2 minimum salaries.	☐	Percentage	58.1%	61%	62.1%	62.5%	63%	64.3%	Annual	Project Progress Reports/ SNIES - SPADIES	ICETEX UCP/ MEN-VES	This indicator corresponds to new students. Two minimum salaries are defined by the official monthly minimum salary (SMLMV). Data on minimum salaries is self-reported by students when taking the SABER 11 (upper secondary graduation test) exam, collected by ICFES and published by SNIES. Baseline is 2012.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
Increase equity in higher education 4. Percentage of graduates from families earning less than 2 minimum salaries.	☐	Percentage	49.4%	50.7%	52.9%	55.0%	57.2%	59.0%	Annual	Project Progress Reports/ SNIES - SPADIES	ICETEX UCP/ MEN-VES	Two minimum salaries are defined by the official monthly minimum salary (SMLMV). The percentage of graduates is defined as the number of students from families earning less than 2 minimum salaries who have completed, in any given year, an undergraduate university degree program, or a professional technical or technological degree program graduate, over the total number of graduates under the same methodology. Data on minimum salaries is self-reported by students when taking the SABER 11 (upper secondary graduation test) exam, collected by ICFES and published by SNIES. Baseline is 2012.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
Intermediate Results Indicators												
Component 1 – Student loans												
1. Number of new students obtaining an ACCES student loan.	☐	Number	40K	38K	40K	41K	43K	44K	Biannual	Project Progress Reports/ C&CTEX	ICETEX UCP and VCC	New students are those who obtain a loan through the ACCES program but did not previously have one; that is, it excludes students who already had an ACCES loan and renewed it. Obtaining a loan requires both ICETEX approval and *legalización* (final legal review and approval of application material). Baseline is 2012.
2. Number of ACCES student loan renewals.	☐	Number	158K	190K	200K	207K	212K	218K	Biannual	Project Progress Reports/ C&CTEX	ICETEX UCP and VCC	Student loans can be renewed during both the first semester and second semester of the academic year. Baseline is 2013.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
3. Percentage of new ACCES student loans given to students who qualify for a government subsistence grant.	☐	Percentage	29%	31%	32%	33%	34%	35%	Biannual	Project Progress Reports / C&CTEX	ICETEX UCP and VCC	To receive a government subsistence grant, students must fulfill one of the following requirements: i) Score below the SISBEN cutoff points agreed on by ICETEX and DNP. In 2013 they are as follows: fourteen largest cities: 57.1 points; remaining urban areas points: 56.32; rural areas: 40.75 points, out of 100 possible points. Law 1450 of 2011 requires the cutoff points to be equivalent to the lowest two levels of SISBEN II. The cutoff points are subject to change; ii) Be registered as an indigenous person, Afro-Colombian, or victim.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
4. Percentage of new ACCES student loans given to students who qualify for a government subsistence grant and score below the SISBEN cutoff points.	☐	Percentage	22%	24%	25%	26%	27%	28%	Biannual	Project Progress Reports / C&CTEX	ICETEX UCP and VCC	The SISBEN cutoff points for a government subsistence grant are agreed on by ICETEX and DNP. In 2013 they are as follows: fourteen largest cities: 57.1 points; remaining urban areas: 56.32 points; rural areas: 40.75 points, out of 100 possible points. Law 1450 of 2011 requires the cutoff points to be equivalent to the lowest two levels of SISBEN II. Baseline is 2012
5. Percentage of new ACCES student loans given to indigenous peoples, afro-Colombians, Roma and victims of violence.	☐	Percentage	9%	9.5%	10%	10.5%	11%	11.5%	Biannual	Project Progress Reports / C&CTEX	ICETEX UCP and VCC	Victims are defined as i) people displaced due to violence and ii) any others defined by Law 1448 of 2011 and its derived regulations. Baseline is 2012.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
6. Percentage of new ACCES student loans given to students enrolled in accredited higher education institutions or programs.	☐	Percentage	28%	32%	34%	36%	38%	40%	Biannual	Project Progress Reports / C&CTEX/ SNIES	ICETEX UCP and VCC/ MEN-VES	These are defined as the HEIs or programs are those that have been recognized by the *Consejo Nacional de Acreditación* (CNA, National Accreditation Council) as accredited institutions or programs. It is assumed that the number of accredited HEIs and programs will maintain the current growth trends. Baseline is 2012.
7. Geographic distribution of ACCES loans to new students in *zonas apartadas*.	☐	Percentage	4%	4.5%	5%	5.5%	6%	6.5%	Biannual	Project Progress Reports / C&CTEX	ICETEX UCP and VCC	Nine departments are considered *zonas apartadas* (remote areas) due to their low-income levels and geographic inaccessibility. They are granted special status for loan allocation purposes. The following departments are *apartados*: Amazonas, Arauca, Caquetá, Guainía, Guaviare, Putumayo,

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
												San Andrés y Providencia, Vaupés, Vichada, and Chocó. Baseline is 2012.
Component 2 – Institutional strengthening												
Subcomponent 2.1 – Strengthening of management practices												
8. Annual administrative costs of ICETEX.	☐	Percentage	3.1%	3%	3%	3%	3%	3%	Annual	Project Progress Reports / APOTEOSYS	ICETEX UCP and VFN	This is defined as the total sum of administrative costs, measured in local currency, divided by the total annual income, measured in local currency, of ICETEX. Baseline is 2012.
9. Information systems upgraded.	☐	Text	C&CTEX, APOTEO SYS and CRM in use and networked to personal computers.	C&CTEX, APOTEO SYS and CRM software upgrade, automa-tion program, and personal computer replace-ment program.	Imple-menta-tion of the IT strategy	Imple-mentation of the IT strategy	Imple-mentation of the IT strategy	Imple-mentation of the IT strategy	Biannual	Project Progress Reports / IT Strategy Progress Report	ICETEX UCP and VOT	C&CTEX is the portfolio management software, APOTEOSYS is the disbursement management software, and CRM is the customer service management software. Baseline is 2013.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
				5 year IT strategy								
10. Percentage of nonperforming loans.	☐	Percentage	36%	31%	26%	21%	20%	19%	Annual	Project Progress Reports / ICETEX Financial Reports	ICETEX UCP, VOT and VCC	Portfolio quality will be measured through nonperforming loans (NPLs), which are defined as ACCES loans with interest or principal payments past due more than 30 days divided by the total number of ACCES student loans in amortization. Baseline is July 2013.
Subcomponent 2.2 – Strengthening monitoring of contracts with HEIs												
11. Number of HEI Support Offices monitored by ICETEX through on-site visits.	☐	Number	N/A	90	90	90	90	90	Annual	Project Progress Reports and OCM onsite visits	ICETEX UCP and OCM	ICETEX's contracts with HEIs include clauses for HEIs to set up a support office to help ICETEX recipients graduate, reduce drop out, manage their student loans and foster a culture of repayment, and support collection

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
												efforts after graduation. Contracts would be monitored through periodic on-site visits to HEIs. The goal would be to have an on-site visit to each HEI once every three years.
12. Percent of HEIs that perform above the benchmark on at least 5 of the 6 indicators in the scorecard.	☐	Percentage	54%	56%	58%	60%	62%	64%	Annual	Project Progress Reports, C&CTEX and SNIES	ICETEX UCP and OCM	The scorecards measure the percentage of collection, sustainability index, legalization index, renewal index, number of accredited programs, and dropout rate. Benchmarks, subject to yearly adjustment, are in Annex 3.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
13. Sustainability index - Student loan attrition (non-renewal) and associated default rate among ACCES recipients.	☐	Percentage	6.6%	6.4%	6.4%	6.2%	6.2%	6%	Annual	Project Progress Reports, C&CTEX and SPADIES	ICETEX UCP and OAP	This is defined as the number of ACCES student loan recipients no longer studying at all or no longer studying in the same HEI and/or program that do not renew their ACCES. Student loan for two semesters and have student loans overdue by more than 90 days divided by ICETEX student loan recipients over the previous 7 years not including the most recent year and one-half (since these new students could not have not renewed by more than two semesters). Students that are still studying but have not renewed their ACCES student loans are not included. Baseline is 2012.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
Subcomponent 2.3 – Diversification of financing sources												
14. Total sum of resources available for student credit generated from external sources.	☐	Number	Funds under Administration COP 84B ICETEX budget COP 96B	COP 151B COP 64B	COP 157B COP 70B	COP 163B COP 76B	COP 169B COP 82B	COP 176B COP 88B	Annual	Project Progress Reports/ C&CTEX and COBOL	ICETEX UCP, VFA and VFN	Target based on ICETEX's long-term financial projections. In 2013 there were over 300 funds under administration with funding from the national government, municipalities, departments and other public and private sources. Budget funding sources are the sustainability fund, and *alianzas*, fund fees, financial returns on investment, non-operational income and possible new funding sources such as ABIs. External sources do not include loan collection or national government subsidies. Baseline is 2012. With respect to the Funds under Administration, the number of funds is expected to decrease,

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
												but the average size to increase. Funds generated externally for ICETEX's budget in 2012 were extraordinarily high because they reflected biannual, not annual, transfers.
15. Number of new student loans given to indigenous peoples and Afro-Colombians through ICETEX's Vice-presidency for Administered Funds (VFA).	☐	Number	Indigenous 1.7K Afro-Colombian 2.3K	1K 1.5K	1K 1.5K	1K 1.5K	1K 1.5K	1K 1.5K	Biannual	Project Progress Reports / COBOL	ICETEX UCP and VFA	The VFA manages third-party student loan funds. As of 2013 two funds exclusively target indigenous and afro-Colombian students: *Fondo Alvaro Ulcué Chocué* and the *Fondo Especial de Comunidades Negras* Other funds also have indigenous and Afro-Colombian recipients. VFA funds are subject to availability of donations. Target would increase if donations increase. Baseline is 2013.

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source /Methodology	Resp. for Data Collection	Description
				YR1	YR2	YR3	YR4	End Target				
Subcomponent 2.4 – Impact evaluation												
16. Impact evaluations (IEs) of ICETEX student loan programs have been designed and completed.	☐	Text	2009 IE published in 2010 and 2013 IE underway to be published in 2014		1st IE design-ed	1st IE comple-ted	2nd IE designed	2nd IE comple-ted	Semi-annual	Project Progress Reports, SNIES, C&CTEX	ICETEX UCP	Regression discontinuity design. The 2009 and 2010 impact evaluations were performed during the Second Student Loan Support Project APL Phase I.
Core Indicators												
17. Direct Project beneficiaries (number), of which female (percentage).	☒	Number/ (Percentage)	198k 57%	228k 54%	240k 54%	248k 54%	255k 54%	262k 54%	Annual	Project Progress Reports, C&CTEX	ICETEX UCP and VCC	Direct beneficiaries are the ACCES student loan recipients.

Annex 2: Detailed Project Description

COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

Project Components

1. The Project would achieve its development objective through implementation of two components.

2. **Component 1: Student Loans.** (Total: US$424 million; Bank: US$200 million; ICETEX: US$135 million; Government: US$89 million). The objective of this component is to increase student enrollment and graduation and improve equity in higher education by increasing the number of new and renewed ACCES student loans provided by ICETEX, and increasingly focusing them on students from socioeconomically disadvantaged backgrounds and quality HEIs and programs. This would also improve the probability of loan repayment, and strengthen ICETEX's financial soundness.

3. It would finance provision of ACCES Student Loans to eligible students to finance their tuition and/or subsistence (*sostenimiento*) in Eligible HEI to pursue a *Pregrado* Degree. It would finance loans through ICETEX's ACCES program for new students pursuing higher education based on the revised allocation method, to be introduced prior to the second semester of the 2014 academic year. Loans would be allocated using the existing method in the first semester of the 2014 academic year. It would also finance loan renewals for students that are continuing their studies. ICETEX would assume the credit risk of the students.

4. ICETEX awards student loans through the ACCES credit line, according to the budget approved for each fiscal year (January 1 to December 31). The loan allocation process starts in the division of the budget by credit line.

5. The Credit Committee establishes the formula to determine the loan allocation for the ACCES line. The allocation of resources is based on i) academic semester, ii) type of credit, iii) by committee and, iv) by department.

- Academic semester: Each semester has a separate budget based on historical allocation criteria.
- Type of credit: Within the ACCES credit line there are four types of credit depending on the financing source or type of HEI: ACCES University (*ACCES Universitaria),* ACCES T&T, ACCES Alliances *(ACCES Alianzas)* and ACCES CERES. Each one of these has a different budget. The budget for ACCES Alliances depends on the resources provided by the alliances for educational credit. The ACCES University, ACCES T&T and ACCES CERES budgets are based on the qualified demand (*demanda calificada*), that is, students who meet the minimum requirements in terms of merit and co-signer. The ACCES University budget is only for students enrolled in undergraduate programs. All eligible higher education programs must be listed in the *Registro Calificado* of the MEN.
- Allocation Committees: Within each call for loan applications, there are several dates in which loan allocations are carried out; each allocation instance is managed by an allocation committee, formed by representatives of HEIs and ICETEX. As of 2012 there

were a total of 6 allocation committee meetings, three during the fall and three during the spring. If a student is not given a loan during the first committee meeting, he/she may reapply during the next meeting.

- Department of origin: To ensure geographical equity, budget resources are assigned to departments considered *zonas apartadas* until all the qualified demand is met. The rest of the budget is distributed by department according to the number of upper secondary graduates reported to the MEN.

Student loan allocation

6. Once the budget has been distributed, the following factors will determine student loan allocation in the first semester of the 2014 academic year:

- Supporting Co-Signer: Each ACCES student loan applicant is required to have a co-signer. The cosigner must have a maximum of two loans as a debtor or cosigner, and he/she must also have no payments overdue for more than 90 days, or over COP10,000. Additionally, cosigners must go through a credit check. Applicants who pass these requirements are then considered for a loan.
- Academic merit: Merit is determined by the SABER 11 test results for first and second semester students, and by HEI GPA thereafter. For the SABER 11 tests, the cut-off point is set at the 10th percentile for T&T programs and at the 30th percentile for university degrees. For HEI students applying for an ACCES loan who have already completed three or more semesters of their tertiary degree, the required GPA is 3.4, which can be the average of the last semester, or the cumulative GPA of the entire program. This variable carries 73% of the weight in the loan allocation formula.
- Socioeconomic background: All students, regardless of their socioeconomic origin, are eligible for a student loan. However, the ACCES line prioritizes students from socioeconomically disadvantaged backgrounds, measured by strata. This variable carries 11.5% of the weight in the current formula. This means that students from a lower stratum would have a greater chance of obtaining an ACCES student loan, if all other factors were equal.
- High quality accreditation: To promote quality within the higher education system and specifically for ICETEX loan recipients, student applying for a loan to attend a program or HEI that has received the high quality accreditation from the CNA receive an extra 11.5% in the loan allocation formula.
- Contract between HEI and ICETEX: Students applying for loan to attend an HEIs that has a contract with ICETEX will receive an extra 4% in the student loan allocation formula.

