Structured and Securitized Products

Kenya Student Loan Program

HIGHLIGHTS

- **Risk sharing facility between Strathmore University, a leading private educational institution in Kenya, Commercial Bank of Africa, and IFC**
- **Designed to support private sector student lending to low- and middle-income students**
- **Expected to improve access to higher education and increase the number of qualified professionals entering the labor force**

THE PROJECT

The number of private universities in Kenya has, over the last two decades, grown from three to twenty-one amid a steady increase in university-level enrollments. As many as 25 percent of eligible applicants, however, fail to attend school due to their inability to pay tuition fees. The affordability challenge may intensify in the future, as the introduction of free secondary education in 2008 is expected to result in an increase in the number of lower- and middle-income students seeking post-secondary educational opportunities. Through a risk-sharing arrangement with Commercial Bank of Africa designed to improve the availability of student loan financing, IFC is assisting more students to access private post-secondary education.

THE PARTICIPANTS

Strathmore University is a leading non-profit private university in Kenya that specializes in commerce and information technology. It was established in 2002 and became a degree-granting institution in 2004. Accredited in April 2008, Strathmore currently enrolls 4,400 students, of which approximately 30 percent are undergraduates. The university began admitting graduate students in 2006. Admission statistics for undergraduate degree programs showed that over 40 percent of eligible students were unable to pay tuition fees, indicating that a large number of students would benefit from alternative tuition financing.

Commercial Bank of Africa (CBA) was founded in 1962 in Dar-es-Salaam, Tanzania. With the nationalization of banks in Tanzania, CBA reincorporated itself in Kenya in 1967. CBA commenced business as a subsidiary of Société Financière pour les pays d'Outre Mer (SFOM), a Swiss-based consortium bank. Today, CBA is wholly owned by Kenyan investors. Its market share is about 4.5 percent of total banking sector assets. CBA is one of Kenya's leading banks with strong financial performance, sound underwriting policies and practices, and a strategic interest in the tertiary education sector.

FINANCING OBJECTIVES

The maximum size of the loan portfolio under the facility will be KES 280mn (US$4.5mn equivalent). Students benefiting from the program will be those enrolled in the four-year undergraduate and two-year post-graduate degree programs, as well as students studying for professional diplomas. The loans will have a maturity of one year, cover tuition fees only, and be disbursed by CBA directly to Strathmore University. The interest rate will be fixed for the term of the loans and provided at the bank's prevailing base rate minus a 1 percent spread. This is significantly below prevailing personal unsecured loan rates in Kenya. Minimizing the interest rate to the borrowers has been a key priority of this program.

IFC International Finance Corporation
World Bank Group

THE STRUCTURE

IFC structured a facility in which it shares equally with CBA the senior risk on a portfolio of eligible student loans. Strathmore University will provide funds of up to KES 14mn (US$225,000 equivalent) to cover the first 5 percent of losses of the portfolio at maximum utilization. The funds will be deposited in an account opened at CBA. Upon depletion of the first loss account, any principal losses will result in IFC disbursing to CBA 50 percent of the outstanding principal balance of defaulted loans. The facility structure was designed to align the bank's interests with those of Strathmore and IFC so that CBA has an incentive not only to expand the portfolio, but also to extend loans only to creditworthy borrowers. CBA will act as program manager and will originate, fund, and administer the loan portfolio.

OUTCOME

The program sponsors believe the project will have several significant development impacts on both the education and financial sectors. First, the transaction should increase access to tertiary education among low- and middle-income students by improving the availability of tuition financing resources. At full utilization, every dollar of Strathmore first loss contribution will result in the mobilization of twenty dollars of additional private bank-provided student tuition fee lending. Second, increased enrollments should allow Strathmore University to provide its educational services more efficiently and cost effectively. Third, the program seeks to promote the development of the nascent consumer finance business in Kenya by demonstrating that student tuition lending can be a viable and profitable business. Finally, by expanding the pool of available credit, the program should assist lower- and middle-income students with establishing a personal credit history.

TERMS AND CONDITIONS

Amount of the Portfolio	KES 280mn (US$ 4.5mn equivalent)
Currency	Kenya Shillings
Issue Date	June 25, 2008
Origination Period	4 years
Termination Date	September 30, 2016, or the date on which the sum of all disbursements under the Facility has reached the IFC Maximum Risk Amount
Maximum Reference Portfolio Balance	KES 280mn (US$ 4.5mn equivalent)
Maximum IFC Guarantee Amount	KES 133mn (US$ 2.1mn equivalent)
Enhancement	IFC covers 50% of losses in excess of the KES 14mn (US$ 225,000 equivalent) first loss threshold