

## Inefficiency in the Indian Skilled Labor Market

Meet Gaurav, a 22 years old living in a Mumbai slum. The eldest of five children, Gaurav works odd jobs to support his own and his extended family with an average monthly salary of 1,000 rupees (US\$22) per month. Gaurav wants to earn more to support his family but does not have the skills required to secure a better job. Gaurav would like to learn those skills, but cannot afford the cost of further training.

Gaurav is not alone. Gaurav is one of the 86% of Indians that work in the informal sector for low wages and in poor working conditions. Upskilling these untrained workers through vocational education and training (VET) is critical for India to maintain its current economic growth trajectory. A recent study<sup>1</sup> has shown that to maintain current economic growth rates, India needs to train 500 million skilled laborers by 2022; however, with existing training capacity, only 50 million people will be trained.

A number of non-profit organizations have stepped in and established vocational training programs that are achieving real success. One such organization is ETASHA - a non-profit VET Academy that provides 3-6 month vocational training programs to 20-30 year olds to boost their employability. The organization currently teaches ~800 students per year but has student demand that exceeds capacity many times over.

Vocational education should be a rich opportunity for the private/NGO sector for two reasons: 1) Graduates from reputable VET providers can expect to improve their earnings from US\$22 per month prior to the program to US\$144 per month post-graduation. VET tuition costs can be as low as \$140 – which means that graduates can achieve a 1 month payback on their tuition investment. 2) Government training programs (Industrial Training Institutes) suffer from poor funding, leading to poorly trained instructors and poor graduate employment rates<sup>2</sup>.

However, non-Government VET providers face a funding challenge. VET providers have found that students are unwilling to voluntarily pay back tuition costs or sign-up for a financing to cover tuition costs. Consequently, Non-government VET providers have to continuously fundraise through donations. This fundraising serves as a distraction from the core business of training workers. Further, the unpredictability of donation contributions makes it difficult for VET providers to commit to long-term enrollment growth.

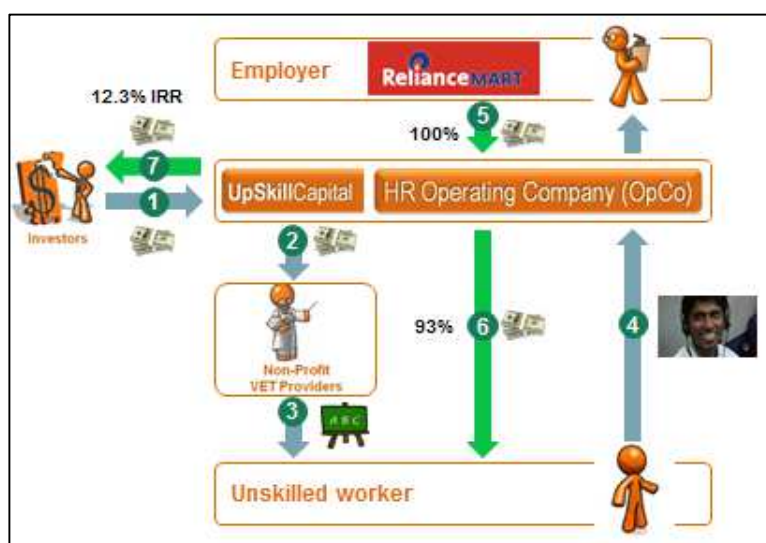
## What is UpSkill Capital?

**UpSkill Capital is a new equity fund** designed to provide funding to successful non-profit VET providers (e.g. non-government providers that have proven to be highly successful in placing graduates in high-wage jobs) to cover the costs of student tuition.

UpSkill Capital will recoup its investment through the **“UpSkill Capital HR Operating Company”** - a new mechanism to capture tuition costs from students post-graduation.

## How does UpSkill Capital work?

1. Investors provide funding to UpSkillCapital
2. ...which funds VET provider
3. ...who trains a student
4. ...who then is employed for a period of 24 months through OpCo after training
5. Employer pays OpCo on a monthly basis
6. OpCo passes on 93% of monthly wage to student
7. OpCo passes on 7% of wage to investor (through UpSkillCapital), which generates a 12.3% IRR



<sup>1</sup> McKinsey Analysis <http://mobile.globalpost.com/dispatch/news/regions/asia-pacific/india/110616/shiva-rules-india-economy-labor-shortage-vocational-training-corporate?page=full>