7. Starting in May 2014, academic merit, socioeconomic stratum, high quality accreditation and the existence of a contract with ICETEX would no longer be weighted. Instead, the allocation formula would have a twofold objective: to improve ICETEX portfolio quality by introducing risk of default into the allocation formula and thus decreasing the risk profile of new ACCES student loan recipients, and to improve targeting to the socioeconomically disadvantaged population of high academic achievement (by using the SISBEN III cutoff for subsistence grants, a more reliable indicator than socioeconomic strata). Besides increasing

student loan allocation to students from socioeconomically disadvantaged backgrounds that are eligible for a subsistence grant, the new formula would also improve portfolio quality and control the levels of expected loss by allocating loans in a less risky manner to other students.

8. The revised student allocation formula would use SISBEN III as the means test, using cutoff points that are equivalent to the lowest two levels of SISBEN II, jointly determined with the DNP (currently the cutoff points cover approximately 70% of the population by income deciles). Funds would continue to be allocated first by department, with demand in the *apartados* fully financed. The new formula would then distribute budget resources upfront (by department) between two groups, using fixed percentages based on historical data: Those eligible for a subsistence grant (those below the SISBEN III cutoff point, and registered indigenous, Afro-Colombian and victim students) and those not eligible. A probabilistic model incorporating the expected loss and probability of non-repayment of students according to key risk factors such as accreditation of the HEI or program to which the student is applying and academic merit would then be applied to each of the two groups, thereby preventing students from different socioeconomic backgrounds from competing against each other. Loans would then be allocated within these two groups based on the expected loss score, thereby helping control the risk to ICETEX of student non-repayment while maintaining focus on quality HEIs or programs and on academic merit. Budget resources for the group of students eligible for subsistence grants would be gradually increased as government budget for subsidies increases. The pool of students for both groups would still depend on qualified demand.

9. Prior to the provision of any ACCES student loan, students would have to enter into an agreement with ICETEX under terms and conditions including the obligation of the student to repay the ACCES student loan.

10. Loan parameters are: a) loan amount, b) type of loan, c) interest rate, d) interest rate of overdue loans, e) loan periods, f) insurance premium, g) prepayment and normalization, h) repayment systems and i) other benefits.

- Type of loan: Loans can fund tuition, in which case the funds are wired directly to the HEI, or a stipend, which is wired directly to the student.
- Loan amount (tuition): The maximum disbursement by semester and loan is equal to eleven minimum wages (as defined by the SMLMV; based on 2013 figures, the maximum disbursement is around US$3,500). The number of semesters financed is equal to the number of semesters left for the completion of the program, according to the official length of the program. However, students can request up to two additional disbursements to accelerate their double degrees or otherwise fulfill their requirements ahead of time if it were not possible for them to remain in school for the official duration of the program.

Table 3: Tuition covered by loan

Type of program	Percentage of tuition covered
Technological, professional technical, and CERES	Up to 100%
University programs, strata 1 or 2	Up to 75%
University programs, strata 3, 4, 5 or 6	Up to 50%

- Loan amount (stipend): Students are eligible for a living stipend if they are i) loan recipients attending a public or private HEI (those attending private institutions must have their tuition covered by an academic merit prize) and living in the municipality where the HEI is located; the stipend amounts to one or two minimum wages each semester, or ii) Loan recipients under the ACCES line who live in a municipality other than where the HEI is located and must travel to attend it. Both students attending public and private HEIs are eligible (those attending private institutions must have their tuition covered by an academic merit prize). The stipend ranges from one to five minimum wages, based on the following criteria: *Escuelas Normales Superiores*[9]: up to three minimum wages each semester; technological, professional technical and university programs: up to five minimum wages each semester; CERES: up to three minimum wages each semester.
- Loan periods: The lifecycle of the loan has three parts: i) duration of the program of studies: during this period, students are pursuing their degrees and receiving disbursements for one or more semesters; they are not required to pay back; ii) grace period: the grace period is granted to loan recipients under the ACCES Long Term credit line who have completed their degree and to loan recipients who request the termination of the loan but continue studying. Loan recipients can choose to forfeit their grace period and start repayment as long as they inform ICETEX. iii) repayment period: repayment starts once students have completed their degrees and the grace period is over, or alternately when students choose to not renew their credit or request the forfeit of the grace period. The length of repayment is equal to two times the length of the study period.
- Insurance premium: The insurance premium to cover the risk of death and disability of loan recipients is equal to 2% of each loan disbursement, and is paid every time a disbursement occurs.
- Repayment systems: Loan recipients can choose from two repayment systems: i) fixed monthly quota and ii) increasing quota based on the growth of wages for higher education graduates in Colombia.
- Prepayment and refinancing: There are no requirements for prepayment, so loan recipients are free to partially or fully repay their loan at any time. Loan refinancing terms are regulated in Agreement 022 (*Acuerdo 022*) of 2012, which stipulates three alternatives for refinancing, which include discounts to the overdue loan interest rates depending on the conditions of the loan recipient.
- Other benefits:

[9] *Escuelas normales superiores* are teacher preparation institutions that fall under the technical professional institution category.

- Subsidies: During the study period, recipients registered in SISBEN III and falling below the cutoff point[10], and other vulnerable populations (indigenous peoples, afro-Colombians, and victims of violence) are eligible for a living stipend equal to COP 669,444 (US$360) per semester.
- Loan forgiveness: Starting with loans given out during the first semester of 2011, students registered in SISBEN II (since the introduction of the new version in 2012, this has been changed to SISBEN III) and falling below the designated cutoff are eligible for a forgiveness of 25% of the tuition cost once the recipient has completed his/her studies. Indigenous peoples are eligible for 50% tuition forgiveness, whereas victims of violence, and reintegrated people are eligible for 25% tuition forgiveness. A graduation diploma is required for debt forgiveness.
- Suspension of repayment: The repayment period may be suspended only once, for a period of six months, which may be extended for an additional six months. If repayment has not started yet, the following loan recipients are eligible: i) recipients who completed their degrees, have not entered the repayment period yet and have not found employment, and ii) academic and loan dropouts who have not entered repayment and have not found employment. If repayment has already started, the following recipients are eligible: i) students who completed their degrees and are unemployed and ii) students who dropped out of their academic program and/or loan and are unemployed.

11. **Component 2: Institutional Strengthening** (Total: US$12 million; Bank: US$0 million; ICETEX: US$12 million). The objective of this component would be to strengthen ICETEX's management practices, explore further diversification of financing sources and carry out an impact evaluation in order to enhance ICETEX's ability to increase student enrollment and graduation and improve equity in higher education. It would have 4 subcomponents.

12. Subcomponent 2.1: Strengthening of ICETEX's loan administration and portfolio management (including loan collection practices) capacity through, *inter alia*, the development of differentiated collection strategies based on portfolio risks, and the upgrading of information systems (hardware and software).

13. This subcomponent would finance two key activities: improving loan collection practices to reduce the percentage of non-performing loans, and improving ICETEX's information systems. These activities are expected to enable ICETEX to maintain its administrative costs at about 3% of revenues.

14. To improve loan collection practices, the Project would finance:

- A pilot activity to outsource collection on loans overdue between 0-60 days.
- Outsourcing firms for collection on loans overdue between 60-365 days. Firms would be chosen based on the following criteria: Proven experience managing large-scale loan

[10] In 2013 they are as follows: fourteen largest cities: 57.1 points; remaining urban areas: 56.32 points; rural areas: 40.75 points, out of 100 possible points.

payment collection, sufficient physical and human resources to cover ICETEX portfolio, sufficient presence throughout the country (in terms of country offices), and repayment efficiency conditional on international fair debt collection practices.

- Development of differentiated collection strategies based on portfolio risk. ICETEX is tracking the default rate by cohort to better understand risk.

15. Improving ICETEX's information systems includes:

- Improving software functionality and performance of ICETEX's portfolio management software (C&CTEX), disbursement management software (APOTEOSYS), and customer service software (CRM).
- Personal computer upgrading.
- Automating loan allocation, disbursements and reconciliation of ICETEX student loan disbursements with HEI records.
- Development and implementation of a five year technology strategy, including actions to integrate different databases (including the phasing out of COBOL, the financial information system used to manage the *fondos en administración*, and improve operational efficiency.
- Development of a program of increased contact with students during and after their tertiary studies.

16. Subcomponent 2.2: Strengthening ICETEX's capacity to: (i) manage its ACCES program through, *inter alia*, the use of scorecards and the carrying out of HEI contracts implementation supervision activities; and (ii) manage the Sustainability Fund.

17. ICETEX is signing contracts with the HEIs that enroll students with ACCES student loans. The HEI contracts include the obligation of the HEI to: (i) set up a support office to help ICETEX recipients graduate, reduce drop out, manage their student loans and foster a culture of repayment, and support collection efforts after graduation; (ii) monitor their progress against benchmarks corresponding to the indicators included in a scorecard; and (iii) comply with ICETEX's standards and parameters. ICETEX's standards and parameters include the Operational Manual. The contract would also include ICETEX's obligation to (i) transfer the proceeds of the loan to the HEIs to finance the tuition of students who have been selected to receive an ACCES student loan, and (ii) evaluate the HEI's progress against the benchmarks corresponding to the indicators included in the scorecard; and right to (iii) suspend or terminate the right of an HEI to use the proceeds of the ACCES student loans, upon the HEI's failure to comply with its obligation under the HEI contract.

18. The scorecard would monitor factors key to ICETEX's sustainability, and the HEIs' quality and internal efficiency improvements, coordinated with the MEN-VES. Contracts would be monitored through periodic on-site visits to HEIs. The goal would be to have an on-site visit to each HEI once every three years. The scorecard would include the following indicators:

Table 4 – Scorecard

	Scorecard indicators	Definition
1	Percentage of collection	Percent of loan payments collected over loan payments due.
2	Sustainability Index	This is defined as the number of ACCES student loan recipients no longer studying at all or no longer studying in the same HEI and/or program that do not renew their ACCES student loan for two semesters and have student loans overdue by more than 90 days divided by ICETEX student loan recipients over the previous 7 years not including the most recent year and one-half (since these new students could not have not renewed by more than two semesters). Students that are still studying but have not renewed their ACCES student loans are not included.
3	Legalization index	Percentage of students that get a student loan approved and can provide legal documentation to support their application (*legalización).*
4	Renewal index	Number of loans renewed over number of loans due for renewal.
5	Number of accredited programs	Number of accredited programs in the HEI over total programs.
6	Dropout rate	HEI-wide dropout rate.

A. Percentage of collection
   - The objective of this indicator is to involve HEIs in the culture of repayment and to incentivize improved collection practices.
   - The initial benchmark is 45%, subject to yearly adjustment.

B. Sustainability Index (Student loan attrition (non-renewal) and associated default rate among ACCES recipients)
   - The objective of this indicator is to strengthen the performance of the Sustainability Fund and to strengthen the HEI's policies on supporting ICETEX loan recipients to reduce their dropout rate. This indicator is the same as the one defined in the regulations of the Sustainability Fund. The last official report on the Sustainability Fund, carried out in 2011, found that the dropout and overdue loan rate was 7.9%. The 2012 rate (pending the 2013 figure, due in Q4 2013) is 6.6%.
   - The initial benchmark is 10%, subject to yearly adjustment.

C. Legalization index
   - The objective of this indicator is to identify the percentage of students that get a student loan approved and can provide legal documentation to support their application in each HEI, in order to increase overall efficiency of the program.
   - The initial benchmark is 65%, subject to yearly adjustment.

D. Renewal index
    - The objective of this indicator is to track the loan renewal rate for each HEI. It would be defined as the total number of loans renewed divided over the total number of loans due for renewal in a given semester.
    - The initial benchmark is 70%, subject to yearly adjustment.

E. Number of accredited programs
    - The objective of this indicator is to monitor and incentivize accreditation of programs within HEIs. The indicator will measure the number of accredited programs as a share of the total.
    - The initial benchmark is 0.3 accredited programs per 10 programs offered, subject to yearly adjustment. T&T institutions have an initial benchmark of at least one accredited program. Institutions with high quality accreditation would not need to report on this indicator.

F. Dropout rate
    - The objective of this indicator is to monitor HEI efforts at improving retention of all students.
    - The initial benchmark is 20%, subject to yearly adjustment.

19. The monitoring and evaluation of indicators in the scorecard would be carried out on an annual basis by ICETEX. HEIs with scores consistently below the benchmark on 4 or more of the 6 indicators in the scorecard could be susceptible to contract revision by the ICETEX Credit Risk Committee. Currently 54% of 172 sampled HEIs (those with an enrollment greater than 50 students) have a high scorecard achievement, while 12% have low achievement (see Table 5 below).

Table 5 – Scorecard achievement levels

Level of achievement	Number of indicators with scores above benchmark	Number of HEIs	%
High	6	35	20%
	5	58	34%
Medium	4	33	19%
	3	27	16%
Low	2	13	8%
	1	5	3%
	0	1	1%
	Total	172	100%

20. This subcomponent also finances ICETEX's management of the Sustainability Fund. The Sustainability Fund is managed by the Monitoring Committee, which is composed of the President of ICETEX, the Vice-President for Credit and Collection, the Vice-President for Finance, one representative of private HEIs, one representative of public HEIs, and the Secretary. The Board of Directors of ICETEX determines the contributions to the Sustainability Fund, which since its creation in 2009 has been equal to 6% of total student loan disbursements.

