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SKILL FINANCING IN INDIA

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FICCI SKILL DEVELOPMENT LEADERSHIP

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FOREWORD

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India's demographic advantage is expected to last through 2047: the Amrit Kaal period. However, to transform this generic advantage to tangible dividends for the country, effective skilling of the 11-12 million youth aspiring to join the work force annually will be the key. These skilling initiatives must also include re-skilling and up-skilling the existing labour force of about 485-500 million to ensure that India becomes the Skill Capital of the world.

From 2009, with very first Skill Development Policy onwards, the funding of almost all Skilling Programs mostly at the entry level has been facilitated by the Central and State Governments. Nearly 40 Skill Development Programmes are being implemented by 20 central ministries/departments. Following the formation of a separate Ministry of Skill Development and Entrepreneurship in 2014, convergence of various schemes & rationalization of the processes and Public Financing through National Skill Development Corporation (NSDC) have got visible momentum. However, in lieu of the yawning gap between the set target viz a viz the current achievements, it is now widely recognized that Government's efforts have to be augmented by industry, shouldering the responsibility in a much more engaged manner.

Further, with the advent of exponential technologies and rapid automation including disruptive innovations impacting the skills and job profiles with far-reaching ramifications, it has become imperative to develop new Skill Financing Systems in our country. The role and responsibility of each stakeholder would change as the country moves from "supply-driven" to "demand-driven" and ultimately to a more "innovation-driven" high-value skills-based Eco-system.

The Skill Development Committee of FICCI has been deliberating this issue with a sense of urgency along with KPMG India to delve into this rather greenfield approach of alternate Skill Financing. This FICCI KPMG report entails international case studies/models and innovative solutions including a set of policy recommendations.

I would like to thank the members of the FICCI Skill Development Committee taskforce on "Skill Financing" for proposing substantial inputs and outlining alternate Skill Financing Strategies for the sector.

Narayanan Ramaswamy

National Leader- Education and Skill Development

KPMG in India

In an era defined by disruptive technological advancement and a shifting global economy, competencies built through acquiring relevant skills become critical. India, with its burgeoning youth population and aspirations of becoming a global economic powerhouse, stands at a pivotal juncture. The dynamism of the Indian economy is well-documented, and its potential, boundless. However, the realization of this potential hinges on the capabilities of its workforce. The ability to equip its citizens with the right skills is not just a necessity but a strategic imperative.

When we looked at modern skill development program across the value chain, a crucial element is that of financing various skill development initiatives. Skill financing needs to be looked at from various parts of the education and training landscape such as vocational training, higher education, and upskilling, and we believe it plays an instrumental role in shaping the nation's human capital.

In this backdrop, we, at KPMG are happy to team up with FICCI in bringing out a paper titled "Skill Financing in India". This paper looks at skill financing at a more granular level, focusing on challenges and opportunities that lie ahead. We had looked at Skill Financing across capital investment for training centers to various recurring expenses from the industry players perspective to the funding requirement of the individual learner.

Moreover, it goes beyond the current landscape of Skill Financing in India and includes our research and directions on diverse financing models, public-private partnerships, and policy recommendations that can drive India's journey towards becoming a global skills hub.

Our challenges are manifold – spanning across urban and rural landscapes, traditional and emerging sectors, and varied demographics. However, it is in these complexities that we find the potential for innovation and growth. The paper, while addressing these complexities, presents a holistic view that will have some take-aways for policymakers, educators, and business leaders alike.

I hope that this paper sparks some constructive dialogues and catalyzes actions that will help strengthen and extend the Skill Financing landscape in India, which will help propel India's workforce towards excellence, fostering not only economic growth but also social inclusion and individual empowerment.

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AQF	Australian Qualification Framework
BMBF	The Federal Ministry of Education and Research
B.Voc	Bachelor of Vocation
CMIE	Centre for Monitoring Indian Economy
CoE	Centre of Excellence
CPI	Consumer Price Index
CSR Corporate	Social Responsibility
DDUGKY	Deen Dayal Upadhyaya Grameen Kaushalya Yojana
DfID	Department for International Development (United Kingdom)
DGT	Directorate General of Training
DIB	Development Impact Bonds
ECS	Electronic Clearing Service
ESFA	Education and Skill Funding Agency
GDP	Gross Domestic Product
GoI	Government of India
HEI	Higher Education Institute
ITI	Industrial Training Institute
IIE	Indian Institute of Entrepreneurship
JSS	Jan Shikshan Sansthan
LFP	Labour Force Participation
M.Voc	Master of Vocation
MIS	Management Information System
MoE	Ministry of Education
MOOC	Massive Open Online Course
MoRD	Ministry of Rural Development
MSDE	Ministry of Skill Development and Entrepreneurship
MSME	Micro Small and Medium Enterprise
NACH	National Automated Clearing House

NAPS	National Apprenticeship Promotion Scheme
NBFC	Non-Banking Financial Companies
NCERT	National Council of Educational Research and Training
NCIVE	National Committee for the Integration of Vocational Education
NCVET	National Council for Vocational Education and Training
NEET	Not in Education, Employment, and Training
NGO	Non-Governmental Organization
NIESBUD	National Institute for Entrepreneurship & Small Business Development
NSDC	National Skill Development Corporation
NSDM	National Skill Development Mission
NSQF	National Skill Qualification Framework
NSSO	National Sample Survey Office
NULM	National Urban Livelihoods Mission
NSDF	National Skill Development Fund
OBC	Other Backward Class
OJT	On-the-Job-Training
OPC	Overseas Placement Centre
PE/VC	Private Equity/Venture Capital
PIA	Project Implementing Agency
PLFS	Periodic Labour Force Survey
PMKK	Pradhan Mantri Kaushal Kendra
PMKVY	Pradhan Mantri Kaushal Vikas Yojana
PPP	Public-Private Partnership
PSP	Private Sector Partner
PwD	Person with Disability
RPL	Recognition of Prior Learning
SANKALP	Skill Acquisition and Knowledge Awareness for Livelihood Promotion
SHG	Self Help Group
SIB	Social Impact Bonds
SSC	Sector Skill Council
SSDM	State Skill Development Mission
STRIVE	Skills Strengthening for Industrial Value Enhancement
STT	Short Term Training
ToA	Training of Accessor
ToT	Training of Trainer
TP	Training Provider
TVET	Technical and Vocational Education and Training
UGC	University Grants Commission
UK	United Kingdom
UNESCO-UNEVOC	The UNESCO-UNEVOC International Centre for Technical and Vocational Education and Training
VET	Vocational Education and Training

EXECUTIVE SUMMARY

India's dynamic skilling ecosystem has evolved significantly in recent years, driven by the recognition of Technical and Vocational Education and Training (TVET) as a crucial factor for economic development and workforce integration. This evolution has been catalysed by the establishment of the National Skill Development Corporation (NSDC) in 2008, followed by the creation of the Ministry of Skill Development and Entrepreneurship (MSDE) and the launch of flagship schemes like Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and Skill India Mission in 2015.

India has set ambitious goals, aiming to become a USD 5 trillion economy by 2024. To support this vision, there is a growing need for a skilled workforce across key sectors, including agriculture, construction, trade, hotels, manufacturing, and emerging industries. While the government has played a pivotal role as both a policy advocate and a primary financier of skill development initiatives, there are evident challenges within the sector, leading to limited private sector investments in TVET.

Overreliance on government funding has resulted in suboptimal outcomes in terms of the number and quality of trained individuals. Therefore, there is a pressing need to explore alternative financing models for skill development. This report aims to assess the current state of skill financing in India, including the allocation and utilization of funds, funding sources, financing patterns, priority areas, bottlenecks, and emerging models. It also investigates the feasibility, scalability, and applicability of finance models, providing policy recommendations for a dynamic and evolving skill ecosystem.

There is need for policy interventions and new products to stimulate the sector's growth. The various existing sources of funds, include government grants and debt financing, entrepreneurship financing, skill vouchers, centrally and state-sponsored schemes, private equity and venture capital investments, corporate social responsibility initiatives, and development impact bonds.

This report delves into the financing patterns of vocational education and training (VET) in India. It highlights the critical role played by the Government of India (GoI) as both a policy advocate and a primary financier for skill development initiatives. While vocational education is prioritized in the national development agenda, the chapter reveals that TVET (Technical and Vocational Education and Training) remains underfinanced due to several factors.

1. **Funding Challenges:** Despite the significance of TVET in national development, there are several challenges faced in funding vocational education. These challenges include the perception of VET systems as expensive due to equipment costs and limited enrollment capacity, constraints on government budgets, the need for inter-ministerial coordination, limited private sector participation, and over reliance on government schemes by training providers.
2. **Absence of Innovative Financing Instruments:** The report also discusses innovative financing instruments, such as Development Impact Bonds, Social Impact Bonds, and Program for Results, which aim to mobilize resources for social initiatives. It highlights some of the difficulties encountered in implementing these instruments, including complex legal and regulatory structures, the need for transparent standards for diligence, and the alignment of financial and social objectives.
3. **Limited Role of PE/VC Funds:** The participation of Private Equity (PE) and Venture Capital (VC) Funds in skill financing is not encouraging due to factors like limited data availability, liquidity constraints, unclear performance metrics, and the absence of a clear exit strategy. The establishment of a Social Stock Exchange could attract greater participation from PE/VC funds and channel more capital into social initiatives.

There is a need to study and look at the TVET financing models of other countries such as United Kingdom (UK), Germany, Australia, and France, to understand the key stakeholders, their responsibilities, and the mechanisms driving funding. Additionally, this chapter explores best practices and case studies from these countries, presenting valuable lessons for India's skill development initiatives.

The report further demonstrates the dynamic nature of skills financing, showcasing various innovative approaches adopted globally and highlighting their relevance in the context of India's evolving skill development landscape. These emerging models offer valuable insights for policymakers, practitioners, and stakeholders, aiming to foster a skilled and employable workforce.