<sup>2</sup> World Bank (2006). Skill Development in India – The Vocational and Education and Training System

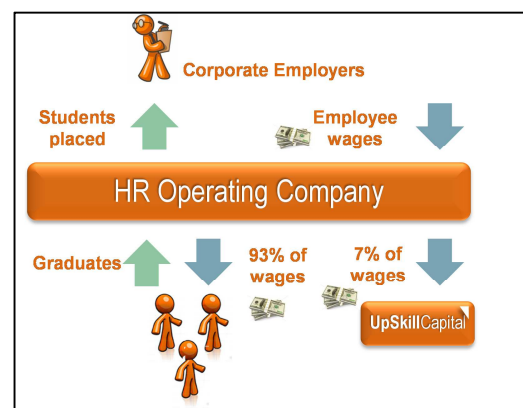
# Investment Thesis



## How does HR Operating Company (Op Co) work?

The HR Operating Company acts as an intermediary between employers and graduates by providing contract employment for students during the pay-back period (24 months), processing monthly repayments and communicating with employers (although finding jobs is school's responsibility). The Op Co reduces costs and risk for UpSkill Capital since:

- Employers pay employee wages directly to Op Co (reducing repayment collection costs)
- Students are paid through Op Co (reducing delinquency risk: if graduates leave the program, Op Co still holds part of monthly salary)



## What returns can investors expect?

Assuming the most conservative estimates, each educational loan could achieve an IRR of 12.3%. Assumptions: initial tuition of US\$144 is paid to VET providers in three installments; 7% of graduates' monthly salary is retained for tuition repayment; HR Op Co achieves a 30% delinquency rate on repayment.

## Team structure

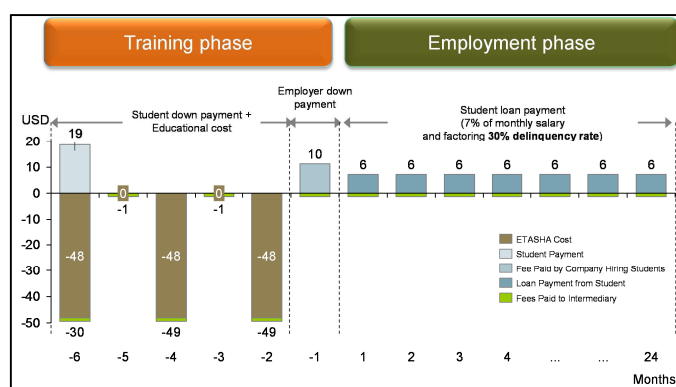
UpSkill Capital has assembled a management team and board of advisors with unparalleled experience within the VET sector. Key members include Ian McBride, who will manage day-to-day operations and also drive to establish relationships with other VET providers across India. The board consists of Dr. Meenakshi Nayar (Founder, ETASHA), a Senior Risk Officer, and a Senior Recruiter.

## Fund strategy

**Deal Sourcing:** <\$150,000 per VET provider in years 1- 3; <\$500,000 per VET provider in years 4 & beyond

**Investment Horizon:** The fund will have an option of perpetual investment with revolving term of 2.5 years.

**Fund Economics:** Target Return of 10- 12% IRR with a hurdle of Hurdle of 8%. UpSkill Capital would receive a performance fee of 1% for every 4% of out performance above hurdle. (No catch-up)



## Target investors

During the ramp-up phase, we would approach philanthropic investors with existing operations in India (e.g. LGT Capital, FMO Dutch Development Bank, Acumen Fund). Once steady-state operation has been reached, we would approach Foundations, Impact Investment Funds and Endowments (e.g. Endeavour Capital, Calvert Foundation).

## Scope of impact

By year 10, we project to have 197k students enrolled in UpSkill Capital-funded VET programs with USD\$154m in loans outstanding. Over the 10 year period, we will have assisted over 500,000 unskilled laborers in improving their employability. But the benefits from this program extend beyond the students and into the wider community – improving the wellbeing of workers' families and increasing spending in their local communities.

## Key risks and mitigating strategies

During the ramp-up process:

- Trainees may not be willing to accept UpSkill Capital employment terms: We need to test this by proving concept with pilot pool of trainees
- Low employer demand for trainees: We need to establish long-term relationship with employers

During steady-state operation:

- Investing in unsuccessful VET providers: We will audit VET providers to ensure that performance metrics are met
- Trainee attrition: As wages first flow through HR Op Co, we can consider the retention of wages a deposit