HEIs contribute, on average, 3% of their student loan disbursements during the academic year, and this is then matched by ICETEX. The Sustainability Fund is used to supplement ICETEX's budget when funds are released from it by the Monitoring Committee. The contributions of a particular HEI to the Sustainability Fund are adjusted based on the Sustainability Index[11] of that institution, to penalize high student loan attrition. The formula for contributions to the Sustainability Funds is:

$$\frac{System\ Contribution\ to\ the\ Sustainability\ Fund}{Contribution\ to\ the\ Sustainability\ Fund} = \frac{Sustainability\ Index\ of\ the\ System}{Sustainability\ Index\ of\ HEI}$$

21. The contribution to the Sustainability Fund is divided in equal parts between the HEI and ICETEX. Two examples follow:

University of A. Sustainability Index = 4%

$$\frac{6\%\ (value\ for\ 2012)}{3.6\%} = \frac{6.6\%\ (value\ for\ 2012)}{4\%}$$

22. The total contribution to the Sustainability Fund would be 3.6%, which would be distributed equally between ICETEX (1.8%) and the University of A (1.8%).

University of B. Sustainability Index = 10%

$$\frac{6\%\ (value\ for\ 2012)}{9.1\%} = \frac{6.6\%\ (value\ for\ 2012)}{10\%}$$

23. The total contribution to the Sustainability Fund would be 9.1%, which would be distributed equally between ICETEX (4.55%) and the University of B (4.55%).

24. Subcomponent 2.3: Provision of support for ICETEX's diversification of financial resources through, *inter alia*, the carrying out of: (i) studies including on alternatives to expand its funding sources and to develop an endowment fund, and on partnerships with the private sector; and (ii) fundraising activities.

25. This subcomponent would finance studies to explore possible avenues for expansion of ICETEX's funding sources. It would finance a study on the creation of a Friends and Beneficiaries of ICETEX Fund (ABI, *Fondo Amigos Beneficiarios de ICETEX*), which would facilitate previous generations of ICETEX borrowers to donate funds for loans to current students. It would finance a study on options for developing an ICETEX endowment, as well as

[11] The Sustainability Index is defined as the number of ACCES student loan recipients no longer studying at all or no longer studying in the same HEI and/or program that do not renew their ACCES student loan for two semesters and have student loans overdue by more than 90 days divided by ICETEX student loan recipients over the previous 7 years not including the most recent year and one-half (since these new students could not have not renewed by more than two semesters). Students that are still studying but have not renewed their ACCES student loans are not included.

one on partnerships with the private sector under their corporate social responsibility programs, including possible provision of discounts or subsidies to student loan recipients.

26. It would also finance fundraising for the administered funds. In 2013 there were over 300 funds under administration with funding from the national government, municipalities, departments and other public and private sources. These funds are not included in ICETEX's budget, and enable ICETEX to have greater impact than its budget alone would allow. The number of funds is expected to decrease, but the average size to increase. It would also finance fundraising to supplement ICETEX's budget, for example, through the *alianzas*, and possible new funding sources studied under the Project.

27. Subcomponent 2.4: (i) The carrying out of: (A) impact evaluations of ICETEX's student loans; (B) tracer studies to track employment of HEI graduates that completed their studies and received student loans provided by the Borrower, including ACCES student loans; and (ii) the provision of support for ICETEX's overall Project coordination, implementation, and monitoring including, *inter alia*, the carrying out of audits.

28. This subcomponent would finance two impact evaluations of ICETEX student loans' impact on enrollment, graduation, equity and social mobility. It would finance tracer studies to track employment of HEI graduates that completed their studies through an ICETEX student loan. The methodology would be similar to the previous impact evaluations, which compared the outcomes of ACCES loan recipients (treatment group) to the outcomes of HEI graduates, using econometric techniques to find a control group that minimizes the self-selection problem.

Annex 3: Implementation Arrangements

COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

Project Institutional and Implementation Arrangements

1. ICETEX would be responsible for implementing both components of the Project. Institutional arrangements for Project implementation have been designed so that the Project is implemented through ICETEX's structure without a separate Project Implementation Unit.

Eight ICETEX units would be responsible for implementing the Project: (i) the Planning Advisory Office (*OAP, Oficina Asesora de Planeación*) which includes a Project Coordination Unit (*UCP*, *Unidad Coordinadora de Proyecto,* composed of a Project Coordinator and a Deputy Coordinator), which would be responsible for overall coordination of all units implementing the Project and for reporting to the Bank, (ii) the Vice-presidency for Credit and Collection (*VCC*, *Vicepresidencia de Crédito y Cobranza*); (iii) the Vice-presidency for Finance (VFN, *Vicepresidencia Financiera*); (iv) the Vice-presidency for Operations and Technology (VOT, *Vicepresidencia de Operaciones y Tecnología)*; (v) the General Secretariat (SGN); (vi) the Commercial and Marketing Office (OCM, *Oficina de Comercio y Mercadeo*), (vii) the Vice-presidency for Funds in Adminisration (VFA, *Vicepresidencia de Fondos en Administracion*) and (viii) the Internal Control Office (OCI, *Oficina de Control Interno*). The roles of each unit, as detailed in Decree 380 published on February 12, 2007, are described in Annex 3.

2. The roles of each unit, as detailed in Decree 380 published on February 12, 2007, are as follows:

a. The OAP/UCP would be responsible for the management, coordination, and supervision of the Project. It would coordinate all internal and external reports and studies, including the external audit, and communications with the Bank. The SGN would be in charge of procurement for all of Component 2. The VFN would be in charge of preparing all financial reports, for the entire Project, agreed with the Bank.

b. Component 1 (Student Loans). The VCC would be responsible for the implementation of Component 1. It would propose and implement policies, strategies, processes, procedures, mechanisms, tools, and any other actions in order to allocate, approve, and legalize student loans administered by ICETEX; it would also be held accountable for their implementation, for their continuous improvement, and for the collection of the loans outstanding. The VCC would provide the UCP, OCI and any other unit involved with all the relevant information required for the compliance of their functions and commitments under the Project.

c. Subcomponent 2.1 (Strengthening of Management Practices). The VOT and the VCC would be responsible for the co-implementation of Subcomponent 2.1. The VOT would be in charge of administrative costs and improved loan collection. The VCC would be in charge of improved information systems.

d. Subcomponent 2.2 (Strengthening Monitoring of Contracts with HEIs). The SGN and OCM would be responsible for the implementation of Subcomponent 2.2. SGN would be responsible for negotiations and signing of ICETEX's contracts with HEIs. Contract supervisors, presently assigned to work in the OCM, would be responsible for on-site visits and reports. The OCM would be in charge of all customer relationships, including those with the students and with HEIs. They would be responsible for monitoring the scorecards and support offices agreed under the contracts.

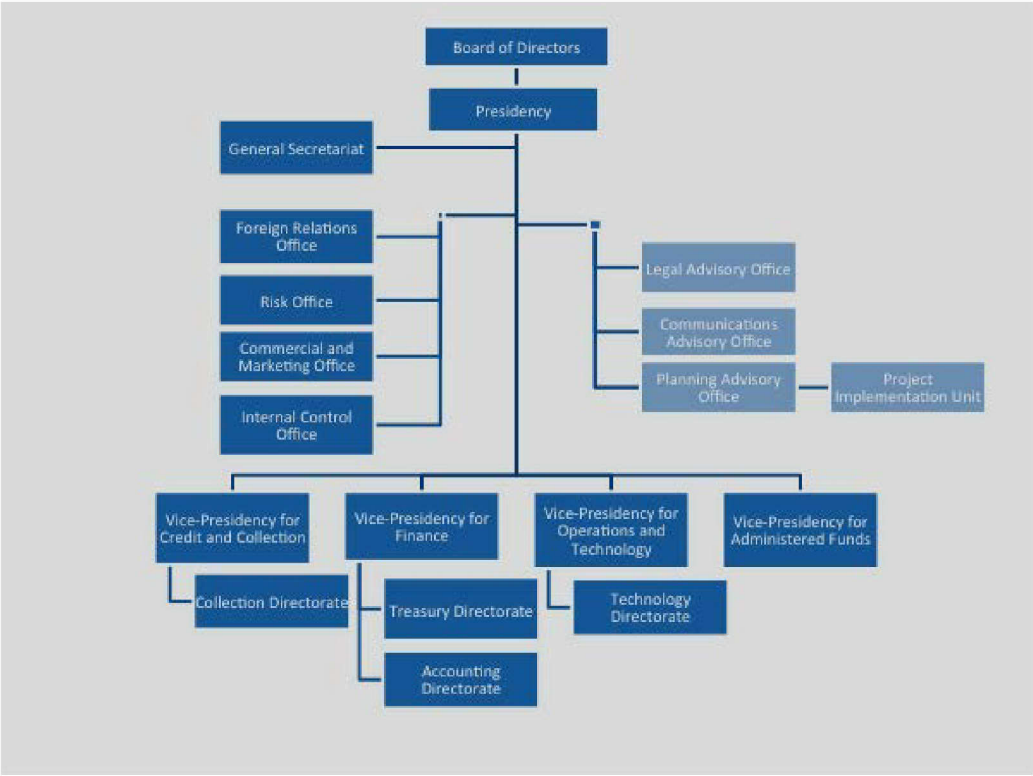
e. Subcomponent 2.3 (Diversification of Financing Sources). The VFN would be responsible for the implementation of Sub-component 2.3. It would be in charge of directing, coordinating, controlling all budget, accounting, and treasury activities of ICETEX, as well as proposing the rules for financial operations. It would also be held accountable (jointly with the VCC and VOT) for the timely disbursement of credit approvals and renewals directed to HEIs or students. The VFA would be in charge of managing the administrative funds for indigenous and afro-Colombians.

f. Subcomponent 2.4 (Impact Evaluation). The OAP/UCP would be responsible for designing and completing the impact evaluations and studies under Subcomponent 2.4.

g. The OCI would be in charge of defining and following control strategies for ICETEX's activities, operations, functions, processes and procedures. Accordingly, the OCI would perform internal control and financial audits agreed with the Bank, as well as following up on any recommendations of the External Audits.

3. Figure 1 shows the organizational structure at ICETEX, including the units involved in the Project.

Figure 1: ICETEX organizational chart



36. ICETEX student loans that fund tuition would be wired directly to the HEI; those that fund a stipend would be wired directly to the student. Prior to the provision of any ACCES student loan, students would enter into an agreement with ICETEX, including the obligation of the student to repay the ACCES student loan. Similarly, the transfer of any Bank loan proceeds to an HEI would require the previous signing of a contract between the HEI and ICETEX, the content of which would be in compliance with ICETEX's procedures under the ACCES program and the Project requirements included in the Loan Agreement and the Operational Manual.

Financial Management, Disbursement and Procurement

Financial Management

4. A FM Assessment of ICETEX was conducted in accordance with the Bank's Policy OP/BP 10.00. Based on the results of the assessment it has been concluded that ICETEX has adequate FM arrangements in place for the implementation of the Project, thus ensuring that; (i) Project transactions and related balances are recorded appropriately and timely; (ii) regular, timely, and reliable financial statements are prepared; (c) safeguard of the Project's assets is adequate; and (d) auditing arrangements are acceptable to the Bank.

5. The FM arrangements are the same as those under the Second Student Loan Support Project APL Phase I, however, given that there are some areas which need to be strengthened in terms of flow of funds and monitoring mechanisms for the transfers made to the HEIs, additional mitigating controls have been taken into account in the Project design. These include new contract provisions with the HEIs, reporting tools such as arrangements for the concurrent reconciliation of transfers to the HEIs, and the involvement of the Internal Control Office, which would include the review of the program on a semi-annual basis and on-site visits to the HEIs in the annual audit work program.

6. Budget. The Vice-presidency for Finance (*VFN*, *Vicepresidencia Financiera*) is responsible, in coordination with the General Secretariat and Planning Advisory Office, for the preparation of the annual budget and its implementation. The budget is approved by ICETEX's Board and monitored by the Planning Advisory Office. ICETEX has a three-year strategic plan that includes aspects such as investment portfolio, capture of funds, management of the loan portfolio, and investment alternatives to ensure ICETEX's sustainability.

7. Accounting and financial reporting. ICETEX's FM information and disbursement management system, APOTEOSYS, integrates the budget, accounting, treasury, and vendor modules, and interfaces on a global basis with the loan portfolio management system, C&CTEX. The accounting information is reconciled on a monthly basis with C&CTEX. Furthermore, ICETEX is in the process of upgrading its current information systems, and has a long term plan to implement an integrated and friendlier system.

8. The Bank loan would co-finance the ACCES program, which is managed through the C&CTEX software. For withdrawal applications and financial reports to the Bank, transfers to student loans would be recorded as off-balance sheet items (*Cuentas de Orden*), information that is not enough to monitor the ACCES program performance. Therefore, the Interim Financial Reports (IFRs) would include some financial indicators on the ACCES program and information on the transfer of funds to the HEIs. The IFRs would be submitted to the Bank on a semi-annual basis as specified in the Operational Manual.

9. ICETEX shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing ICETEX and Project expenditures until at least the later of: (i) one year after the Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made; and (ii) two years after the closing date. ICETEX shall enable the Bank to examine such records.

10. Internal Controls. ICETEX has appropriate internal controls, with updated manuals, and certified procedures under the applicable ISO. The Project Operational Manual would be updated and approved by the Bank before negotiations. The Operational Manual would incorporate aspects such as: the methodology for the allocation of the ACCES program resources; the tools to be applied for the monitoring of the loans and performance of the ACCES program; and the agreed IFRs. In addition, ICETEX's internal audit office would include within its annual work plan the review of the ACCES program on a semi-annual basis and visits to the HEIs with contracts under the ACCES program. These arrangements would be documented in the Project Operational Manual.

11. Flow of Funds. The disbursement arrangements of the loan funds would be under the reimbursement method of actual Project expenditures. Therefore, it is expected that no advances to a Designated Account would be required. The US$200 million loan amount would be allocated to the student loans under Component 1.