Emerging Financing Models:

- Development Impact Bonds (DIBs): Development Impact Bonds are entrepreneurial philanthropic instruments that prioritize accountability and results. This approach involves contractual agreements where a principal entity, such as a donor or foundation, transfers funds to an agent, often a government or NGO, in exchange for the delivery of predefined outcomes.
- Private Equity (PE)/Venture Capital (VC) Funding: Private Equity and Venture Capital Funding have gained traction, particularly in India's edtech sector, offering opportunities for integrating TVET education into primary, secondary, and higher secondary schools.
- Working Capital Financing: Innovative mechanisms for financing the working capital requirements of training partners can enhance their sustainability. Approaches like the drop line facility provide borrowers with a credit limit that

reduces over time. Borrowers pay interest only on the utilized amount, addressing working capital shortages in the growth stages of their business life cycle.

- Skill Vouchers: Skill vouchers incentivize youths to participate in skilling programs of their choice. Vouchers hold monetary value and can be redeemed for specific courses, often with top-up contributions from students.

- Support from Social and Private Foundations: Social and private foundations play a vital role in supporting skilling and livelihood initiatives. Foundations like United Way Worldwide, Michael and Susan Dell Foundation, and CITI Foundation contribute to skill development and economic opportunities.

- Public-Private Partnerships (PPP): PPP is a collaborative approach between the public and private sectors, sharing costs, profits, risks, and responsibilities.

- Support from Multilateral and Bilateral Agencies: Multilateral and bilateral agencies, such as the World Bank and ADB, provide financial and technical support to governments and implementing bodies to strengthen the TVET ecosystem.

- Education and TVET Specific Taxation: Several countries complement their TVET funding through education and TVET-specific taxes. These dedicated tax revenues contribute to sustainable and predictable funding sources. Latin America and the Caribbean provide examples of countries implementing such taxation systems.

- Skill Loans: Partnerships between NSDC and Non-Banking Financial Companies (NBFCs) provide direct loan financing for skill development courses. This collaboration allows trainees to access institutional credit for their training, ensuring financial support.

- Crowdfunding Platform: Crowdfunding platforms like Milaap have become instrumental in raising funds for social causes, including TVET initiatives.

The report focuses on policy recommendations for the future of skills financing, highlighting the critical role of financing in shaping vocational education and training (VET) systems. As VET becomes increasingly vital for employment, productivity, and international competitiveness, this chapter underscores the need for identifying and implementing reforms in TVET funding.

Alternative Funding Models: The report emphasizes the necessity of exploring alternative funding models beyond government funds. These models encompass a combination of financial instruments aimed at generating additional development funds, optimizing financial flows, and ensuring results-driven financing.

Some of the key priority areas that can be looked at are:

- Schools of Vocational Studies: These institutions can offer degree programs (B.Voc. programs) in various technical fields and provide placement support.

- Technical and Advisory Assistance: Many skill providers, including industries, require support in activities like curriculum development, content creation, demand mapping, and market entry strategies.

- Internationalization of Indian TVET Offerings: To prepare candidates for global employment, existing service providers need to expand their capabilities and establish international skilling centers through collaborations.

- Training of Trainers and Assessors: Effective Training of Trainers (ToT) and Training of Assessors (ToA) models must align with global standards to ensure internationally accepted skilling outcomes.

- Skill Universities and Pathways to Formal Education: Aligning training with formal education through skill universities facilitates further education and enhances employability.

- Integration of Technology in Training: Integrating technology into training delivery improves access and customizes training to individual learning needs.

- Funding Reskilling and Upskilling Programs: Investing in reskilling and upskilling programs bridges skill gaps and enhances employability.

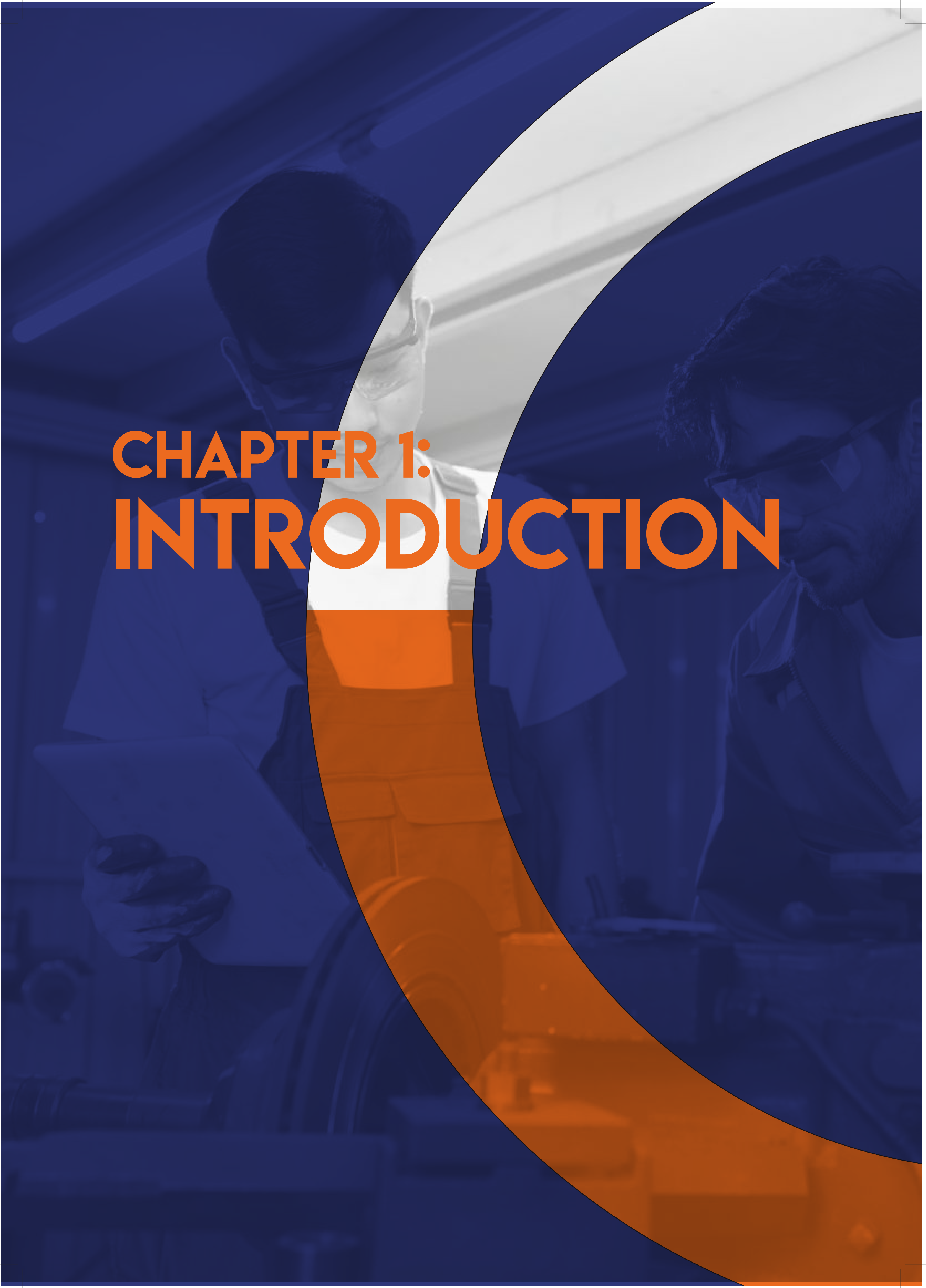
- Funding New-Age Courses: Special attention should be given to programs establishing training infrastructure for emerging fields like IoT and Artificial Intelligence.

- Adoption of Global Models: There is a critical need for learning from global TVET financing models. Many developed and some developing countries have introduced customized financing instruments to mobilize adequate financial resources for vocational education. These international best practices should be thoughtfully benchmarked and tailored to India's unique vision and objectives.

Stakeholder Engagement Mechanism: Implementing TVET reforms requires the engagement of multiple stakeholders, given India's diverse labor force and regional variations.

The report provides valuable policy recommendations to guide the future of skills financing in India, emphasizing the importance of exploring alternative funding models, identifying priority investment areas, learning from global best practices, and establishing effective stakeholder engagement mechanisms. These recommendations are vital for fostering a skilled workforce that can drive economic growth and competitiveness.

CHAPTER 1:
INTRODUCTION



1.1 Overview

India has a diverse and complex skilling ecosystem. Over the last decade, Technical and Vocational Education and Training (TVET) has evolved as a pressing matter for economic development and workforce re-integration. Formation of National Skill Development Corporation (NSDC) in 2008 provided the necessary impetus to skill development initiatives in India. It has also been established that skill development is the backbone of livelihood cum skilling economics, via setting up of a dedicated skills ministry – Ministry of Skill Development and Entrepreneurship (MSDE) and thereafter, introduction of flagship skills scheme – Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and launch of Skill India Mission in 2015. MSDE is entrusted with creating policies for skill development initiatives and support the operations centrally with assistance of NSDC, Directorate General of Training (DGT), National Council for Vocational Education and Training (NCVET), National Skill Development Fund (NSDF), State Skill Development Missions (SSDM) and other Program Implementation Agencies (PIAs) assist in this endeavour. Its important to note that NCVT and NSDA have recently been merged to form National Council for Vocational Education and Training (NCVET) to setup an over arching regulator across the vocational education ecosystem.

