



# Structured Finance



## Ghana School Financing Facility

### HIGHLIGHTS

- **First local currency risk sharing facility in the education sector and the first in the Africa Region**
- **Partial credit guarantee provided by IFC**
- **Pilot transaction expected to be scaled up in Ghana and replicated in other countries**

### THE PROJECT

Strong demand for private education in Ghana has resulted in tremendous growth in the number of private schools. To accomplish this growth, it has been necessary for the schools to obtain financing for items such as land acquisition, construction, education materials, and various other items required to ensure the delivery of high-quality education. The local banking sector has played an important role in this process by providing loans to the private schools. Given the strong performance of these loan portfolios and the continued demand by schools for additional financing, the banks have demonstrated strong interest in continuing to build up their portfolios of education loans.

### THE COMPANY

Established in 1996, The Trust Bank Limited is Ghana's eighth largest bank measured by asset size. It is also considered to be one of the most SME-friendly banks as it caters mostly to the middle-tier market segment. In the period from December 2003 to October 2004, The Trust Bank doubled its SME portfolio from US\$7.4 million to US\$13.8 million. Clients of The Trust Bank operate in sectors including agribusiness, commerce, construction, manufacturing, and services. It is also one of the few banks that lends to schools. Its school portfolio, at 8 billion Cedis (US\$900,000 equivalent), is currently the best performing of all its SME sectors. These reasons, combined with The Trust Bank's strong interest in developing the guarantee instrument with IFC, led to its selection as IFC's partner in the project.

### FINANCING OBJECTIVES

IFC worked with The Trust Bank to design a financing facility geared towards providing local currency funding to private K-12 schools in Ghana. IFC provided a partial guarantee to The Trust Bank on loans extended to finance construction, purchase of educational materials, and other capital expenditures. In parallel with the financing facility, a comprehensive technical assistance program has been prepared for the schools themselves. This program is designed to strengthen each school's financial, managerial, and educational capacities, as well as to improve the business environment for private education. Technical assistance is also being provided by IFC to The Trust Bank to enhance the bank's capacity to conduct due diligence of educational institutions and monitor its education portfolio.

IFC's guarantee will enable The Trust Bank to develop a medium-term lending program for private schools. Given the importance of the education sector, there is a critical need of such financing. Further, the use of a guarantee instrument will help improve the alternatives for local currency financing in Ghana. The accompanying technical assistance program will i) provide comfort to The Trust Bank, which is still gaining experience in the education sector, and ii) aid in preparing each school to borrow from the formal sector. It will also aid in improving the business environment and the educational quality of the schools, which, apart from the obvious social benefits,

will help to make them less risky borrowers. Thus, this project is helping to create the basic conditions for medium-term lending in the private education sector and fostering the development of a new banking sector instrument for such financing.

**THE STRUCTURE**

The facility is structured as a risk-sharing guarantee with The Trust Bank. IFC's guarantee covers 50% of the principal credit losses that are in excess of a 5% first loss threshold. The guarantee is for an amount up to a maximum of 9.5 billion Ghanaian Cedis (US\$1.07 million equivalent). The portfolio will be originated according to underwriting criteria defined jointly by The Trust Bank and IFC. All existing loans originated by The Trust Bank that meet the criteria are automatically put into the Facility. In its first phase, this structure will enable the bank to increase its portfolio of education sector loans to 20 billion Ghanaian Cedis (US\$2.25 million equivalent) over a period of 18 to 24 months.

**OUTCOME**

There are multiple anticipated benefits from this facility. It will enable The Trust Bank to increase the size and tenor of its financing to private schools; a critically important sector which desperately needs such funding. Additionally, the facility will enable private primary and secondary schools in Accra to expand and improve their financial and managerial capacities.

This is complemented by the technical assistance program which will improve the quality of education by setting a standard for the private sector and improving the business environment for private education. Furthermore, not only will the facility enable The Trust Bank to facilitate the implementation of a cost-effective, alternative funding mechanism for each school, but it will also help the bank build its track record, potentially leading to a securitization when the markets are ready.

Lastly, given the important developmental impact from this facility, and the first such initiative in the education sector, it was designed as a pilot program with the potential for replication in Ghana and in other countries.

TERMS AND CONDITIONS	
<b>Amount of the Portfolio</b>	GHC 20bn (approximately US\$2.25mn)
<b>Currency</b>	Ghanaian Cedis
<b>Issue Date</b>	June 06, 2005
<b>Origination Period</b>	2 years
<b>Termination Date</b>	June 06, 2012 or the date which the sum of all disbursements under the IFC Guarantee has reached the maximum guarantee amount
<b>Maximum Reference Portfolio Balance</b>	20 billion Cedis (US\$2.25mn equivalent)
<b>Maximum IFC Guarantee Amount</b>	10 billion Cedis (US\$1.07mn equivalent)
<b>Enhancement</b>	IFC provides a guarantee to cover of up to 50% of credit losses on principal that are in excess of the 5% first loss threshold