12. Monitoring of the transfers to the HEIs is under the Vice-presidency for Credit and Collection (VCC, *Vicepresidencia de Crédito y Cobranza*). The loan would finance $200 million, equivalent to 10.4% of the US$1,915 million three-year estimated ACCES investment program, out of which approximately 95% of the funds are channeled through 234 HEIs. The assessment identified some areas that need to be strengthened in terms of flow of funds and monitoring of the HEIs; accordingly, the contract with HEIs would incorporate provisions to mitigate risks, such as the preparation and furnishing to ICETEX of financial reports. The HEI contract would also include ICETEX's right to suspend or terminate the contract upon an HEI's failure to comply with its obligation under the contract. ICETEX has also put in place arrangements for the reconciliation of transfers to the HEIs, and the annual work plan of Internal Control Office would include the review of the program on a semi-annual basis and on-site visits to the HEIs. The goal would be to have an on-site visit to each HEI once every three years. ICETEX has developed a new methodology for the allocation of funds under the ACCES program, which is pending approval by ICETEX's Board.

13. Audit arrangements. In accordance with ICETEX's legal framework, its annual financial statements are audited by independent private external auditors, (known as *Revisor Fiscal*),

auditors that are selected on a competitive basis and belong to some of the largest private accounting firms. The loan would be partially financing student loans under the ACCES program, which represents about 72% of ICETEX's total portfolio. As a result, in addition to the audited Project financial statements, Project monitoring would include audits of ICETEX as a whole and of the ACCES program (the external audit report of ICETEX would also include an opinion on the Project financial statements). The terms of reference for the external audit of ICETEX would incorporate the Project external audit requirements, including the certification of the indicators agreed in the IFRs, terms of reference that would be reviewed by the Bank. ICETEX annual audited financial statements would be submitted to the Bank no later than six months after the end of each audited period.

14. According to the policy on access to information of Bank-financed operations, ICETEX would have to disclose audited financial statements in ICETEX's web site. Following the Bank's formal receipt of these statements from ICETEX, the Bank would make them available to the public in accordance with the Bank's Policy on Access to Information.

15. Implementation Support. The Bank would monitor the implementation of the action plan to ensure a successful implementation and that the deadlines are met. During Project implementation semi-annual FM supervisions would be conducted, and the periodic un-audited interim financial reports, the Project internal audit reviews, and the annual external audit report would be reviewed.

Procurement

16. There is no Bank financed procurement under the Project. Component 1 (Student Loans) would finance only student loans, which are not subject to the Bank Procurement Guidelines ("Procurement of Goods Works and Non-consulting Services", January 2011; and Selection and Employment of Consultants Under IBRD Loans and Credits & Grants by World Bank Borrowers, January 2011). Student loans would be awarded in accordance with an allocation formula, as described in Component 1. Under Component 2 (Institutional Strengthening), all contracts for procurement of goods and services would be completely financed by ICETEX and not by the Bank.

17. The Procurement Guidelines provide, in paragraph 1.5, that the Borrower may adopt other procurement procedures for contracts that fall under the description of the Project but which are not financed using the loan's proceeds. The Bank would be satisfied that the procedures used would fulfill ICETEX's obligations to carry out the Project diligently and efficiently if the goods, works, and non-consulting services to be procured: (a) are of satisfactory quality and are compatible with the balance of the Project (ICETEX would share with the Bank TORs for key contracts, including external audits and impact evaluations); (b) are delivered or completed in a timely fashion; and (c) are priced so as not to affect adversely the economic and financial viability of the Project. During implementation, the Bank would oversee management of procurement and periodically assess whether the procedures and results meet Bank requirements in terms of quality, time and price.

18. Since 2002, ICETEX has been involved in management of procurement under Bank financed projects. In the period 2008-2013, ICETEX fully implemented the Second Student

Loan Support Project APL Phase I using Government regulations for procurement of goods and services with own its funds, as proposed in this Project. If at any time during Project implementation ICETEX submits a request to the Bank for procurement of goods and/or services financed with Bank proceeds, the Bank would carry out a fiduciary capacity assessment of ICETEX and/or any other agency otherwise involved in order to determine their proficiency to implement procurement and would define an action plan for procurement strengthening and risk mitigation accordingly.

Environmental and Social (including safeguards)

19. The Project is classified as category C. It does not include construction or rehabilitation of infrastructure, therefore the OP/BP 4.01 on Environmental Assessment is not triggered.

20. Indigenous peoples, Afro-Colombians, Roma, victims of violence, and other socioeconomically disadvantaged population are among the main beneficiaries of the Project. The average age for the indigenous and Afro-Colombian population is lower than the national average; the distribution is especially skewed towards the bottom of the pyramid, thus making the indigenous and Afro-Colombian school and college-aged cohorts larger relative to the rest of the age groups. The school attendance levels for these two groups are lower than the national average: In 2005, whereas nationwide school attendance for 12-17 year olds was 77.8%, the figure was 58.8% and 77.1% for indigenous peoples and Afro-Colombians respectively. Attendance is low for 18-24 year olds, with only 16.9% of the indigenous population and 23.7% of Afro-Colombians currently attending school or HEIs, compared to 27.1% nationwide. The Roma, on the other hand, are, on average, older than the national population. School attendance indicators vary depending on the age group, but are generally closer to, or even better than the national average. In 2005, Roma school attendance for 12-17 year olds was 75.8%, and 37.9% for 18-24 year olds. Victims are a large and ethnically heterogeneous group, which makes aggregate numbers harder to obtain. As of 2013 there were 157,000 people registered as victims, which represents around 0.3% of the Colombian population; however, the real number is likely much larger.

21. ICETEX administers a series of *Fondos Nación* (National Funds). Two of these, the *Fondo Álvaro Ulcué Chucué* and the *Fondo Especial de Créditos Educativos de Comunidades Negras* (Special Education Loan Fund for Black Communities) target the indigenous and Afro-Colombian communities, respectively. Additionally, the *Fondo de Reparación para el Acceso, Permanencia y Graduación en Educación Superior para la Población Víctima del Conflicto Armado* targets victims of violence. These funds have differentiated selection criteria for beneficiaries that set them apart from the rest of ICETEX credit lines. They also feature special debt forgiveness and subsidy programs tailored to the needs of the indigenous and Afro-Colombian students.

52. The Project triggers OP/BP 4.10 (Indigenous Peoples) because indigenous peoples (and afro-Colombians) are present in the Project area and could benefit from improved targeting of systems for higher education financing. An IPP (*La Educación Superior en Colombia en Población de Grupos Étnicos y Víctimas*) has been prepared, which focuses on further strengthening ICETEX's capacity and lays out measures and policies that help ensure that

ICETEX programs are successfully tailored to the needs of indigenous, afro-Colombian, and Roma students, as well as those that are victims of violence. Building on the successful increase in access to ICETEX loans for indigenous and afro-Colombian students in the Second Student Loan Support Project APL Phase I (their numbers increased from 1.9% of ACCES loans in 2008 to 9.7% in 2012), the IPP takes into account cultural characteristics of these groups to ensure inclusion. The IPP was consulted on October 1, 2013 with 15 indigenous, Afro-Colombian and Roma national and local organizations, 4 Afro-Colombian and indigenous members of the legislature, university officials from 3 universities, indigenous students from 3 universities, and government representatives from 6 institutions. A total of 35 stakeholders participated. The IPP incorporates their feedback and recommendations accordingly and in line with the Project's scope. A draft of the IPP, satisfactory to the Bank, was disclosed on ICETEX's website and on the Bank website on October 7, 2013. The final was disclosed on ICETEX's website and on the Bank website on December 20, 2013. Appropriate measures are in place to monitor the implementation of the IPP.

Project Monitoring & Evaluation

53. The UCP would be responsible for monitoring and evaluation, with input from each of the units implementing the Project (see Annex 1). It would send Biannual Progress Reports to the Bank, including on progress toward targets in the Results Matrix. Contract supervisors, presently assigned to OCM, would be responsible for monitoring ICETEX's contracts with HEIs. The UCP would also be responsible for the carrying out of the impact evaluation.

Annex 4: Operational Risk Assessment Framework (ORAF)
COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

Risks

1. Project Stakeholder Risks						
1.1 Stakeholder Risk	Rating	Moderate				
Risk Description: There is a risk that ICETEX student loans crowd out efforts to develop a private student loan market focused on students from strata 3 and 4 eliciting protests from the private sector. There is a risk that increasing the focus of ICETEX student loans on higher quality, accredited HEIs which are largely located in Bogotá could spark protests among regional and local governments with few accredited institutions, from non-accredited HEIs all over the country and from the students enrolled in them. There is a risk of student protests, especially if students take on additional debt that could burden them in the future if they do not find jobs with salaries adequate to service the debt.	**Risk Management:** ICETEX will improve targeting of ACCESS student loans to students from disadvantaged socioeconomic backgrounds through targeting a fixed and gradually increasing percentage of loans to students from families that receive a government subsistence grant. This is expected to also reduce the percent of strata 3 and above loan recipients (which were only 18% in 2012). ICETEX will mitigate the risk of dissatisfaction from non-accredited HEIs, and students attending these HEIs, through setting as a goal only a modest increase, during the life of the Project, in the percentage of loans that are distributed to students in accredited universities. The Ministry of Education is making efforts to help HEIs improve quality towards eventual accreditation. Any change in the methodology for distributing student loans that affects their distribution by department would be consulted with regional and local governments. ICETEX will mitigate the risk of student protests by increasing focus on students enrolling in higher quality accredited HEIs since students attending these HEIs are more likely to get jobs after graduation. In addition, ICETEX will continue its policy of partial debt forgiveness upon graduation for student loan recipients for students from socioeconomically disadvantaged families and of offering grants for subsistence for this group of students.				
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Year ly

2. Implementing Agency (IA) Risks (including Fiduciary Risks)		
2.1 Capacity	Rating	Low
Risk Description: Given ICETEX's strong institutional track record in implementing the Second Student Loan Support Project APL Phase I, there is a low risk of insufficient technical capacity. There is a FM risk of insufficient monitoring of	**Risk Management:** ICETEX will maintain experienced staff in its Vice-presidencies for Operations, Finance and Credit and Collection, as well as a Project Coordinator and Deputy Coordinator. ICETEX will appoint a qualified group to monitor transfers of student loan funds to HEIs, and to monitor compliance with ICETEX's contracts with HEIs. In addition, ICETEX's contracts with HEIs would incorporate provisions to mitigate risks, such as the preparation and furnishing to ICETEX of financial reports on the use of loan proceeds, and the submission of reconciliations	

transfers of student loan funds to HEIs.	of student loan disbursements within the time frame determined in the Operational Manual. The Operational Manual would include conditions for transfer of funds from ICETEX to an HEI and measures for the suspension of an HEI contract when there is noncompliance.					
	Resp: Client	Status: In Progress	Stage:	Recurrent: ☑	Due Date:	Frequency: Yearly
2.2 Governance	Rating	Low				
Risk Description: Due to ICETEX's strong governance, with no significant issues related to decision making or accountability, there is minimal governance risk.	**Risk Management:** The ICETEX Board, comprised of DNP (Planning), Ministry of Finance, the Minister of Education and the Vice Minister of Higher Education, will continue to meet regularly to resolve any differences.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Yearly
	Risk Management: ICETEX's annual financial statements will continue to be audited by a private qualified firm to supplement CGR's annual reviews of ICETEX. External audits will include on-site visits to higher education institutions to verify the use of funds.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Yearly
3. Project Risks						
3.1 Design	Rating	Low				
Risk Description: There is a risk that that HEI and program quality does not improve sufficiently during the life of the Project to allow both increasing focus on high quality institutions, which is expected to lead to improved graduation, and on improved enrollment.	**Risk Management:** This is being mitigated by maintaining accreditation as only one element in the student loan allocation formula (though with increased weight) along with other elements such as student SABER scores, and at the same time maintaining the requirement that student loans can only be awarded to students enrolled in HEIs listed in the Register of Qualified Programs.					
There is a risk of slow disbursements.	This is mitigated by favorable student loan terms that include a zero real interest rate for students from strata 1-3, as well as through a loan size and disbursements forecasts that are consistent with ICETEX's financial projections.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Yearly

3.2 Social and Environmental	Rating	Low				
Risk Description: There is a risk that Project benefits do not reach Indigenous peoples due to existing economic, cultural, geographic and administrative barriers that limit their capacity to access and complete higher education.	**Risk Management:** A Socio-cultural Assessment and an Indigenous People's Plan have been prepared and would be implemented, building on the successes of the Indigenous People's Plan implemented under Phase I.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Yearly
3.3 Program and Donor	Rating	Low				
Risk Description: There is low program and donor risk.	**Risk Management:** No mitigation measures are contemplated.					
	Resp: N/A	Status: N/A	Stage: N/A	Recurrent: N/A	Due Date: N/A	Frequency:N/A
3.4 Delivery Monitoring and Sustainability	Rating	Low				
Risk Description: There is a risk that students drop out and/or do not repay loans, threatening ICETEX's sustainability. There is a risk of a possible fiscal constraint that could prohibit ICETEX from giving priority access to loans to students from socioeconomically disadvantaged families, thus undermining the Project's ability to increase equity in higher education.	**Risk Management:** ICETEX's contracts with HEIs include clauses for HEIs to set up a support office to help ICETEX recipients graduate, reduce drop out, manage their student loans and foster a culture of repayment, and support collection efforts after graduation. The Project also builds in activities begun under Phase I to further strengthen ICETEX portfolio management. This is being mitigated by only gradually increasing the share of loans targeted to students from families that qualify for a government subsistence grant, in line with budget allocations for subsidies.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Yearly

4. Overall Risk

Overall Implementation Risk: Low

Risk Description: The overall risk rating is low, notwithstanding moderate stakeholder risk.

Annex 5: Implementation Support Plan

COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

Strategy and Approach for Implementation Support

1. This Implementation Support Plan (ISP) has been developed on the basis of the specificities of the Project and its risk profile. It aims at making implementation support to ICETEX both flexible and efficient.

2. The strategy for implementation support in this Project places strong emphasis on close support to ICETEX and good communication between the Bank, on one hand, and the Project Coordination Unit. During the Second Student Loan Support Project APL Phase I, the Bank developed communication channels, informal links, and trust with ICETEX, which are expected to facilitate Bank supervision.