India has set up a target to become a USD 5 trillion economy by 2024 and has been rapidly expanding its infrastructure. These expansions and investments would require availability of trained manpower across the key growth sectors. The DIPP Working Group Report on roadmap for achieving USD 5 trillion economy as is unfolding, emphasizes upon aligning skilling efforts with sectoral demand and aligning curriculum with future industry jobs. As per PLFS data 2021-22 sectoral labor force participation in India is led by agriculture standing at 45.5 percent, followed by construction at 12.4 percent, trade, hotel & restaurant at 12.1 percent, and manufacturing at 11.6 percent. However, it is observed that from the preceding year, there is a decline in Agriculture Labour Force Participation (LFP), and a rise in labour participation across other segments, thus requiring increased focus on skilling and upskilling of the youth to meet today's changing needs as well as for fulfilling needs of tomorrow and achieving the common goal of USD 5 trillion economy.

The Government of India (GoI) in order to support the goal of USD 5 trillion economy has been focussing on building an industry ready workforce wherein its been playing a dual role of policy advocacy as well as a key financier for majority of skill development initiatives.

Over the years the GoI has played an active role in catalysing the skill development sector through its various schemes and porgrammes. It has also supported private organizations through soft loans for infrastructure and capacity creation by creation of NSDC. NSDC functions as a Public Financing Institution, focused on development sector financing and avidly supports with long term development finance and plays a role of a "partner" in projects rather than that of a mere "lender". While NSDC and schemes like Skill Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) and Skills Strengthening of Industrial Value Enhancement (STRIVE) have played a prominent role in financing the skilling ecosystem for infrastructure and capacity creation, apparent challenges within the skill development sector have led to low private sector investments in the TVET system.

Dependence on the government for funding large scale skill development initiatives has resulted in sub-optimal outcomes with respect to the number and quality of trained candidates. The government's efforts may be augmented, scaled and sustained in partnership with the private sector. A study by a social NBFC[1] has also found that NBFCs, through innovative and customized loan products can cater to a market demand of USD 1.6 billion by potential TVET students. Hence, there is a need to devise, utilize and implement alternate financing models for skill development.

This paper attempts to look at skill financing in India in terms of current state of development, utilization and expansion of funds; various sources of finances; financing patterns with respect to the components of fund utilization, priority areas and rationale for various components, and bottlenecks; case studies on Indian and global existing and emerging models of skills financing; feasibility, scalability and applicability of finance models from Indian perspective; policy recommendations with respect to models of funding to be adopted for a changing skill ecosystem, methodology to engage stakeholders, and monitoring and evaluation mechanism. We hope that the information provided in the report will prove extremely relevant in illustrating what the future of skill financing holds.

1.2 Vocational Training Ecosystem in India[2]

With setting of MSDE & launch of National Skill Development Mission (NSDM) in 2015, Ministry of Skill Development and Entrepreneurship (MSDE) is implementing various skill development programmes/ schemes through training centres across the country under Skill India Mission.

MSDE supports both short term & long-term skilling programmes along with entrepreneurship development through its various nodal agencies like NSDC, DGT, National Institute for Entrepreneurship & Small Business Development (NIESBUD), Indian Institute of Entrepreneurship (IIE) and Jan Shikshan Sansthan (JSS).

In the area of long-term training, DGT is an apex organisation for the development and coordination of the vocational training including Women's Vocational Training of the employable youth in the country and to

[1] https://edufinance.org/latest/blog/2022/tvet-nsdc-india
[2] https://www.msde.gov.in/sites/default/files/2022-06/Annual%20Report%202021-22%20Eng.pdf

provide skilled manpower to the economy. As per the NCVT-MIS portal, there are 14,956 ITIs currently active and affiliated to DGT across the country, of which 3,248 are Government and the rest are privately owned. DGT has been running four major schemes viz. Craftsmen Training Scheme (CTS), Apprenticeship Training Scheme (ATS), Craft Instructors Training Scheme (CITS) and Advanced Vocational Training Scheme (AVTS) through its various institutions. In 2022-23, total seats across ITIs were 25.97 lakh in which 47.18 percent of seats were filled.

In line with the emerging requirements of the workforce ITIs also focus on creating the necessary curriculum and infrastructure to support the New-Age Course like Smart Agriculture (Internet of Things), Smart Healthcare (Internet of Things), Smart City (Internet of Things), Remotely Piloted Aircraft, etc. Presently, there are 142 ITIs with a total of 5,644 seats that provide New Age Courses like Smart Agriculture, 3D Printing, Smart City, etc.

In the areas of short-term skilling, NSDC is the nodal agency which supports short-term skilling for courses with a duration of 3 months to 6 months with the help of 538 training partners, 10,373 training centers spread across 28 States and 8 Union Territories.[3]

In addition to this NSDC has been responsible for implementation of various flagship schemes such as UDAAN, Development of Northeast Region (DONER), Pravasi Kaushal Vikas Yojana (PKVY), Corporate Social Responsibility (CSR), Pradhan Mantri Kaushal Vikas Yojna (PMKVY) phase 1-3, National Apprenticeship Promotion Scheme (NAPS), State Government Fund (NULM), SANKALP, Seekho Aur Kamao (Learn and Earn) etc. Under the PMKVY scheme, till date 1.42 crore candidates have enrolled (all three phases included). In addition, NSDC also provides support and coordinates private sector initiatives for skills development through appropriate PPP models, aiming for significant operational and financial involvement from the private sector. Under this model, approx 3.6 million trainees got enrolled and subsequently trained in the last three fiscal years of 2019-20, 2020-21 and 2021-22.

In addition to MSDE, some of the other line ministries are also implementing their own skill development schemes across their thematic areas. Two of the prominent schemes are listed below:

- Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDUGKY) under Ministry of Rural Development. As per Rural Diksha portal, since inception of the scheme a total of 11.28 lakh candidates have been trained, along with 6.63 lakh placed candidates. A total of 717 PIAs are involved in the implementation of the scheme
- Integrated Skill Development Scheme (ISDS) under Ministry of Textiles, since inception of the scheme a total of 11.14 lakh candidates have been trained and 8.43 lakh[4] of candidates have been placed with the support of 88 PIAs

1.3 Modes of Skills Financing in India:

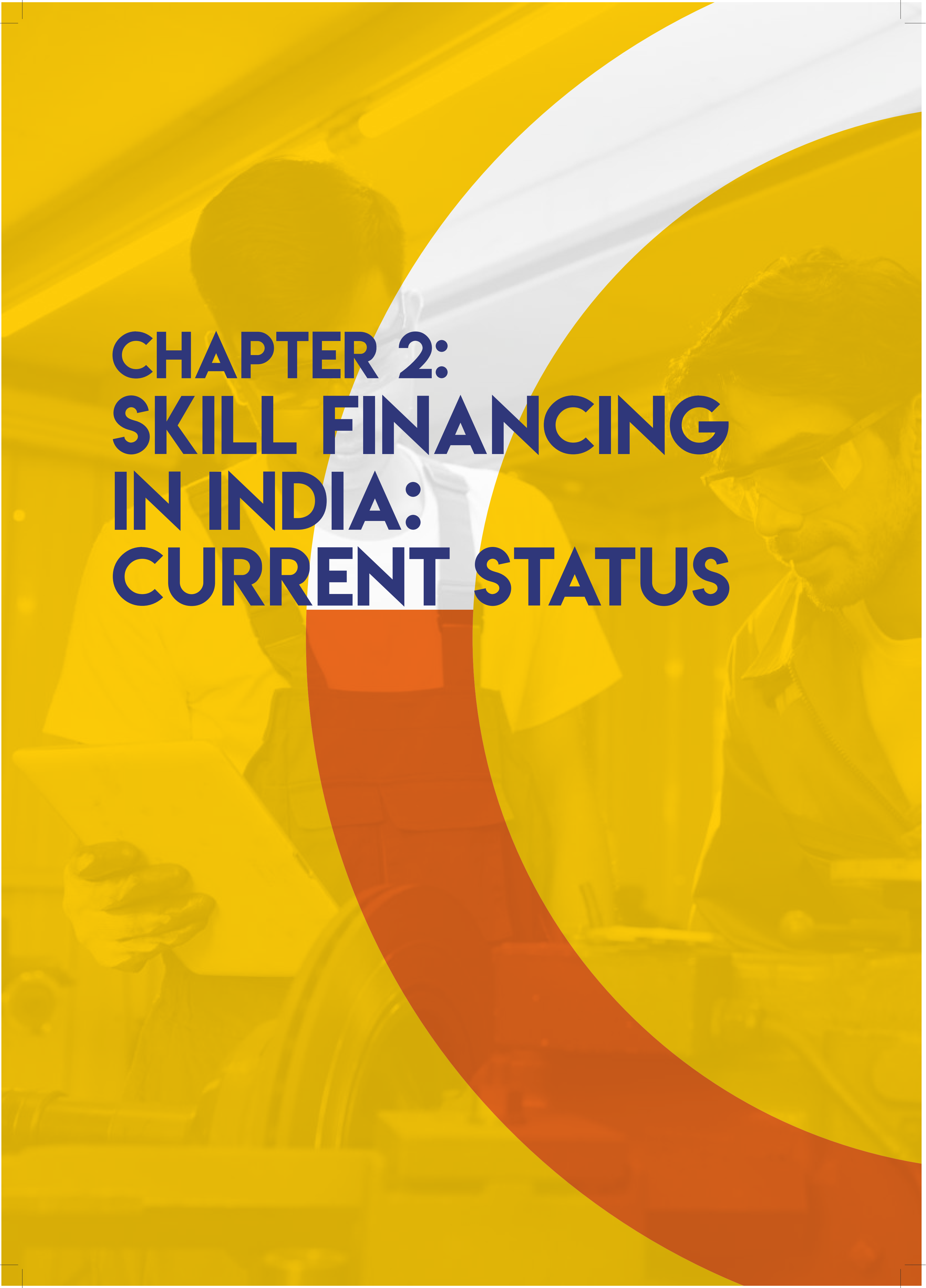
There are two major models/instruments in India for obtaining financial assistance for skill development:

- Capacity and Infrastructure Augmentation: Funds mobilized directly by the skill providers for infrastructure, capacity creation; through varied instruments such as Debt, Grant, Equity or hybrid
- Beneficiary Funding: Funding the training costs of the candidate in form of grant reimbursement to training provider (Central and State Govt. Schemes, CSR project etc.) and or skill loans to the learners at subsidized rates, deriving from the model of education loans (ex. NSDC partnered with Satya MicroCapital and Varthana for skill loans and through candidate financing portals such as Vidyakaushal)

A study of public sector and private sector financing instruments further highlights the emerging trends in skill financing which are mentioned below:

- Development/Skill Impact Bonds (DIBs/SIBs): performance-based investment instrument intended to finance development programs, with a pre-agreed social outcome
- Skill Vouchers and Wallets: redeemable vouchers, value-uploaded basis chances of wage employment in the sector
- Private Equity, Venture Capital Funding: VC/PE funds have started flowing in for tech-based training platforms, e-learning start-ups etc.
- Social and Private Foundations: direct support to service providers in the form of social development programs/projects
- Multi and Bilateral Agencies: organizations such as World Bank, ADB and FCDO extending financial assistance to developing nations
- Customized Financing Solutions: working capital financing, trade receivables discounting systems in tie ups with banks/fls to offer subsidized institutional credit to trainees and service providers with the global manufacturing organizations adopting a diversified approach by setting up manufacturing units in India and Government initiatives of becoming self-reliant a huge requirement for the skilled manpower shall be urgently required. There's a big task ahead of us, hence it shall require a large investment and an innovative approach to achieve the same. This document is an attempt to understand the various modes of financing and some of the newer approaches that can be looked at for fulfilling the national objective of achieving a USD 5 trillion economy

[3]https://nsdcindia.org/about-us
[4]http://isds-textiles.gov.in/pub/dashboard.html



CHAPTER 2:
SKILL FINANCING IN INDIA: CURRENT STATUS

2.1 Government Budgetary Spends

Over the last few years, skill development in India has attracted both private and public sector investments which is evident from increased fund allocation towards skilling initiatives by MSDE, Government of India. The overall budgetary allocation towards skilling has seen an upward trend since FY 16 and is anticipated to witness the same over next few years. The allocated funding[5] on skill development and vocational education over the last few years is provided in figure below

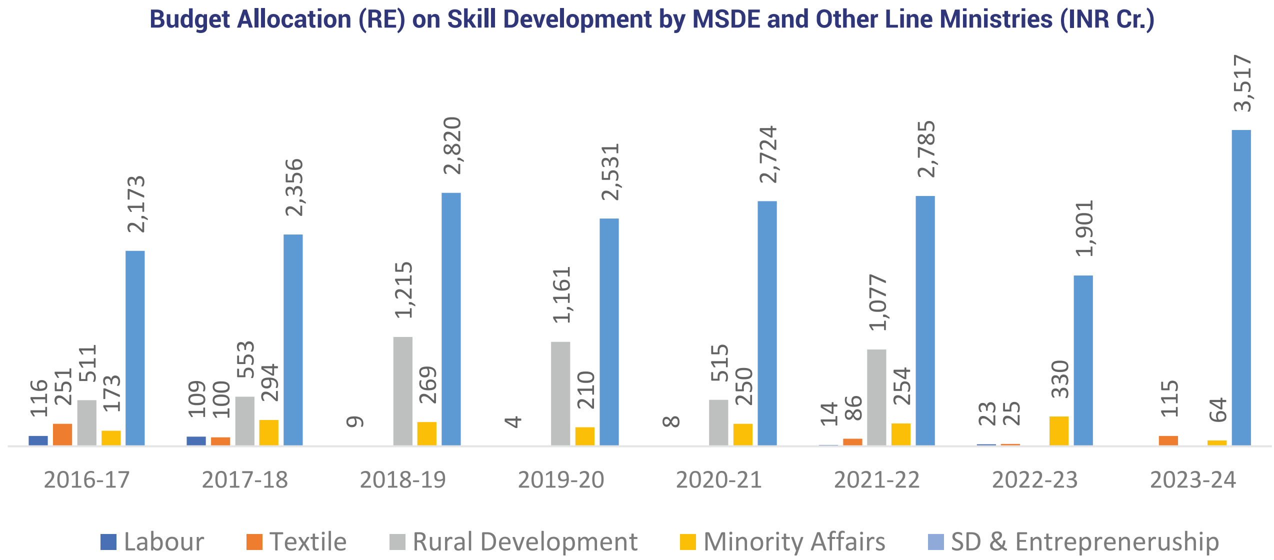


Figure 1 : Y-o-Y Trend of Budgetary Allocation for MSDE, MoRD and MoMA

Currently, skills training in India is largely government-driven with only 36 percent[6] of companies conducting in-house enterprise-based training. Dependence on government funds for funding large scale skill development initiatives has resulted in sub-optimal outcomes with respect to the number and quality of trained candidates. The government funding is majorly through grant-based schemes wherein government sponsors the training of the students undertaken with a training provider. The details of some of the prominent schemes over the past few years can be found below:

S No.	Scheme Name	Sponsoring Ministry	Objective	Expenditure (In INR) Since 2016
1	Pradhan Mantri Kaushal Vikas Yojana	Skill Development and Entrepreneurship	To encourage and promote skill development in the country by providing free short duration skill training and incentivizing this by providing monetary rewards to youth for skill certification	PMKVY 2: 12,000 crores PMKVY 3: 948.9 crores
2	Deen Dayal Upadhyaya Grameen Kaushalya Yojana	Rural Development	To skill rural youth who are poor and provide them with jobs having regular monthly wages or above the minimum wage	5,032 crores
3	Seekho aur Kamao (Learn and Earn)	Minority Affairs	Upgrading the skills of minority youth in various modern/traditional skills depending upon their qualification, present economic trends and market potential, which can earn them suitable employment or make them suitably skilled to go into self-employment	1,267.33 crores

[5]Annual report MSDE
[6]https://www.thehindu.com/opinion/lead/skill-india-urgently-needs-reforms/article23447258.ece

S No.	Scheme Name	Sponsoring Ministry	Objective	Expenditure (In INR) Since 2016
4	Nai Manzil	Minority Affairs	Upgrading the skills of minority youth in various modern/traditional skills, depending upon their qualification, present economic trends and market potential, which can earn them suitable employment or make them suitably skilled to go finto self-employment	432.11 crores
5	Integrated Skills Development Scheme	Ministry of Textiles	To address the trained manpower needs of textiles and related segments, including Handicrafts, Handlooms, Sericulture, Jute, Technical Textiles etc, by developing a cohesive and integrated framework of training based on the industry's needs	432.11 crores

Table 1 : Prominent skill development schemes and expenditure

While there has been a boost in private sector funding since the formation of NSDC, it is estimated that NSDC has disbursed INR 1,400 Cr[7]. in the form of equity and market debt in order to create skill training capacity. This has resulted in increased participation from the private sector in the skill development and vocational education system especially from a standpoint of training delivery.

Figure : Comparison of per capita spending on skilling with other countries comparing the government spend on skilling for India and rest of the world[8](Figure 2), it can be observed that the per capita government spending on skilling and vocational education in India is the lowest viz-à-viz

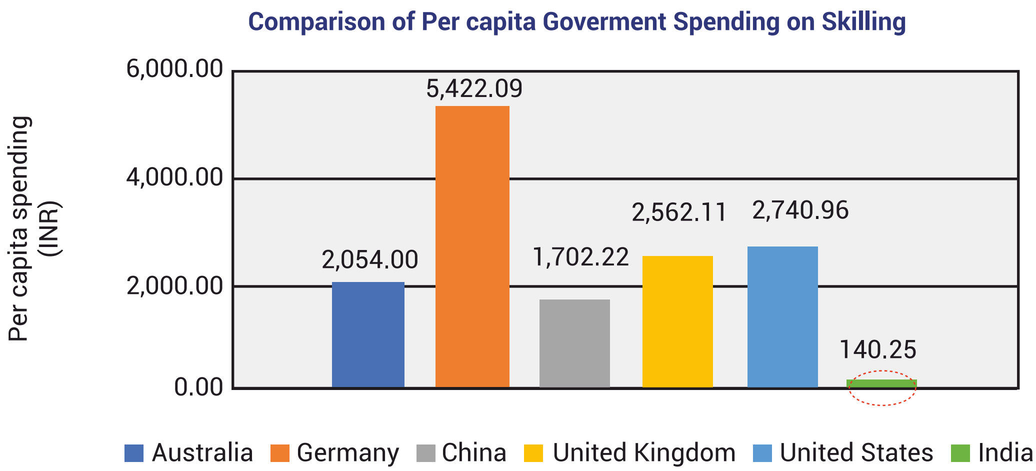


Figure 2 : Comparison of Per capita Spending on Skilling with Other Countries

Approx. Estimates Basis Central Government Expenditure, Skills Expenditure Across Other Line Ministries and State Skills Expenditure Projections Calculated Basis Average Expenditure (Per capita) Across 5 Select States

Major countries across the world. China, which has the highest population in the world, spends approximately 12 times the per capita investment on skilling by Government in India.

With this challenge of sustaining the burden of training large population with finite budgets and resources, there is always a continuous pressure to diversify the funding base. Financing framework for TVET accordingly necessitates diversification of funding sources, increase in involvement of private sector to share the burden of the government, and readjustment of the roles of the public sector.

2.2 Financing of Market Led Model & Role of NSDC

Financing of the market led model is done by NSDC, as one of the pivotal roles of NSDC is to support funding of skilling initiatives to build scalable, for-profit vocational training institutions. It plays the role of a "market-maker" by bringing financing, particularly in sectors where market mechanisms are ineffective or missing.