Implementation Support Plan

3. The Bank would provide strong implementation support as well as guidance regarding technical, fiduciary, social, and environmental issues. Formal implementation support and field visits would be carried out semi-annually, and would focus on:

a. **Technical inputs.** The Bank would count on the inputs from one or two international experts on higher education, whose support would focus on the follow up of activities under Component 1, giving advice on improving the targeting of socioeconomically disadvantaged students and their graduation as well as a focus on accredited HEIs, but would extend also to institutional strengthening (Component 2).
b. **Fiduciary requirements and inputs.** Training would be provided by the Bank's FM specialist during Project implementation, as needed. This would allow building FM capacity in ICETEX, particularly regarding Bank procedures. Supervision of FM arrangements would be carried out semi-annually as part of the Project supervision plan and support would be provided on a timely basis to respond to Project needs. Procurement supervision would be carried out annually, or as required.
c. **Safeguards.** The Bank's social development specialist would ensure that training is provided to relevant counterpart staff. On the social side, supervision would focus on the implementation of the agreed IPP to ensure compliance with safeguard policy on Indigenous Peoples (OP/BP 4.10).
d. **Country Relations.** The Task Team Leader would coordinate within the Bank to ensure Project implementation is consistent with Bank requirements, as specified in the legal documents. As stated above, constant channels for information exchange would be maintained with senior officials, taking advantage of trust and communication capacity.

Table 1 - Main Focus in Terms of Support to Implementation

Time	*Focus*	*Skills Needed*	*Resource Estimate*	*Partner Role*
First 12 months	Monitoring of implementation progress and results	Task Team Leaders; Education Economist	US$100,000	N/A
	Preparation of Indigenous Peoples Plan and Supervision	Social Development Specialist		
	Supervision and training in fiduciary matters	Financial Management Specialist; Financial Sector Specialist; Procurement Specialist		
12-60 months	Monitoring of compliance with fiduciary guidelines	Financial Management Specialist; Financial Sector Specialist; Procurement Specialist	US$100,000/year	N/A
	Monitoring of compliance with Safeguards Policies and instruments	Social Development Specialist		
	Monitoring of implementation progress and results	Task Team Leader; Education Economist		

Table 2 – Bank Staff Skills Mix Required for the Project's Implementation Support

Skills Needed	***Number of Staff Weeks***	***Number of Trips***
Task Team Leaders	15 SW annually	Twice a year
Education Economist	2 SW annually	Once a year
Financial Management Specialist	4 SW annually	Twice a year
Financial Sector Specialist	2 SW annually	Once a year
Procurement Specialist	2 SW annually	Once a year
Social Development Specialist	2 SW annually	Once a year

Annex 6: Economic Analysis

COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

Introduction

1. Cost-benefit analysis has established itself as one of the tools of choice for economic and social evaluations of investment projects. However, its use in the realm of educational projects, although growing, has not been as massive as might be expected. This is due to, among other reasons, the difficulty of estimating the social implications of this type of investment compared to the relative ease of doing it for private investments (Jimenez and Patrinos, 2008). Due to this complexity, analyses are often limited to the impact in terms of coverage increases and reductions in dropout, leaving out key elements such as the opportunity costs incurred by the different stakeholders, as well as the individual and social benefits of higher education (such as higher earnings, higher tax taxes, lower crime rates and, more generally, higher GDP growth).

2. The present study aims to help fill this gap in the analysis of educational projects by evaluating the costs and benefits of the ICETEX ACCES credit line, which receives funding from the national government and the Bank. The estimates presented below are based on data from the ICETEX ACCES loan portfolio records, available until 2012.

3. **Assumptions.** The first major assumption is to set 40 years as the expected working life after graduating from a higher education institution, which may be partially or fully active or passive, depending on the direct costs of education, opportunity costs of getting a higher education degree, duration of the program, expectations of future income, capital market imperfections, and consumption preferences. Other assumptions are: (a) the Mincer earnings function: The value of the coefficient of years of formal education used to carry out calculations of internal rates of return (IRR) is set at 0.0086, which is interpreted as the average rate of return of an additional year study for an individual, as calculated in Sánchez and Núñez (2003) and Sánchez and Álvarez (2011); (b) the age-earnings profiles are determined according to the model presented by Mincer (1958) under which an individual's income increases with experience, although each year of additional experience has a smaller effect on earnings. In other words, the model assumes decreasing marginal returns to experience. The coefficient is set to -0,008, following Sánchez and Núñez (2003); (c) The duration of a professional technical, technological and university degree is equal to 6, 8 and 10 semesters, respectively; (d) entry salaries by level of education, according to the OLE (supervised by MEN) are COP 1,003,502, COP 1,066,782 and COP 1,620,220 for a professional technical, technological and college degree graduate, respectively; (e) the dropout rate according to SPADIES (also supervised by MEN), is 25% lower for ACCES loan recipients than for the rest of students in higher education. For the purpose of this analysis, dropout rates for the three types of higher education degrees (university, professional technical and technological) is assumed to be equal to the average dropout rate for higher education (50%) minus 25%, that is, 25%; (f) the cost incurred by an HEI for each ACCES loan recipient is assumed to be 50% of tuition for each semester.

4. **Method.** The basic method for cost-benefit calculations in education was first proposed by Becker (1964). His results suggest that the rates of return on education are greater than or

equal to those for physical capital investment. Cost-benefit analysis allows a comparison of different alternatives based on returns, but also a quantitative monetary estimate of the value of a project (Levin and García, 2013). Based on this methodology, this report compares the costs and benefits of a higher education degree for an ACCES recipient, for the average higher education student and for those students who only completed upper secondary. The scenarios presented vary based on socioeconomic stratum, region of origin, and gender of beneficiaries.

5. Generally, the cost-benefit analysis of education is the calculation of the IRR on the investment in education, which is equal to the discount rate that equates the present value of the additional earnings over the entire working life attributable to education with the present value of the costs of that education. The costs include both those associated with the HEI (teacher salaries, books, infrastructure) and the opportunity cost of higher education in terms of forfeited wages (since higher education graduates delay their entry into the labor market).

6 The benefits of a higher education degree are calculated for an ACCES recipient, compared to a non-recipient student with a higher education degree. At the institutional level, the costs of obtaining a higher education degree through ACCES are compared to the costs of obtaining it for non-recipients. At the ICETEX level, the cost benefit analysis compares the costs incurred by ICETEX in terms of providing financial support to students who wish to enroll in higher education through ACCES, with the benefits it gains through the recovery of these educational loans.

7. At the societal level, the analysis compares the social costs and benefits associated with the operation of the ACCES credit line.

I. Individual cost-benefit scenario

8. The costs incurred by ACCES beneficiaries can be classified into three categories: i) tuition, in cases where the loan does not cover 100% of the price, and other costs associated with the academic program, such as living expenses, ii) the opportunity cost in terms of forfeited years of work f (3, 4, or 5 years depending on the type of higher education program), and iii) the financial costs of the loan, which are dependent on the time given for repayment and the interest rate minus any subsidies received. The benefits come mainly from improved access to better job opportunities and, thus, higher wages for beneficiaries. Mincer equations are used to calculate the IRR of a typical ACCES beneficiary for each type of higher education degree: technical, technological and university. This is done by comparing the cost to the recipient to the wage gap, at constant prices, between the recipient's income after completing a higher education degree and the counterfactual of not having completed one. Working life is assumed to last 40 years.

9. The cost-benefit equation thus takes the following form:

$$Individual\ benefit_{it} = \sum_{t=-n}^{t=40} (W_{it} - W_{bt}) - (Tuition\ cost_{it} + Loan\ cost_{it} + Opportunity\ cost_{it} + Living\ cost_{it})$$

where i can take one of three values, depending on whether the degree pursued is technical, technological or university. N is equal to 3, 4, or 5 based on the same rule. W_{it} is equal to the

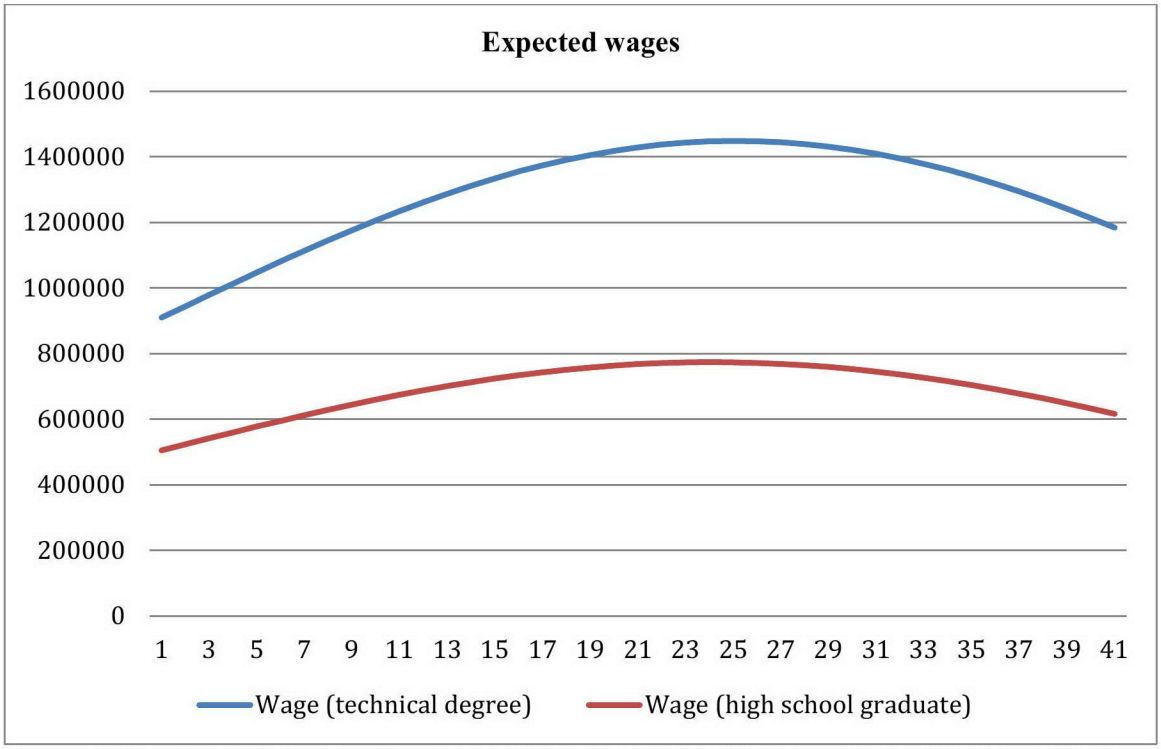
wage of the graduate depending on the degree obtained (i) for a given period t, and W_{bt} is equal to the wage of a high school graduate for a given time period t.

Technical degrees

W high school graduate	538,365	W technical degree	1,003,502
Mincer coefficient	0.0386	Age squared	-0.0008
Semesters	6	Length of degree (years)	3
Loan (by semester) Strata 1 and 2	1,768,500	Total debt Strata 1 and 2	10,611,000
Loan (by semester) Strata 3, 4, 5, and 6	1,800,883	Total debt Strata 3, 4, and 5	10,805,298
Time span	40	Living expenses subsidy	669,444
Inflation (strata 1 and 2)	2.44%	Inflation + 4% (strata 3, 4, 5, and 6)	6.44%

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

10. The evolution of wages for technicians and high school graduates throughout the working lives is captured by the Mincer equation, shown below.



Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

11. The calculation of the IRR must also reflect differences arising from ACCES' treatment of individuals from different socioeconomic strata. Two factors must be taken into account: i) a living expenses subsidy, and ii) differences in the loan interest rate. Hence there are three IRR values per individual receiving and degree type (students from upper strata do not generally receive subsidies). The following table shows the IRRs for the case of technical degrees.

IRR for strata 1 and 2, with subsidy.	IRR for strata 1 and 2, without subsidy.	IRR for strata 3, 4, 5 and 6, without subsidy.
23%	18%	18%

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

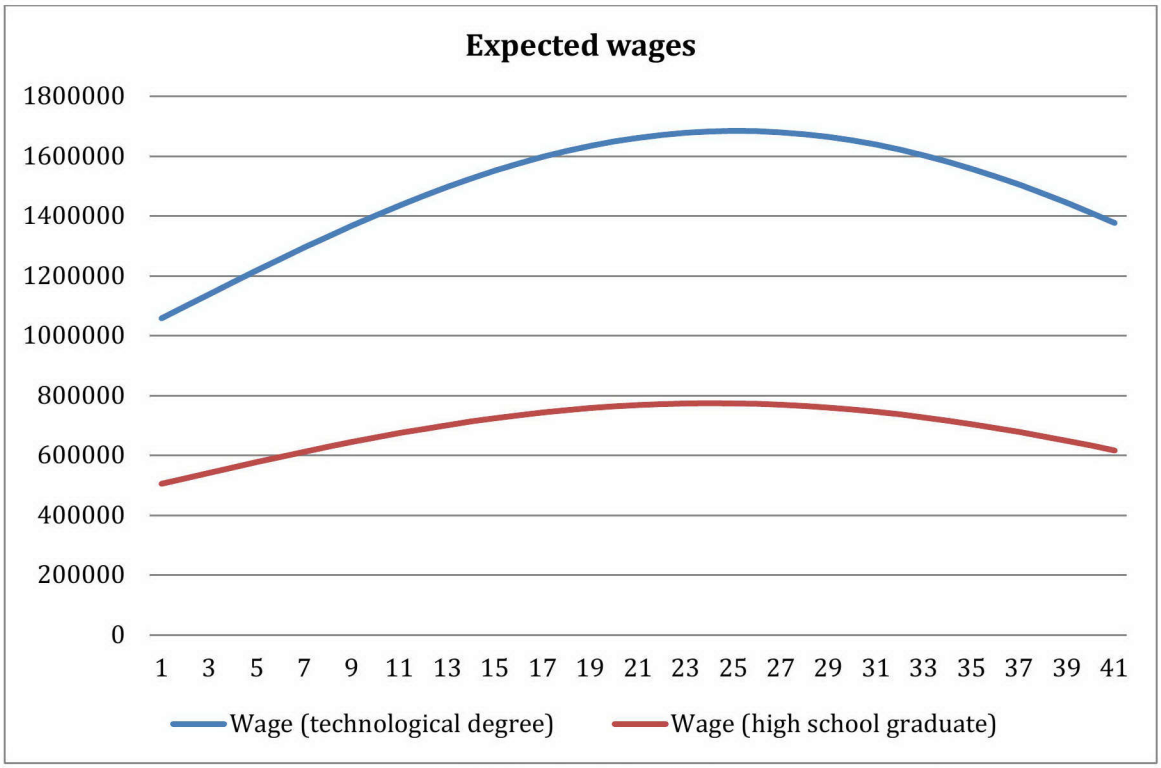
Technological degrees

12. Results for technological degree graduates are shown below.

W high school graduate	538,365	W technological degree	1,066,782
Mincer coefficient	0.0386	Age squared	-0.0008
Semesters	8	Length of degree (years)	4
Loan (by semester) Strata 1 and 2	1,331,104	Total debt Strata 1 and 2	10,648,832
Loan (by semester) Strata 3, 4, 5, and 6	1,555,617	Total debt Strata 3, 4, and 5	12,444,936
Time span	40	Living expenses subsidy	669,444
Inflation (strata 1 and 2)	2.44%	Inflation + 4% (strata 3, 4, 5, and 6)	6.44%

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

13. Expected salaries for individuals with technological degrees and high school graduates are shown below.



Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

14. The four possible IRRs are as follows:

IRR for strata 1 and 2, with subsidy.	IRR for strata 1 and 2, without subsidy.	IRR for strata 3, 4, 5 and 6, without subsidy.
22%	17%	16%

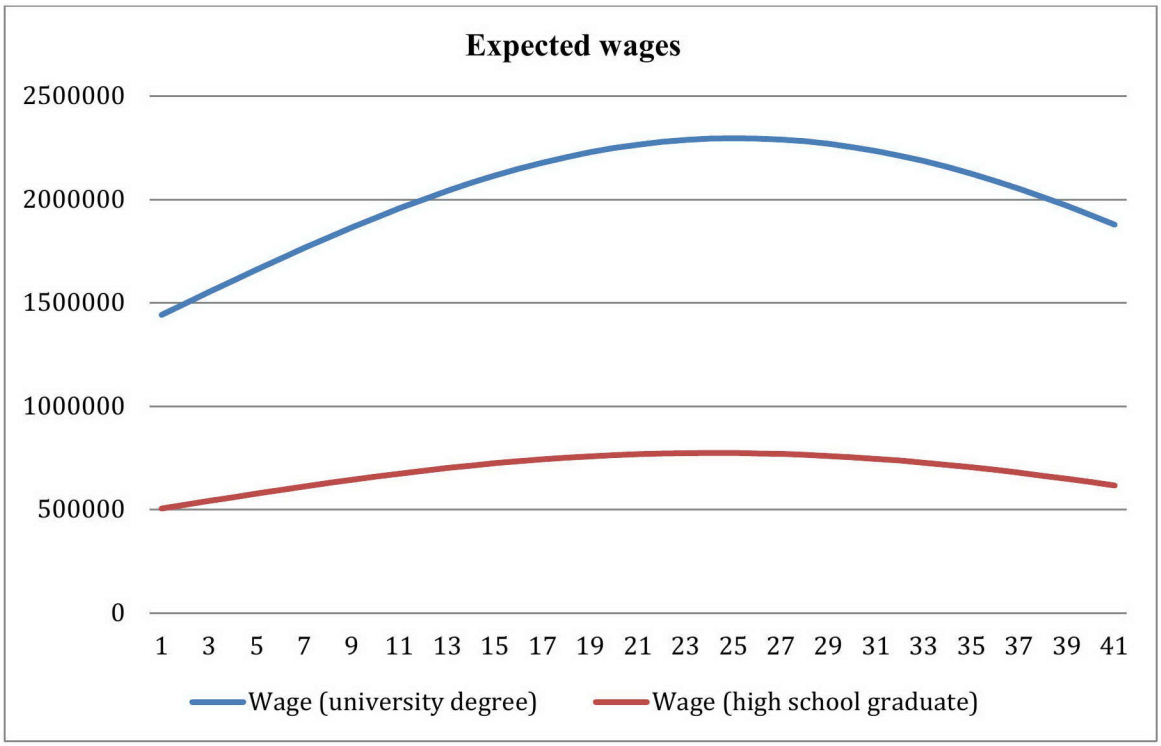
Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

University degrees

W high school graduate	538,365	W university degree	1,620,220
Mincer coefficient	0.0386	Age squared	-0.0008
Semesters	10	Length of degree (years)	5
Loan (by semester) Strata 1 and 2	1,914,485	Total debt Strata 1 and 2	19,144,845
Loan (by semester) Strata 3, 4, 5, and 6	1,418,400	Total debt Strata 3, 4, and 5	14,183,995
Time span	40	Living expenses subsidy	669,444
Inflation (strata 1 and 2)	2.44%	Inflation + 4% (strata 3, 4, 5, and 6)	6.44%

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

15. The following graph shows the expected salaries for individuals with university degrees and high school graduates.



Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

16. IRRs for the three possible scenarios are shown below:

IRR for strata 1 and 2, with subsidy.	IRR for strata 1 and 2, without subsidy.	IRR for strata 3, 4, 5 and 6, without subsidy.
29%	22%	23%

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

II. Cost-benefit analysis from the perspective of an HEI

17. The costs incurred by the IES beneficiaries receiving ACCES are the following: i) the direct expenditure on students, namely facilities, professors and staff, administrative and financial costs, and other costs associated with the operation of the HEI; ii) the direct monetary cost of managing ICETEX loans; and iii) the costs of implementing strategies and programs to increase retention and graduation for ACCES beneficiaries. Higher revenues due to the increase in the number of students enrolled in the HEI is the primary benefit, but there are also other gains that are harder to quantify, such as the advantage to HEIs of having a more socioeconomically

heterogeneous student body, which increases equality of opportunity. The overall value is calculated by comparing the costs for HEIs to the benefits throughout the duration of the beneficiary's degree. Based on these values, the IRR of ACCES for a typical HEI is calculated for each of the three degree types.

18. The cost-benefit value is thus obtained from the following equation:

$$HEI\ benefit_{it} = \sum_{t=0}^{t=n} (Gross\ revenue_{it} * Probability\ of dropping\ out_{it} - Expenditure\ on\ students_{it}$$

which allows us to calculate the IRR, where *i* can take one of three values, depending on whether the degree pursued is technical, technological or university. *N* is equal to the duration of the degree in semesters (6, 8, or 10). *Gross revenue*$_{it}$ is equal to the transfer made by ICETEX to the HEI depending on the degree being pursued by the student for a given period *t*. Finally, *Probability of dropping out*$_{it}$ is equal to the probability of dropping out of a student pursuing a degree *i* at a given point in time *t*, and *Cost*$_{it}$ is equal to the HEI's expenditure on students by degree type *i* and time *t*.

Technical degrees

19. For technical degrees the IRR can adopt two values, since transfers from ICETEX to HEIs are different depending on the beneficiary's socioeconomic stratum. The estimates for students from strata 1 and 2 are shown on the first column, while data for all the other data are shown on the second column.

IRR	24%	24%
Revenue per beneficiary	1,768,500	1,800,883
Semesters	6	6
Probability of dropping out	0.35	0.31
High school graduate wage/ Technical degree graduate wage	0.54	0.54
High school graduate wage	538,365	538,365
Technical degree graduate wage	1,003,502	1,003,502
HEI total costs	(3,448,575)	(3,727,828)
Net revenue per beneficiary	1,149,525	1,242,609

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

Technological degrees

20. For technological degrees the IRR can also adopt two values, since transfers from ICETEX to HEIs are different depending on the beneficiary's socioeconomic stratum. The estimates for students from strata 1 and 2 are shown on the first column, while data for all the other data are shown on the second column.

IRR	19%	19%
Revenue per beneficiary	1,331,104	1,555,617
Semesters	8	8
Probability of dropping out	0.36	0.29
High school graduate wage/ Technical degree graduate wage	0.50	0.50
High school graduate wage	538,365	538,365
Technical degree graduate wage	1,066,782	1,066,782
HEI total costs	(3,407,626)	(4,417,952)
Net revenue per beneficiary	851,907	1,104,488

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

University degrees

21. IRR can also adopt two values under the university degree scenario, since transfers from ICETEX to HEIs are different depending on the beneficiary's socioeconomic stratum. The estimates for students from strata 1 and 2 are shown on the first column, while data for all the other data are shown on the second column.

IRR	15%	15%
Revenue per beneficiary	1,914,485	1,418,400
Semesters	10	10
Probability of dropping out	0.36	0.22
High school graduate wage/ Technical degree graduate wage	0.33	0.35
High school graduate wage	538,365	504,759
Technical degree graduate wage	1,620,220	1,441,180
HEI total costs	(6,126,350)	(5,531,758)
Net revenue per beneficiary	1,225,270	1,106,352

Source: Authors' calculations based on: ICETEX; SPADIES; OLE; Sánchez y Núñez (2003); and Sánchez y Álvarez (2011).

III. Cost-benefit analysis for ICETEX

22. The costs incurred by ICETEX are: (i) the interest due on its financial obligations, (ii) the ACCES administrative costs, and (iii) the trans it makes to the beneficiaries. The benefits, meanwhile, come from two sources: (i) portfolio collection; and (ii) subsidies to the interest rate in the form of government transfers. Thus, the cost-benefit for ICETEX of a full cohort of beneficiaries is captured by the following equation:

$$ICETEX\ benefit_{it} = \sum_{t=-n}^{t=m} (Loan\ repayment_{it} * Probability\ of\ dropping\ out_{it} + Interest\ rate\ subsidy_{it}) - (Interest\ payments_{it} + Administrative\ costs_{it} + Loans\ placed_{it})$$

which allows us to calculate the IRR, where *i* can take one of three values, depending on whether the degree pursued is technical, technological or university. *N* is equal to the duration of the degree in years (3, 4, or 5). *M* is equal to the loan repayment period (ranging from 1 to 10), which depends on the type of degree and the cohort. *Loan repayment* is equal to the loans repaid to ICETEX for any given degree type *i* at a given time *t*. *Probability of dropping out*$_{it}$ is equal to the probability of dropping out of a student pursuing a degree *i* at a given point in time *t*, and *interest rate subsidy* is equal to transfers received from the government to finance loans. *Interest payments* are equal to ICETEX's financial obligations related to ACCES, *administrative costs*$_{it}$ are equal to ICETEX's operating expenses by degree type *i* and time *t*. *Loans placed* are equal to the transfers made to beneficiaries by type *i* at time *t*.

23. IRRs by degree type: (i) Technical degrees: -5%; (ii) Technological degrees: -1%; (iii) University degrees: 1%

Aggregate cost-benefit analysis

24. Taking ACCES as a whole, the IRR is equal to 0.2%, despite the negative compositional effect of technical and technological degrees, which is overridden by the higher share of university degrees.

IV. Cost-benefit analysis for society as a whole

25. To calculate the social cost-benefit it is necessary to consider the present value of the Project for individuals, HEIs, and ICETEX, plus the costs and benefits associated with other groups in society, with the government, and any externalities created by ACCES. The costs and benefits for beneficiaries, HEIs and ICETEX are taken from the previous sections and adjusted for a full cohort.

26. The following costs are used in the calculation: (i) costs incurred by the government, which include the living expenses subsidy for a fraction of beneficiaries, and a 100% subsidy for all ACCES loans placed by ICETEX, and (ii) the opportunity cost incurred by society by choosing to invest money in ACCES and not other activities that might show a higher return; this is set to 15%.

27. The social benefits are defined in terms of higher income tax revenues as a result of the lower informality rates of ACCES beneficiaries and higher education graduates. The average tax rate for these new contributors is assumed to be 16%.

28. The following externalities are included in the calculation: (i) externalities of education: it is assumed that more educated individuals are able to cause knowledge spillovers in society,

are more efficient in the labor market and will increase their participation in social decision-making; this value is assumed to be 8% of the difference between the salary of a higher education graduate and a high school graduate, (ii) savings in public health, in terms of decreased informality and thus higher levels of contribution to social security programs, and iii) decreased crime, based on the lower incarceration rate of educated individuals. This is assumed to be 0.3%, which is multiplied times the cost to society of an incarcerated person.

29. The following equation shows the full cost-benefit calculation for society as a whole:

$$
\begin{aligned}
Social\ benefits_{it} &= \sum_{t=-n}^{t=m} (Individual\ benefits_{it} + HEI\ benefits_{it} + ICETEX\ benefits_{it}) \\
&+ Tax\ revenue\ benefits_{it} + Education\ externalities_{it} + Health\ externalities_{it} \\
&+ Crime\ externalities_{it} \\
&- (\sum_{t=-n}^{t=m} (Individual\ costs_{it} + HEI\ costs_{it} + ICETEX\ costs_{it}) \\
&+ Living\ expenses\ subsidy_{it} + Interest\ rate\ subsidy_{it} + Opportunity\ cost_{it})
\end{aligned}
$$

where *i* can take one of three values, depending on whether the degree pursued is technical, technological or university. *N* is equal to the duration of the degree in years (3, 4, or 5). *M* is equal to the loan repayment period (ranging from 1 to 10), which depends on the type of degree and the cohort. *Loan repayment* is equal to the loans repaid to ICETEX for any given degree type *i* at a given time *t*.

30. The aggregate IRR for society as a whole is found to be positive and quite high (18%). If the assumptions that were made regarding education spillovers, public health savings, and decreased crime and incarceration, were dropped, the IRR would still remain high (15%).

V. Conclusions

31. Individual beneficiaries obtain higher internal rates of return to university degrees than to technological and technical training. This difference is explained by the higher premium granted by the labor market to more years of education, which in turn translates into higher productivity.

32. HEIs, however, derive greater returns from technical education. This duality may be partly explained by the higher cost of university education compared to T&T degrees, especially in terms of degree duration. For ICETEX the greatest benefit is derived from giving loans to university students; this is largely explained by government subsidies, which tend to grow as degree duration increases. For society in general, there is a high internal rate of return, which is even higher for university degrees. More years of education increase the probability of successfully joining formality, which in turn increases government tax revenue and decreases public spending on health and crime, among others.

33. In general, at the aggregate level the most profitable option is a university degree. Although the investment of ACCES line is high, both for the government, ICETEX, individuals and society at large, the cost incurred tends to be lower than the benefits for these four groups

analyzed. This shows that ACCES is not only cost effective, but also helps bridge socioeconomic inequality by extending coverage to lower socioeconomic strata.

34. Therefore, it is advisable to maintain ACCES, not only for its benefits in terms of increased coverage of higher education with lower dropout rates, but because it increases access to higher education for students from low socioeconomic strata, allowing the labor market to reward their effort and society as a whole to benefit from it. In many cases, in the absence of ACCES, these students would have otherwise not pursued tertiary degrees.