[7] NSDC estimates and KPMG in India analysis
[8] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1819/Quick_Guides/VocationalTraining
Germany: Budget - Bundesministerium für Bildung und Forschung - BMBF 2021

NSDC meets its objectives through the National Skill Development Fund (NSDF), set up in 2009 by the Government of India, for raising funds both from government and non-government entities for skill development in the country. The fund receives contributions through various government sources, and other donors/contributors to enhance, stimulate and develop the skills of Indian youth in various sectors.

NSDC provides financing through a mix of instruments which include loans, equity, and grants to private entities such as enterprises, companies and organisations which are engaged in skill training. A brief snapshot of the funding portfolio of NSDC is presented below[9]:

Category	Loan		Grant		Equity		Total (INR Crores)	
	Allocated	Funded	Allocated	Funded	Allocated	Funded	Allocated	Funded
Training Partners	1,705	1,187	93	86	26	24	1,825	1,297
Innovation Partners	29	27	4	3	-	-	33	30
Sector Skill Councils	48	3	189	125	-	-	237	128
Sub Total	1,783	1,217	286	214	26	24	2,095	1,455
PMKK	245	243	0	0	0	0	245	243
Total (INR Crore)	2,027	1,460	286	214	26	24	2,340	1,698

Table 2: Funding Portfolio of NSDC

Some of the salient features of the NSDCs Market Led Portfolio is presented below[10]:

- Market led funding has resulted in creation of a network of over 530+ partners who have created a training centre network of 10,300+ training centres[11]
- Presence of training partners under the market led portfolio in 692 districts covering 39 sectors
- Under the market led funding model, NSDC partners have trained a total of 1.45 Crore trainees and have successfully placed about 0.52 Crore trainees

Some of the additional initiatives NSDC has implemented in the skill financing area include the below:

- Introduction of working capital financing by partnering with a consortium of banks
- Promoting student financing by extending a line of credit to NBFCs to lend further to students in order to make the fee-based courses affordable for students. Some of the prominent NBFCs include Varthana[12] and Auxilo Finserve Pvt. Ltd, wherein the aim is to create specialised financial products, designed for skilling and vocational courses and will be given to students as per their loan requirements[13]
- Introduction of financial relief measures to support during Covid-19, by offering moratorium/deferment in current loan repayments for two quarters and introduction of NSDC TP FIRST loan to provide training partners financial assistance for relief and sustainability
- To promote the market led model and ensure effective industry engagement, NSDC over the last three financial years i.e., FY 19 to FY 23, has received a funding of INR 80.48 Crores under National Apprenticeship Promotion Scheme (NAPS) and INR 88.47 Crores under Corporate Social Responsibility (CSR)[14]

2.3 Funding by Donor Agencies

In the Indian context, funding realized by partnering with multilateral/bilateral agencies and foundations has assisted in transitioning TVET service providers towards accountable skilling interventions and mainstreaming innovative models through capitalization of evidence. This section covers the type and quantum of support by donor agencies towards Indian skill development.

Support from Multilateral and Bilateral agencies: To strengthen the Skill India Mission, various multilateral, and bilateral agencies such as World Bank, ADB, DFID etc. have extended financial and technical support to the government, ministries, implanting bodies (NSDA, NSDC, SSCs, SSDM etc.)

[9] NSDC Annual Report 2019-20
[10] https://www.nsdcindia.org/partners
[11] https://nsdcindia.org/
[12] https://www.indiatoday.in/education-today/news/story/nsdc-partners-with-finance-company-to-provide-financial-assistance-for-skill-development-courses 1990429-2022-08-20#:~:text=NSDC%20has%20partnered%20with%20Varthana,students%20for%20skill%20development%20courses.&text=19%3A13%20IST-,NSDC%20has%20partnered%20with%20Varthana%20Finance%20Private%20Limited%20to%20provide,students%20for%20skill%20development%20courses.
[13] https://www.prnewswire.com/in/news-releases/nsdc-auxilo-finserve-collaborate-to-support-funding-for-skilling-amp-vocational-courses-aim-to-create portfolio-of-inr-1-000-crore-over-next-3-years-889083050.html
[14] https://nsdcindia.org/sites/default/files/files/Board-Report-2021-22.pdf

Donors	Domain	Major Themes	Marquee Projects	Financing Range	Financing Type And Format
World Bank	Workforce Development and Vocational Education	• Education • Gender • Improving Labor Market • Rural services • Infrastructure • Civic Engagement	• Uttarakhand Workforce Development Project (UWDP) • Tejaswini • Skill India Mission Operation • India: Vocational Training Improvement Project • Skill Strengthening for Industrial Value Enhancement (STRIVE)	USD 2 Million - USD 3.1 Billion	Via Grants, IBRD, IDA, etc. • Investment Project Financing • Specific Investment Plan • Program for Result Financing
Asian Development Bank	Education and Skill Development	• Governance and Capacity Development • Gender Equity and Mainstreaming • Inclusive Economic Growth • Partnerships	• Assam skill University • Madhya Pradesh Skill Development Project • Asian Development Outlook	USD 1.1 Million - USD 150 Million	• Venture Investment Fund • Special Assistance Fund • Development Fund

Table 3 : Projects in Tvet Financed by Specific Multilaterals (sample)

Support from social and private foundations : Various social and private foundations also provide direct support to learning providers in promoting the skilling and livelihood initiatives. Some of the foundations involved in skilling and livelihood promotion are United Way Worldwide (US), Greater Impact Foundation, Michael and Susan (M&S) Dell Foundation, American Indian Fund and CITI foundation etc.

2.4 Other Sources of Funding

Deploying alternative TVET financing strategies to channelize private and philanthropic capital, while reorienting development challenges into investible opportunities, improved employment, and job retention outcomes is a strategy that India has leveraged. While there are various methods of skill financing in India, the nascence of the sector along with its scalability and replicability challenges have been roadblocks in attracting continuous equity or long-term investments. Hence, policy interventions and newly developed products are paramount in stimulating the sector.

<table>
<tr><th></th><th>Capacity and Infrastructure Augmentation:</th><th>Beneficiary Funding</th></tr>
<tr><td>Government</td><td>Grants: For Innovative and Socially Motivated Initiatives (Ex- Assistance of INR 15 lakhs for Infrastructure Development to Training Institutions under Dept. of MSME Entrepreneurship and Skill Development Initiatives)
Debt: Long-term Debt Financing for Setting up Training Infrastructure Through NSDC to Training Institutions Under Dept. of MSME Entrepreneurship and Skill Development Initiatives</td><td>Grants: Candidate Training Cost Sponsorship via State and Centrally Managed Schemes such as ISDS, Nai Manzil, etc.
Debt: Candidate Financing Through Pradhan Mantri Kaushal Rinn Yojana
Entrepreneurship Financing and Credit Guarantee Schemes: Such as Mudra Loans and CGTMSE Loans
Skill Vouchers: To Incentivize the Youth Students can Pay for the Course through the Vouchers. The Redeemable Value of these Vouchers/Wallets Will Depend on the Courses Opted by the Candidate. the Vouchers can be either, Completely or Partially Redeemable Based on the Sector of Choice
Centrally Sponsored Schemes: Such as PMKVY, DDUGKY, NULM, STARS etc.
State Sponsored Schemes: Such as MMKY (Madhya Pradesh), Karnataka Koushalya Mission, MSSDS (Maharashtra), etc.</td></tr>
<tr><td>Private Sector</td><td>Equity: Investments by Private Equity and Venture Capital Funds For ex- Acumen India, Suzanne and Michael Dell Foundation
Debt: Term Loan and Working Capital Financing via banks and NBFCs are provided to the Skill Providers on a Case-by-Case Basis
There is no Dedicated Product. PEs and VCs are also Emerging as Players in the Debt Financing
CSR: Infrastructure Funding of Soft Loans and Grants Through CSR Initiatives Such As - Tata Trust, Ambuja Cements, Etc.
Development Impact Bonds: Performance-Based Investment Instrument Intended o Finance Development Programs. The Private—Impact Investor—Usually A Fund or Group of Investors—Invests to Carry out a Development Project with a Set of Pre-Agreed Social Outcomes</td><td>Debt: Training Cost Financing through Candidate
Loans via Banks, NBFCs and MFIs
- Skill Loans by Bank of Baroda, Varthana and Satya MicroFinance
- Technology-Based Fintech such as Eduvanz
- Peer to peer Lending Platforms such as Fair Assets, Fincsquare
CSR: Training Cost Sponsorship under CSR Initiatives from Large Corporations</td></tr>
</table>

Table 4 : Instruments of Skill Financing

CHAPTER 3: FINANCING PATTERN

The Government of India (GoI) plays the dual role of policy advocacy as well as a key financier (directly or indirectly) for majority of skill development initiatives. The financing of vocational education initiatives is largely supply based-where the government at the Centre and State level undertakes the responsibility of securing regular and long-term resources for the beneficiaries and the private training providers with a long term objective of developing/expanding national training capacity and highly skilled workforce. However, despite the priority given to vocational education in the national development agenda, TVET remains largely underfinanced not only because of the high capital expenditure (tools, equipment, machineries, training facilities etc.) and operational expenditure required in maintaining centre-based training approaches, but also because the share of public budget dedicated to TVET is generally low compared with that allocated to general education.