Financial sustainability analysis

Student loan placement goals and resources needed to meet them

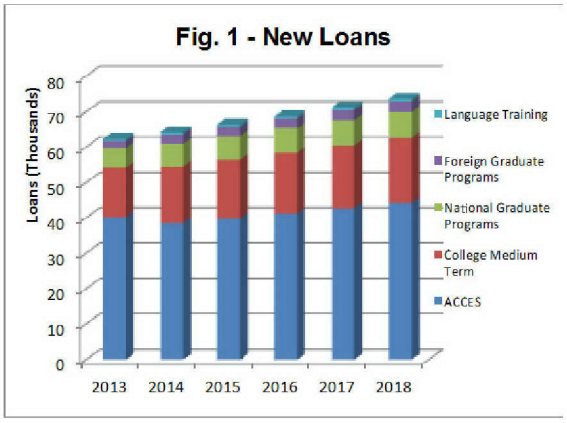
35. The 2013 targets for ICETEX are 62,287 new student loans and 235,436 renewals. 2013 is used as a baseline, since a budget has been approved, financed and is under implementation. The distribution along educational credit lines is as follows: for ACCES, the target is 40,206 new loans and 179,232 renewals; for the *Pregrado Mediano Plazo* (College Medium Term) line, the targets are 13,965 new loans and 47,839 renewals; for the *Posgrado País* (National Graduate Programs) line, the targets are 5,594 new loans and 7,673 renewals; for *Posgrado Exterior* (Foreign Graduate Programs) the targets are 1,948 new loans and 692 renewals; finally, the Language Training line is expected to finance 574 new loans. The relative distribution amongst the different lines of credit is assumed to remain constant from 2014 onwards. Table 1 and Figure 1 show the targets for new student loans between 2013 and 2018, and Table 2 and Figure 2 show renewed loan goals between 2013 and 2018.

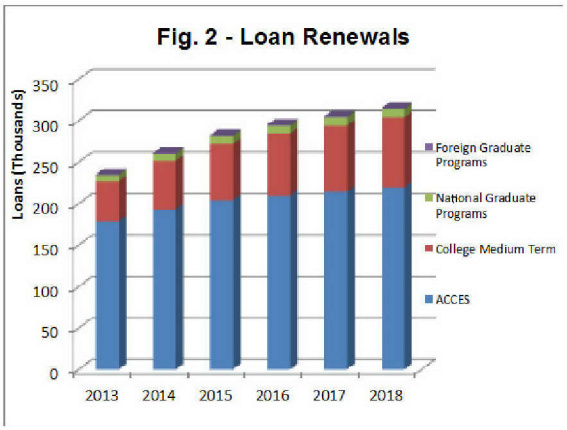
TABLE 1 - NEW LOANS

	2013	2014	2015	2016	2017	2018
TOTAL	**62,287**	**64,156**	**66,404**	**68,729**	**71,134**	**73,624**
ACCES	40,206	38,494	39,842	41,237	42,680	44,174
College Medium Term	**13,965**	**16,039**	**16,601**	**17,182**	**17,784**	**18,406**
National Graduate Programs	5,594	6,416	6,640	6,873	7,113	7,362
Foreign Graduate Programs	**1,948**	**2,566**	**2,656**	**2,749**	**2,845**	**2,945**
Language Training	574	641	665	688	712	737

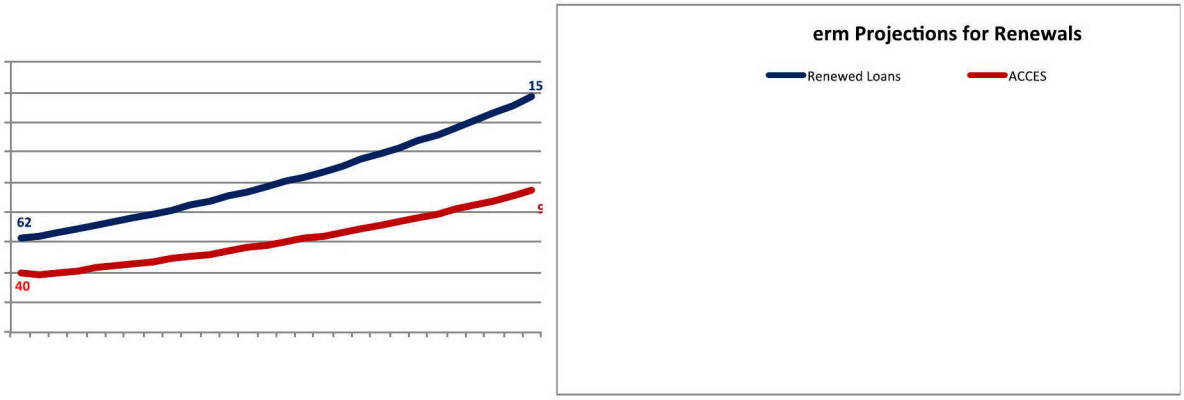
TABLE 2 - LOAN RENEWALS

	2013	2014	2015	2016	2017	2018
TOTAL	**235,436**	**261,127**	**282,524**	**295,239**	**305,328**	**315,564**
ACCES	179,232	193,094	204,072	209,954	214,432	219,830
College Medium Term	**47,839**	**58,737**	**68,222**	**74,639**	**79,825**	**84,229**
National Graduate Programs	7,673	8,421	9,234	9,594	9,962	10,339
Foreign Graduate Programs	**692**	**875**	**996**	**1,052**	**1,109**	**1,166**
Language Training	0	0	0	0	0	0





36. From 2014 through 2018 ICETEX would finance 344,047 student loans, of which 206,427 would fall under the ACCES credit line, the only line that is part of the Project. According to medium and long term projections, due to the growth in revenue derived from a continuous increase in working capital, ICETEX would give out 2,463,477 student loans in the 2019-2040 period. Figures 3 and 4 show long term projections for new and renewed loans.

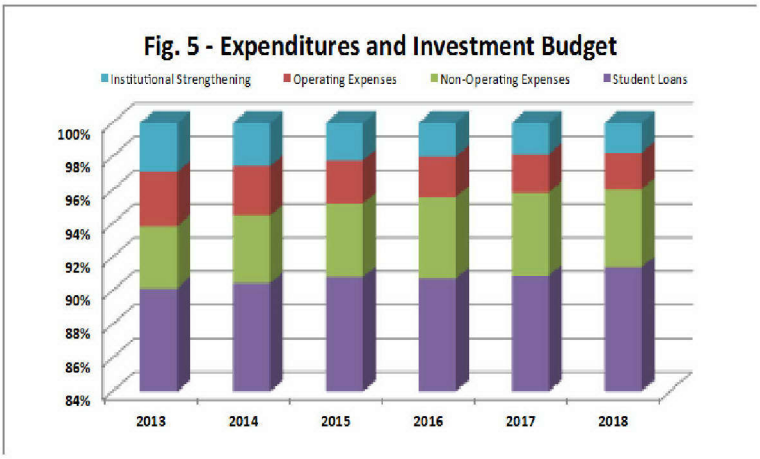


Expenditures and investment budget

37. The 2013 budget for expenditures and investment is COP 1.09 trillion. This budget includes (i) operating expenses (COP 35.2 billion), (ii) non-operating expenses (COP 40.5 billion), which is debt servicing, (iii) student loans (COP 987.0 billion), which includes loans, subsidies and other obligations, and finally (iv) institutional strengthening of ICETEX (COP 32 billion). In 2013, student credit resources constituted 90.6% of ICETEX´s expenditures and investment budget, with debt service representing around 3.7% of the total. Figure 5 shows a forecast of budget category shares over time: the share of student credit expenditure is expected to increase from 90.6% in 2013 to 91.4% in 2018. Non-operating expenses, of which 99% correspond to debt service, is also expected to increase from 3.7% to 4.6% in 2018.

38. Total spending (in current pesos) on student credit is projected to increase from COP 1.1 trillion in 2014 to COP 1.8 trillion in 2018, for a total expenditure of COP 7.4 trillion during the

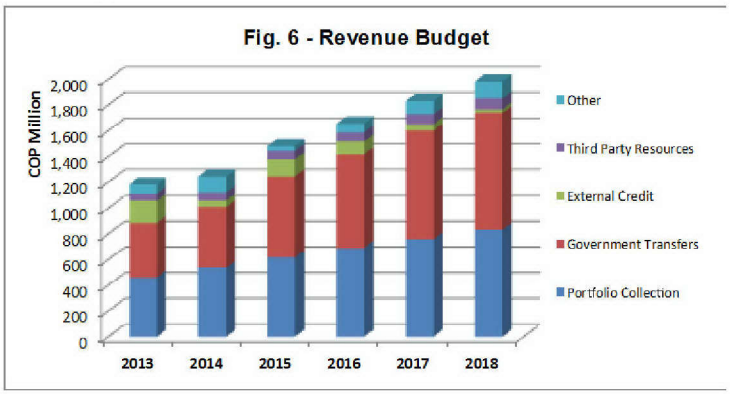
full period. Expenditure on ACCES is projected to be COP 527.6 billion in 2013 and COP 592.9 billion in 2014, reaching COP 813.4 billion in 2018. The total cumulative amount required to fund ACCES loans and grants from 2014 to 2018 amounts to COP 3.5 trillion. At an exchange rate of COP 1890 per 1 US$, the program investment resources amount to US$1,915 million, of which US$200 million would come from the Bank.

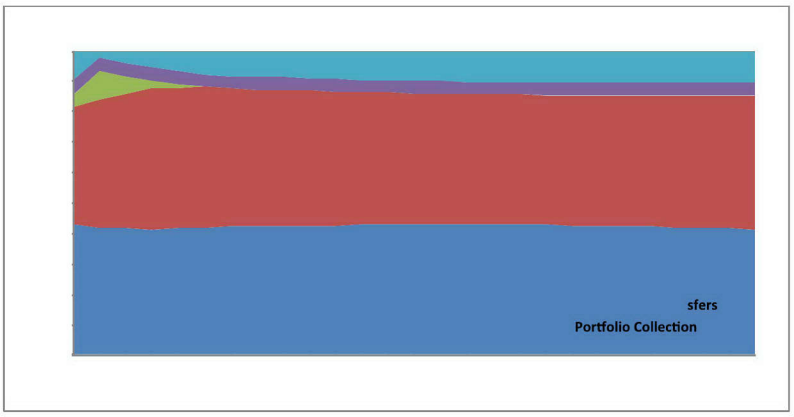


Revenue budget

39. ICETEX expects COP 1.18 trillion in revenue in 2013. The main revenue categories are the following: (i) portfolio collection (COP 460 billion), (ii) national government transfers (COP 423 billion), (iii) foreign credit resources (COP 174.9 billion), (iv) management of third party resources (COP 54.6 billion), which includes fees for ICETEX-administered funds, the funds under the Sustainability Fund and the funds obtained through alliances, and, finally, (v) other sources of revenue (COP 68 billion), such as returns on investments, income from debt forgiveness, and the final cash flow, or initial available balance. This balance amounts to 86.5 billion in 2013. Figure 6 shows the projected evolution of ICETEX´s total revenue and the shares by category during the period of execution of the Access with Quality to Higher Education Project - ACCES II - SOP Phase 2, 2014-2018.

40. Several trends are worth highlighting. First, national transfers are a very large (and growing) share of ICETEX´s revenue. This is mainly due to the Government´s new policy of subsidizing student loan interest rates and increasing stipends and transfers to students. ICETEX relies to a large extent on Government transfers. The share of ICETEX revenue provided by the Government is 35% as of 2013, and is expected to increase to 38% in 2014. This trend is expected to continue until Government transfers peak at 46.1% of revenue in 2017, after which ICETEX´s portfolio collection would pick up and help stabilize the share of national transfers. Figure 7 shows projections for revenue categories in the long term, based on projections from 2013 to 2040.



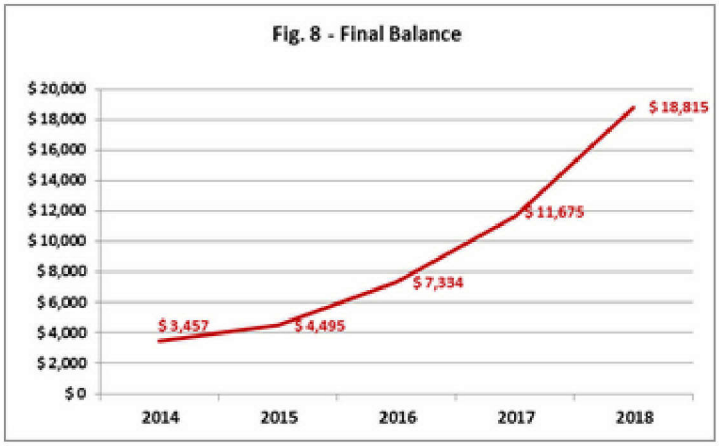


41. Second, all revenue categories except for funding from the Access with Quality to Higher Education Project - ACCES II - SOP Phase 2 are affected by the previous year's working capital. Portfolio collection depends on previous loan placements, while national transfers depend on the portfolio, which determine the amount of subsidies required. Similarly, revenue from the Sustainability Fund is determined by the HEIs' and ICETEX's contributions, which in turn are based on previous loan placements.

42. Third, the sustainability of ICETEX largely depends on preventing cash flow from becoming negative in the long run. In fact, ICETEX sees this Project as a chance to ease liquidity constraints while it builds its working capital to meet loan placement goals. Figure 8 shows cash flow projections for years 2014-2018. The pressure on cash flow is expected to be greatest in 2014, with an available balance of just COP 3 billion. Nonetheless, cash flow is expected to improve as the Project is implemented and other revenue sources' relative shares grow. By 2018 it is estimated that, as long as student placement targets do not increase, ICETEX would not require a fourth Bank loan for ACCES financing. If targets do increase, further loans would be considered.