3.1 Overview on Various Components of Fund Utilization

The funding components covered under various govt funded skill development schemes following a training centre-based approach are specified below[15]:

- Meeting the capital expenditure for creation/ upgradation of infrastructure for skill development training
    - IT and infrastructure upgradation
    - Tools and equipment
    - Furniture and fixtures
    - Upgradation of building interiors
    - Content development and amortization
- Meeting the recurring cost of training individual trainees including post-placement costs
    - Staff salaries- including payroll staff (management, admin staff) and contractual staff (trainers, center coordinator, mobilizers, counsellors)
    - Rent of the centre premises
    - Centre running and maintenance expenses (electricity, water, security, maintenance)
    - Operating and administrative expenses (communication, staff welfare, travelling, printing and stationery)
    - Professional fees- (audit fees, consultancy charges for maintaining accounts, legal, taxation and compliance)
    - Provision of learning resources & teaching aid
    - Teacher training and skills upgradation
    - Mobilization and counselling expenditure
    - Assessment and post placement monitoring expenditure
    - Depreciation of fixed infrastructure
    - Boarding and lodging of candidates in case of residential programmes

In general, setting up of manufacturing-focused centre (capital expenditure) would require a one-time setup cost of INR 100-300 lakh depending on complexity of offerings, residential facilities, and scale of operations and a maintenance (variable monthly expenditure) of 6 percent-10 percent. Thus, to scale operations and make it a self-sustaining centre, it is important to improve capacity utilization and ensure regular inflow of beneficiaries.

[15] As per Common Costs Norms and KPMG Internal research

Funding of DDUGKY Projects

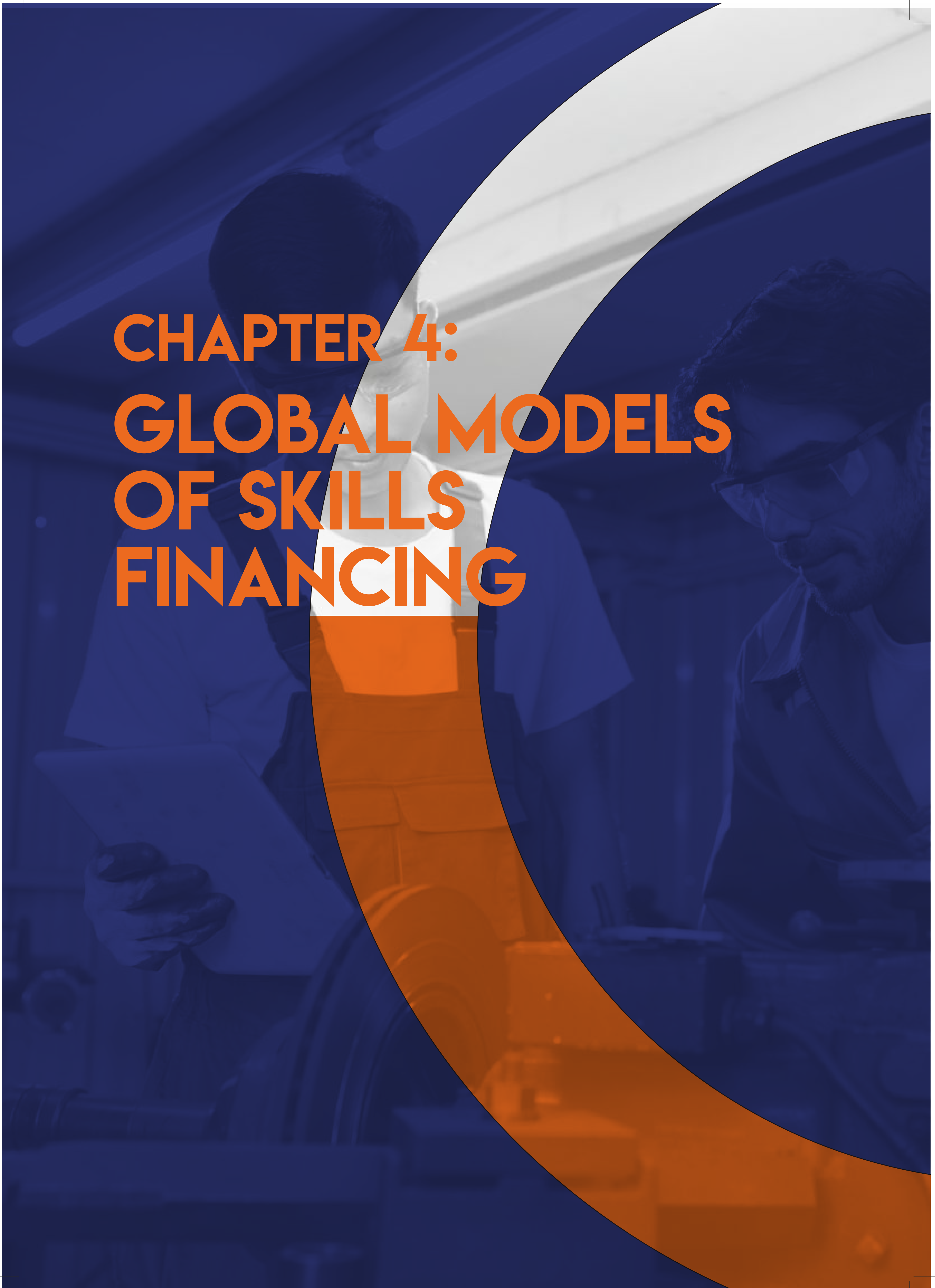
The DDU-GKY offers funding support for the placement linked skilling projects starting from INR 25,696 per individual to over INR 1 Lakh, depending on the duration of the project and whether the project is residential or not. The DDU-GKY finances projects of different duration which range from 3 months, 6 months, 9 months, and 12 months. The funding components comprise of support for training costs, boarding, and lodging for residential programmes, transportation costs, post-placement support costs, career progression and retention support costs.

3.2 Funding Issues and Challenges

Despite the importance of TVET in driving the national agenda, the funding of TVET is constrained by various parameters. Some of the prominent factors are listed below:

- VET systems are considered particularly expensive, mainly because of a combination of equipment costs, the multiplicity of training programmes and the limited enrolment capacity of training courses in order to enable practice
- Government budgets are limited, and poor fiscal position often constrains the capacity to increase the budget dedicated to TVET
- Multiple ministries with responsibility for training activities, which means that systemic reform measures for financing would require thorough inter-ministerial coordination
- Limited private sector participation along with the absence of structured financing schemes drawing on industry's resources to support continuous learning for the beneficiaries
- Limited interface of demand led model, wherein families and individuals contribute to the funding of TVET through tuition fees
- Over reliance on government schemes by the training providers and lack of income-generating activities which help in diversifying the sources of revenue and assist in generating a self-sustaining operating model
- The development of novel financing instruments, such as Development Impact Bonds, Social Impact Bonds, and Program for Results are supported by only few success examples. Impact investors encounter a variety of difficulties highlighted below but not limited to[16]:
  - o Complex legal and regulatory structure
  - o Need for a higher and more transparent standards for diligence of investable opportunities
  - o Absence of clear and well-defined metrics for measurement
  - o Nonalignment of financial and social objectives
  - o Strengthened advocacy mechanisms through forums, focus group discussions, inviting regulators, social enterprises, PE and VC investors
- Inadequate participation of PE/VC funds due to limited data, liquidity constraints, unclear performance metrics and a clear exit strategy makes it difficult for investors to assess innovative financing opportunities and invest subsequently. One of the steps that can be undertaken to mitigate this is to expedite the setting up of the planned Social Stock Exchange, which would help in increased participation from the PE/VC funds and help in channelling greater capital for social initiatives[17]

[16] https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/impact-investing-finds-its-place-in-india
[17] https://www.thehindu.com/business/markets/sebi-notifies-social-stock-exchange-framework/article65685372.ece



CHAPTER 4:
GLOBAL MODELS OF SKILLS FINANCING

This section presents the skills financing models in UK, Germany, Australia, and France- highlighting the key stakeholders, their responsibilities and key funding mechanisms. The second part of this section presents best practices and case studies from across the globe.

4.1 United Kingdom

Vocational Education in the UK is funded mainly by government funding bodies particularly to support the full or part time learning of young people who are under 25 years old and some specific adult learning. Education and Skill Funding Agency[18] (ESFA), sponsored by the Department for Education, UK is accountable for funding of education and training sector. The key highlights of the UK system of funding skills are listed below:

Key Stakeholders	Responsibilities	Financing Mechanisms
Different Government and Institutional Frameworks Between England, Scotland, Northern Ireland, and Wales	• National Government is the Body Responsible for Development of Overall Policy for Education, Vocational Learning and Skills • Funding In Each Nation is Delegated to a Funding Council, which Determines Priorities and Allocations of Funding	• TVET funding is Majorly Provisioned by Department for Education (DfE) and Department for Business, Energy, and Industrial Strategy (BEIS) • A training Levy on Large Employers to Fund Increased Apprenticeship Numbers • The Colleges and Training Providers Receive Additional Revenue as Income from Student Fees, Income from Employers for Apprenticeships and for Commercial Activities Such as Tailor-Made Training for Employers and Consultancy
Regional and Local Bodies	Responsible for the Implementation of Regulation and Ensuring the Meeting of the Local Needs	
Industry and Sector Skill Organizations	Approval of Qualifications and Identifying Skills Needs in Economic Sectors and for Defining the Occupational Standards	

Table 5 : UK Based Funding for Skilling

4.2 Germany

Various public and private stakeholders are involved in TVET financing, and these include several ministries at Federal and State level (mainly ministries of education, of economics and of employment). The Federal Employment Agency, local authorities, unions, chambers, associations, companies, private institutions, and individuals. Dual vocational training is financed by the Länder[19] (federal state) and local authority public funds, whereas training in full-time vocational schools is solely under the Länder (federal state) budget. The out-of-school part of vocational training is funded entirely by the enterprises, which also pay a training allowance to their trainees. Continuing TVET is financed by enterprises, the State, the Federal Employment Agency, and private individuals. The key highlights of the German system of funding skills is provided below:

Key Stakeholders	Responsibilities	Financing Mechanisms
Federal Level: The Federal Ministry of Education and Research (BMBF)	Responsible for Policy, Coordination, and Legislation for: Out-of-School Vocational Training and Continuing Education; Training Assistance; General Principles of the Higher Education System	• The Vet System as a Whole is Well-Resourced, Combining Public and Private Funding • The Costs of the Dual Vocational Training System are Borne Proportionately by the Government and the Business Community • Diverse Financing Models Allow Companies to Contribute at Different Levels (E.x., Solidarity Contribution, Industry Fund)
State Level: Ministries of Education and Cultural Affairs	The Ministries are Obliged to Cooperate with Each Other and with the Federal Government. The Cooperation Platform's Aim is to Ensure Uniformity and Comparability in School and Higher Education Policies	
Employers and Trade Unions	Important Role in the Decision-making Process with Regards to the Content and Form of Tvet where Requirements and Interests of the Parties Involved are Taken into Account	

Table 6 : Germany Based Funding for Skill Financing

[18] https://www.britishcouncil.org/education/skills-employability/skills-policy/about-tvet/overview-uk-tvet-systems
[19] https://unevoc.unesco.org/home/Dynamic+TVET+Country+Profiles/country=GBR

4.3 Australia

The Australian Government Department of Education and Training (National Department) and State Government Education Departments are responsible for the financing of formal and nonformal VET. However, companies and individuals also contribute to the cost of training. Companies contribute by purchasing training for their employees. For example, 'Fee-for-service[20] – other' revenues are paid by individuals, industries and firms for specific, tendered-for training including any contracting and consulting fees for training purposes. The value of this is estimated to be similar in proportion to overall government spend. Additionally, students contribute through the payment of course and administrative fees. Some students pay all their fees without receiving any government subsidies[21]. Actual training purchasing decisions are made by governments usually through the provision of skills in demand lists indicating the priority areas for training provision and indicative costs for courses. The key highlights of the Australian system of funding skills are presented in the table below:

Key Stakeholders	Responsibilities	Financing Mechanisms
Australian Government Department of Education and Training	Supports Policy Development and Funding to Enable Access to Quality Skills, Training and Employment for Individuals and Businesses. The Major Focus Areas Include Supporting the National Training System and Strengthen the Implementation of Adult Learning Through Apprenticeships	• Department of Education and Department of Employment and Workplace Relations are Responsible for Financing Formal and Non-Formal TVET • Government's Skill Australians Fund Supports Funding for Apprenticeships • Funded Partially Through a Training Levy on the Employer • Direct and Indirect Sources of Funding for Vet Include Employer Incentive Programmes
State and Territory Govt.	Development of Vet Policies and Implementation at the State Government Level	
Private Sector and Industries	Quality Assurance and Advisory to Ensure Training in Each Industry Meets the Needs of that Industry's Employers	

Table 7 : Australian Based Funding under Skill Financing

4.4 France

Formal TVET programmes are funded by the State as well as by regional administrative units. The State is responsible for the salaries of teachers and other educational and guidance staff and the regional authorities are responsible for investment and operational activities. Non-formal TVET education is funded by State and private sector funding schemes. Grants are part of a framework called Commitment to Expand Employment and Skills and is funded by the state and regional budgets. The key highlights of the French system of funding skills are presented in the table below:

Key Stakeholders	Responsibilities	Financing Mechanisms
Ministry of National Education, Higher Education Research and Innovation	Nodal Agency for Education in the Country Includes Vocational Education and is Responsible for Policy Development and Mobilizing Resources for Vocational Training	• TVET is Part of the National Education System and is Funded through National Education Budget • Employers in the Public or Private Sector have a Legal Obligation to Contribute to the Financing of Professional Training for Employees • The Government also Provides a Mix of Direct and Indirect Subsidies and Tax Deductions to Promote Training in Institutions
Ministry of Work Employment and Social Dialogue	Offers Professional Qualifications Through TVET or through Accreditation of Work Experience. The Course Generally Involves an Internship with a Company	
Regional Coordinating Committee for Employment and Vocational Training	Foster Dialogue between Different Regional Actors for Better Cooperation in Terms of Policies Concerning TVET Education and Training	

Table 8: France Based Skill Financing

4.5 Best Practices and Case Studies

A careful study of the global financing models showcases a wide variety of best practices from an Indian context. Some of them are highlighted below:

4.5.1 Apprenticeships, Internships, and On-the-Job Learning:

Realizing the effectiveness of practical learning through apprenticeships public policies[22] and financial incentives, are designed to promote and support this component along with private sector support and engagement.

Case in point- Australia, UK, and Germany.

[20]https://www.dese.gov.au/
[21]https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202021/VocationalEducationTraining
[22]https://thelearningprofessor.wordpress.com/2017/05/16/funding-skills-in-germany-financial-support-for-adult-learners/

Apprenticeship Levy in UK

A levy applies to all enterprises in the UK through a uniform collection method, wherein the main objective is to promote school-based apprenticeship training by formalising enterprise contributions, and link government subsidies, enterprise contribution, apprenticeship obligations, and training provision through an apprenticeship agreement. All public and private enterprises must contribute 0.5 percent of their total pay bill where it exceeds the apprenticeship tax allowance. This means approximately 2 percent of enterprises pay the levy. Enterprises receive a voucher to give to an accredited provider of their choice to purchase school-based training specified in the apprenticeship agreement.

4.5.2 Partnerships with Industry and the Private Sector Employers:

The industry works closely with the government and provides support in funding initiatives and undertaking labor market research to identify skills of the future. **Case in Point- Germany, UK**

Training Levy

A training levy on larger companies has been introduced across the UK to ensure business pays a fair share of training costs. The levy is held in an electronic account with the Government and can be drawn down to pay for training and assessing apprentices taken on by the business.

4.5.3 Innovative use of Financing Mechanisms to Promote TVET:

To support adult learners, Germany uses various financial incentives[23] like- education vouchers, bonus coupons, career enhancement support, career development stipendium, continuing education stipendium and WeGebAU.

WeGebAU

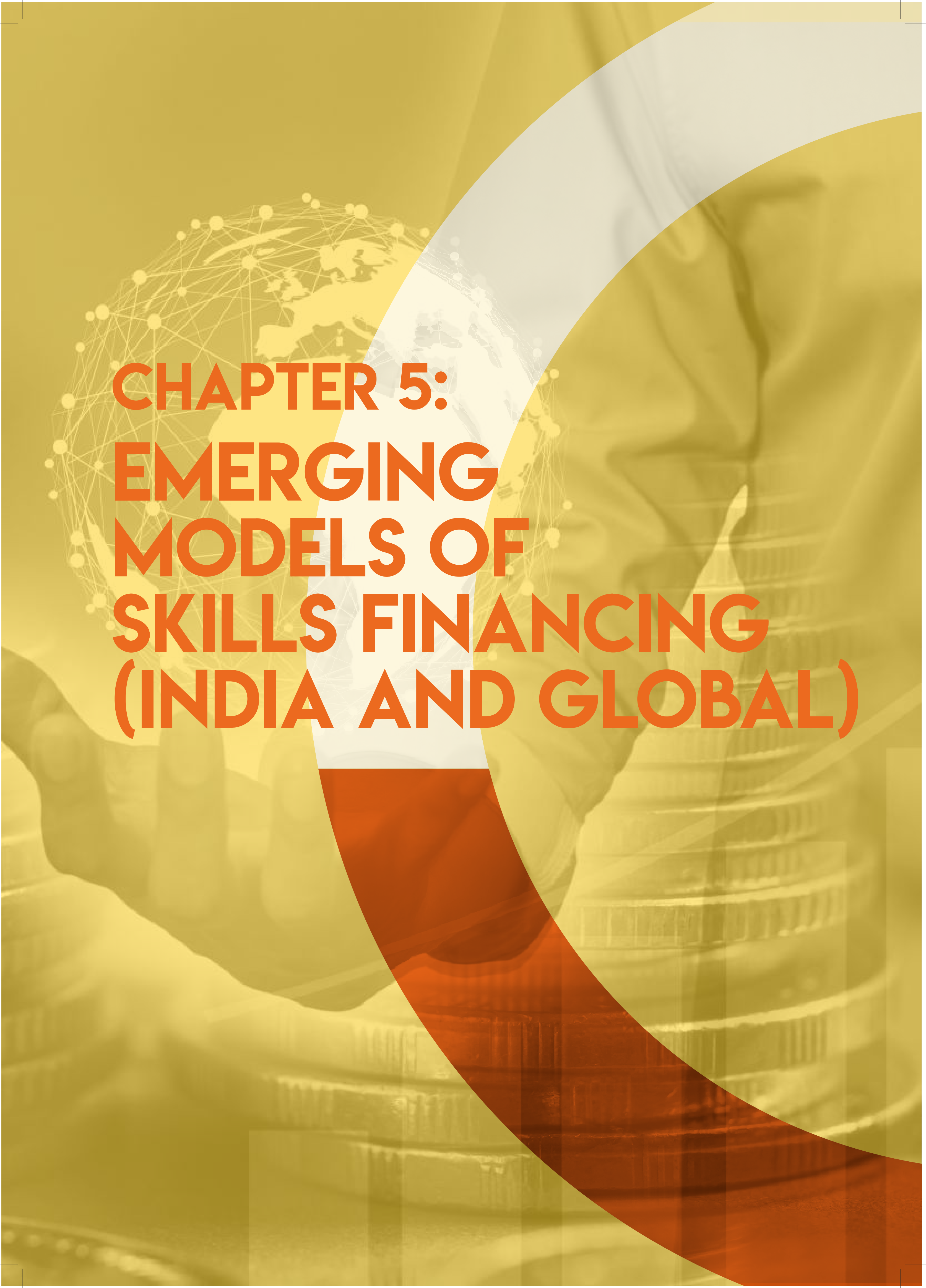
Stands for "Continuing Education for the Low-skilled and Employed Older Workers in Enterprises", and is aimed at unskilled workers or those who have not been in a skilled job for at least four years, as well as employees in small and medium.