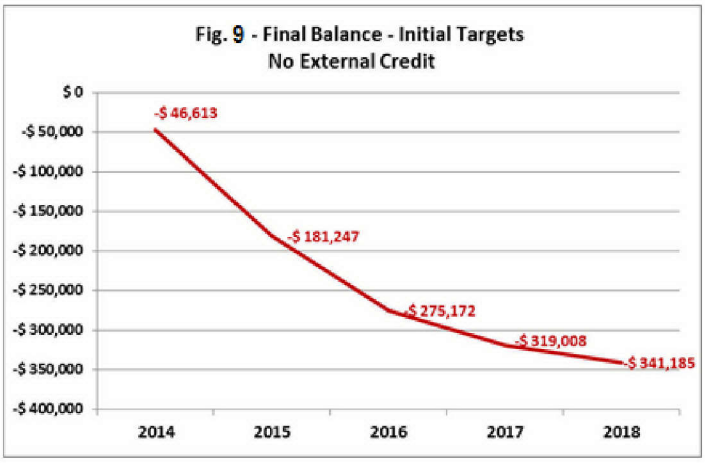
The absence of external credit - First consequence

43. The first consequence of the absence of external credit would be a budget shortfall that would prevent ICETEX from reaching its student loan placement targets. In 2013 the available balance at the end of the year would not change, since the budget has already been funded and is under implementation. However, between 2014 and 2018 ICETEX's deficit would grow over time. Figure 9 shows projections of the yearly final balance under this scenario, which would involve keeping the revenue and expenditure budget constant except for the external credit revenue category and debt servicing expenditure.



44. The shortfall is expected to reach a maximum of COP 341.2 billion in 2018. Thereafter, growth in other revenue categories would begin to reverse the trend, although the cash flow would remain negative until 2035. A negative cash flow means a decreasing stock of working

capital available for new student loans (and to comply with the contracts agreed upon); it also undermines ICETEX's efforts to become more sustainable. In the absence of external credit, ICETEX would have to seek other funding sources to meet its obligations or face the need to reassess loan targets.



Sustainability model without external financing

45. In order to match the new liquidity conditions under the lack of external credit scenario, ICETEX would have to change its student loan placement goals. The placement of new loans between 2013 and 2014 would fall by 32%, down to just 42,451 loans. Loan renewals would still increase for the first year, since ICETEX has to fulfill the legal commitments it has already agreed on with current student cohorts. However, between 2014 and 2015 renewals would drop from 251,188 to 241,125.

TABLE 3 - NEW LOANS (NO EXTERNAL CREDIT)

	2013	2014	2015	2016	2017	2018
TOTAL	**62,287**	**42,451**	**43,937**	**45,475**	**47,067**	**48,714**
ACCES	40,206	25,471	26,362	27,285	28,240	29,228
College Medium Term	**13,965**	**10,613**	**10,984**	**11,369**	**11,767**	**12,179**
National Graduate Programs	5,594	4,245	4,394	4,548	4,707	4,871
Foreign Graduate Programs	**1,948**	**1,698**	**1,757**	**1,819**	**1,883**	**1,949**
Language Training	574	424	440	454	470	487

TABLE 4 - RENEWED LOANS (NO EXTERNAL CREDIT)

	2013	2014	2015	2016	2017	2018
TOTAL	**235,436**	**251,188**	**241,125**	**229,276**	**218,998**	**211,876**
ACCES	179,232	186,711	176,813	165,270	155,007	147,749
College Medium Term	**47,839**	**56,131**	**57,258**	**56,960**	**56,666**	**56,514**
National Graduate Programs	7,673	7,618	6,395	6,350	6,591	6,841
Foreign Graduate Programs	**692**	**728**	**659**	**696**	**734**	**772**
Language Training	0	0	0	0	0	0

46. Since the relative allocation of available resources amongst credit lines is fairly constant, the lack of access to external credit would affects all ICETEX credit lines. Tables 3 and 4 show projections for new loans and renewals (for the original scenario, refer to Tables 1 and 2).

47. ICETEX can finance 344,047 loans between 2014 and 2018 by relying on external credit, of which 206,427 would fall under the ACCES line. In the absence of external credit, ICETEX would have to revise its targets down to 227,644 loans in the same time period, a 33.8% decrease. The decrease in working capital would affect the long run scenario too, with loans financed from 2019 to 2040 dropping to 1.6 million from 2.4 million.

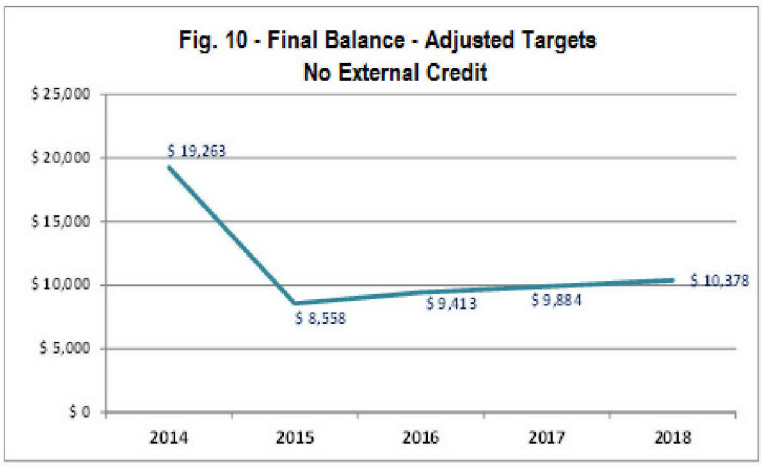
TABLE 5 - EFFECTS OF LACK OF CREDIT ON NEW LOANS

	2014 - 2018		2019 - 2040	
Annual Loans - Total	External Credit	No External Credit	External Credit	No External Credit
ACCES	206,427	136,586	1,478,087	977,991
College Medium Term	86,012	56,912	615,873	407,499
National Graduate Programs	34,404	22,765	246,348	162,999
Foreign Graduate Programs	13,761	9,106	98,540	65,198
Language Training	3,443	2,275	24,629	16,299
TOTAL	**344,047**	**227,644**	**2,463,477**	**1,629,986**

TABLE 6 - EFFECTS OF LACK OF CREDIT ON RENEWED LOANS

	2014 - 2018		2019 - 2040	
Annual Loans - Total	External Credit	No External Credit	External Credit	No External Credit
Pregrado Acces	1,041,382	831,550	7,470,670	4,943,016
Pregrado Mediano Plazo	365,652	283,529	2,858,100	1,891,132
Posgrado País	47,550	33,795	353,463	233,873
Posgrado Exterior	5,198	3,589	43,784	28,972
Capacitación Idiomas	0	0	0	0
TOTAL	**1,459,782**	**1,152,463**	**10,726,017**	**7,096,993**

48. Table 6 shows renewals under the credit shortfall scenario. The decrease in renewals during the period of Project implementation is 21% (renewals would drop from 1,459,782 to 1,152,462). The drop in renewals in the long run is expected to be 33.8%, with 3.6 million fewer renewals taking place in the period spanning from 2019 to 2040.



49. Nonetheless, the revised model would be sustainable even without external credit resources (Figure 10). Under the revised targets, cash flow would only be negative in 2015. Growth in portfolio collection from previously funded cohorts would allow cash flow to increase and be positive again in 2016.

50. Lacking external credit resources would undermine ICETEX's main objective: to meet the financing needs of students seeking to pursue a higher education degree. It would represent a large cost in terms of loan placement.

Annex 7: Financial Intermediary Financing

COLOMBIA: Access with Quality to Higher Education Project - ACCES II - SOP Phase 2

I. Details on Project Design

Flow of funds

1. An International Bank for Reconstruction and Development (IBRD) loan of US$200 million would be extended from the Bank to ICETEX, which would be the Borrower and implementing agency for the Project.

2. The loan is guaranteed by the Government.

3. ICETEX would use Bank funds to grant long term sub-loans to individual students to finance tertiary studies in HEIs.

4. Sub-loans would be granted to each student for the duration of the tertiary studies and for a maximum period of ten (10) semesters. The repayment period of the sub-loans would start after finalization of studies, or after a student does not renew his or her loan, and would be equal to double the number of years that were financed with one year grace period.

II. Eligibility Criteria for ICETEX

5. Participating Financial Institution. ICETEX is the single participating financial institution (PFI) in the project, which would on-lend the funds to final beneficiaries (students), targeting those from socioeconomically disadvantaged backgrounds. ICETEX, a state owned financial institution, has a track record of more than sixty years promoting access and providing finance for students to pursue higher education studies.

6. Financial Soundness and Risk Exposures. ICETEX developed the strategic plan 2011-2014 to define clear goals and establish a roadmap for future development and institutional strengthening in line with the Government National Development Plan 2011-2014. The strategy consisted of eight pillars: (i) social targeting, (ii) effective FM, (iii) customer service, (iv) operational efficiency, (v) strategic alliances, (vi) institutional growth, (vii) human resources, and (viii) IT modernization. ICETEX was subject to an appraisal process to ensure satisfactory compliance with eligibility criteria for Financial Intermediary Financing prior to accessing the Bank funds, and would be monitored thereafter during the entire Project duration.

7. ICETEX has been working on improving its overall FM capacity and effectiveness, including through specific goals/actions towards (i) optimizing its total operational costs and expenses, (ii) ensuring financial sustainability of its operation, and (iii) increasing and diversifying sources of income to support the regular operation.

8. While ICETEX maintains a relatively sound operational structure, portfolio quality presents a major challenge for the financial soundness and future sustainability of the institution. Nonetheless, given the solid track record, the public nature of the institution and the government commitment to continue to finance its operation, ICETEX is fit to undertake the financial liability and operational commitments under the proposed Project. In order to improve current vulnerabilities, a comprehensive action plan is being supported under component 2 of the proposed Project to strengthen ICETEX's financial performance in the medium term.

9. Non-Performing Loans. The recent performance of ICETEX's long-term loan portfolio deserves special attention at Project design and continued monitoring during Project implementation. The ratio of ICETEX's non-performing loans to the total loans is 36% which is significantly above the overall loan quality ratio of 17%. It is worth mentioning that the institution has been making efforts on this front, and has significantly increased loan loss provisions in the past year. Total loan loss provision reached 70% of portfolio at risk in mid-2013.

Figure 1: ICETEX: Portfolio Quality (as of August 2013)

Total Portfolio	
Total	$2,543,274
Default	$422,597
Default Index	17%

Study Period Portfolio	
Total	$1,436,624
Default	$46,292
Default Index	3%

	Total	Default	Default Index
ACCES	$1,030,798	$0	0%
Medium Term	$231,751	$29,447	13%
National Grad.	$89,273	$12,167	14%
Foreign Grad.	$62,439	$3,795	6%
E. Continuada	$11,259	$805	7%
Lin. No Vig.	$11,012	$78	1%
Mi PC	$89	$0	0%

Repayment Period Portfolio	
Total	$1,106,650
Default	$376,305
Default Index	34%

	Total	Default	Default Index
ACCES	$789,620	$282,105	36%
Medium Term	$118,757	$44,031	37%
National Grad.	$80,908	$22,170	27%
Foreign Grad.	$54,071	$7,228	13%
E. Continuada	$19,502	$3,103	16%
Lin. No Vig.	$39,671	$15,973	40%
Mi PC	$4,121	$1,695	41%

III. Market Efficiency Issues

10. Macroeconomic environment. As at 30th June 2013, the annual headline inflation rate stood at 2.16 percent, overall time deposits rate was 3.94% while overall lending rate was 10.12%. At the same time, the spread between one year deposit rate and one year lending rate was 6.51. Overall weighted average yields for the 10-year and 16-year Treasury bonds were 6.8 and 7.2 respectively. Macroeconomic management and steady growth (around 4.86% per year in the last three years) have facilitated a strong credit to the private sector. Credit to the private sector has increased from 33.1% of GDP in 2007 to 35.1% in 2011.

11. Financial sector framework. Not applicable because there are no private banks or financial institutions providing long term credit for education purposes. There are a few private

banks offering consumer loans to credit worthy students with a maturity of six months. A 2011 IFC investment seeks to establish a private market for student finance, targeted to middle income (strata 3 and 4) students with fixed installments throughout the life of the loan. It is facing several challenges and has not been implemented yet.

12. Interest rates. Since there is no long-term finance market for student loans apart from the facilities provided by ICETEX, there are no established rates for student loan products.

13. Directed credit. ICETEX would channel Bank funds for on-lending to students for higher education purposes, with special focus on the lower income segment of the population. It is envisioned that the Bank credit line would better enable ICETEX to expand coverage and outreach, while supporting institutional strengthening to ensure future sustainability.

14. Subsidies. The Project fits into a larger government policy that supports access to and financing of higher education. The real interest rate of all student loans is capped at 4% during the disbursement period and at 8% during the repayment period. In the case of technical and technology degrees the interest rate cap is 4% during both the disbursement and repayment periods. There is a government subsidized scheme (established by law) which supports the loan facility. Under the subsidy program, the government guarantees a 0% real interest rate for long-term loans for socioeconomically disadvantaged beneficiaries. For that purpose, and to cover the associated costs of the subsidy in ICETEX's balance sheet, the government transfers an 'interest rate subsidy' concept as part of the annual budget allocation to ICETEX. While students from strata 1-3 pay no real interest rates on their loans, ICETEX still receives the associated interest income directly from the government.

IV. Onlending Terms

15. Loan disbursements for the purpose of accelerating the completion of a tertiary degree have a variable adjusted interest rate each year. This variable interest rate is calculated based on the Consumer Price Index (IPC or *Índice de Precios al Consumidor*), which is certified by the DANE at the end of each year. In 2012, the certified IPC was 2.44%. The cost of the interest rate subsidy for students from strata 1-3 is assumed by the government and transferred to ICETEX on a regular basis.

Figure 2: Interest Rates

Credit line	Rate during program and grace period	Rate during repayment
ACCES T&T strata 1, 2 and 3	IPC	IPC
ACCES T&T strata 4, 5 and 6	IPC + 4%	IPC + 4%
ACCES university strata 1, 2 and 3	IPC	IPC
ACCES university strata 4, 5 and 6	IPC + 4%	IPC + 8%
CERES T&T strata 1, 2 and 3	IPC	IPC
CERES T&T strata 4, 5 and 6	IPC + 4%	IPC + 4%
CERES university strata 1, 2 and 3	IPC	IPC
CERES university strata 4, 5 and 6	IPC + 4%	IPC + 8%

16. Interest rate of overdue loans: The interest rate for overdue loans is equal to the IPC + 12% (12.44% annual interest rate in 2013).