4.5.4 Effective use of Development Impact Bonds and Social Impact Bonds:

Another key feature of progressive financing models is the increased use of Result Based Financing products. Case in Point- Sticking Together Project in Australia

Project Details	Launch and Duration	Amount Raised and Beneficiaries	Investors and Intermediary	Outcome Funders
The Sticking Together Sib Aims to Improve Employment Outcomes for Hundreds of Young People in New South Wales who are Experiencing Disadvantage	April 2019 and 4.5 Years	A $5 Million and 870 Youth	33+ Including Light Warrior Ventures, Koda Capital Social Ventures Australia	Government of New South Wales

[23]https://www.cedefop.europa.eu/en/country-reports/vocational-education-and-training-europe-germany-2018



CHAPTER 5:
EMERGING MODELS OF SKILLS FINANCING (INDIA AND GLOBAL)

Financing of technical and vocational education and training (TVET) is considered a long-standing issue across the globe due to high investment requirement for equipment, infrastructure, instructors, consumables, raw materials, and spare parts. In the past, varieties of TVET financing mechanisms have been adopted in different parts of the world. However, as per UNESCO-UNEVOC financing mechanism across the globe has been clustered into four major types of practices. Details are mentioned in the figure 3

Some of emerging financing models in the TVET sector have been discussed in the below sections.

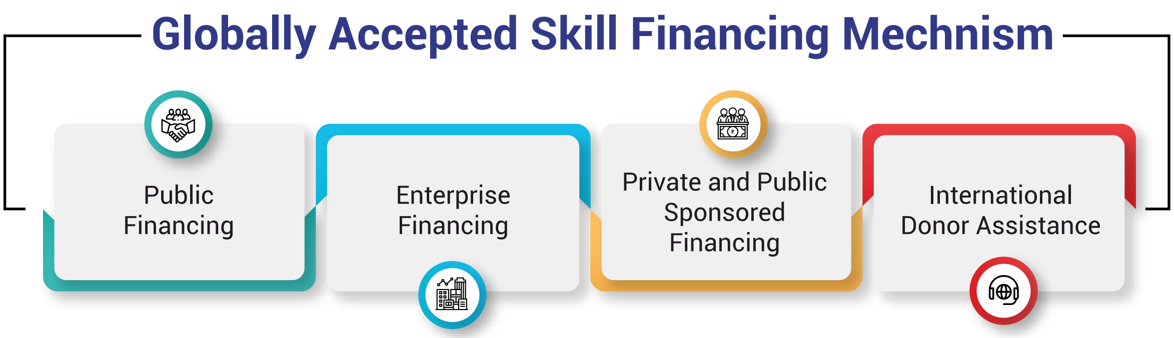


Figure 4 : Globally Accepted Skill Financing Mechanism

5.1 Development Impact Bonds

Development Impact Bond is a financial instrument which applies an entrepreneurial approach to philanthropy and ensures accountability which contributes to achievement of set objectives. DIBs funding involves contractual arrangements where a principal (for example, multi or bilateral donor, foundation, etc.) transfers funds to the agent (for example government, NGO, private organization, etc.) in exchange for the delivery of specified outcomes. The process flow of stakeholder involved and mechanism for development impacts bonds are mentioned below in the figure 4:

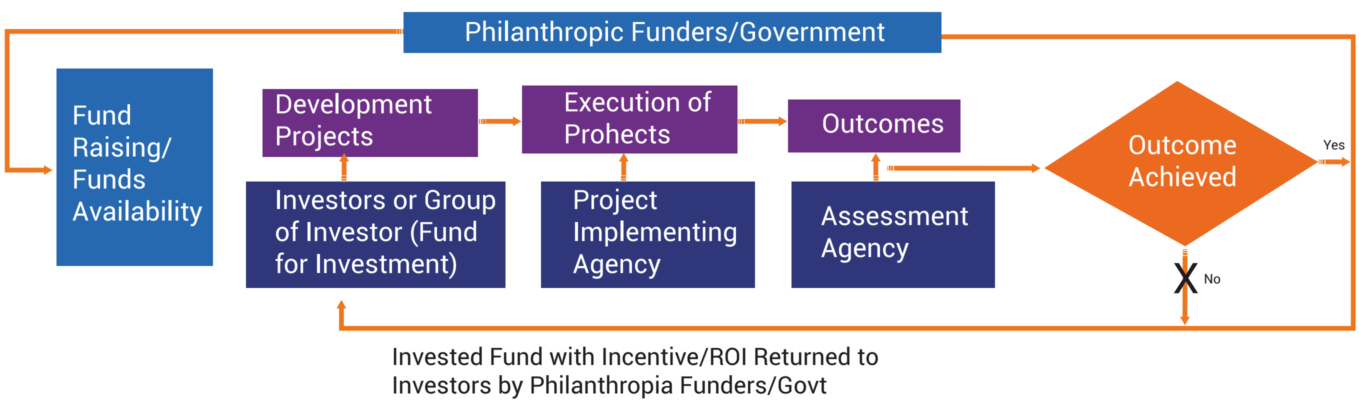


Figure 5 : Process Flow of Development Impact Bonds

Social Impact Bonds in France[24]– Approx. €0.75 million fund was raised in 2018 aiming to increase access to employment for 10,000 beneficiaries.

Intervention: The project is a partnership of Wimoov, three French Ministries and private investors. Digital Mobility Test was proposed, a tool for the detection of mobility issues, making it possible to quickly draw up the mobility profile of the beneficiary and therefore the tools and solutions to be implemented within the framework of a mobility support by Wimoov. The performance of the SIB is assessed by measuring three outcomes: 1. Number of realised Mobility Tests on beneficiaries, 2. Proportion of beneficiaries benefiting from mobility support following the Mobility Tests, 3. Proportion of Mobility Test performed by the prescribing structures. If the highest level of outcomes is not met, payments to investors may be reduced, and if no outcomes are achieved investors could face full losses.

[24]https://sibdatabase.socialfinance.org.uk/?project_id=132

Skill India Impact Bond[25] – The largest "Impact Bond", one of its kinds for skilling has been introduced by the National Skill Development Corporation (NSDC) in India. This will support 50,000 young people in India over four years, 60 percent of whom will be women and girls and will provide them with skills and training and access to wage-employment in Covid-19 recovery sectors including retail, apparel, healthcare, and logistics.

Stakeholder Involved: HRH Prince Charles's British Asian Trust, the Michael & Susan Dell Foundation, The Children's Investment Fund Foundation, HSBC India, JSW Foundation and Dubai Cares, with FCDO (UK Government) & USAID as technical partners.

5.2 Private Equity (PE)/Venture Capital (VC) Funding

The preferred instrument for investment by PE/VC funds is equity, however debt/convertible debt-based investments (especially in the development sectors) have witnessed a rise recently. In India, there has been an increased interest from the PE/VC targeted especially at the Indian Edtech sector. These funds could be used to integrate TVET education in the primary, secondary and higher secondary schools along with utilizing the same by TVET institutions. In most of the developing countries, general education is being integrated with TVET education. Increased use of PE/VC investments to support and promote sustainability in training partners operations can be utilized for diversifying financing options for skill development.

Private Equity (PE)/Venture Capital (VC) Funding in India

Nexus Venture Partner's investment of INR 20 Cr in Talent Sprint, Unitus Seed Fund's investment in iStar and Acumen's and Insitor's investment of INR 17.2 Cr via Series A funding in Edubridge are some of the examples of PE/VC activity in the vocational education space. PE/VC fund investments are not just limited to supporting Training partners operations, but rather other areas of skilling value chain can be supported- for instance, Helion Venture Partners have invested USD 10 million as part of Series C funding into the online test preparation platform, Toppr.

5.3 Working Capital Financing

Innovative mechanisms to finance the working capital requirements of the training partner can help in sustaining their operations, for example a drop line facility combines the essential feature of a term loan and overdraft, under which a borrower is sanctioned a limit for a definite period, which reduces at the end of each period. The borrower has the option to utilize full or partial facility as per the working capital requirement and has to pay the interest only for the utilized amount. The payment under this facility can be secured by the introduction of ECS/NACH mandate. This type of facility would help in resolving the working capital shortage faced by training providers in growth stage of their business life cycle.

5.4 Skill Vouchers

Skill vouchers is kind of mechanism to incentivise youths to undertake skilling programmes of their choice. Vouchers will have some monetary value and the same can be redeemed for seeking course completion of candidate's choice. Payment for tuition is made with the vouchers with top-up contributions made by the student/learner. Once training is completed, the accredited institution redeems the voucher. Various countries have implemented the skill vouchers scheme successfully. One of the better examples is of Kenya which under its Jua Kali Voucher programme grants vouchers to business enterprises. The programme is targeted at micro and small enterprises (MSEs), and its prime objective is to increase the supply of a broad range of training and business development services.

Implementation of Skill Vouchers in India[26]

The Government of India has conceptualized skill vouchers to incentivize youths to undertake skilling programmes of their choice through payment of such programmes conducted by approved training providers. The redeemable value of the vouchers depends on the course being opted for. This is against the existing system where trainers and employers are subsidised to impart skills training and apprenticeship, and the move is in line with the Government's plan to shift from subsidy-based system to incentive-based Skill India Mission

[25] https://skillsip.nsdcindia.org/sites/default/files/kps-document/NSDC_Skill%20Financing_27May2020%28F%29%20%282%29.pdf
[26] https://skillsip.nsdcindia.org/sites/default/files/kps-document/NSDC_Skill%20Financing_27May2020%28F%29%20%282%29.pdf

Voucher Based Funding Models in Germany[27]

Different arrangements for financing adult learners in Germany are as follows:

Education Vouchers: It covers 100% of the costs of participation, including transport, accommodation and food issued by the Labour Agency. The objective is to promote trainees to return to the labour market with additional skills relevant for the next job.

Bonus Coupons: Applicable for 25+ age of trainee, works for 15 hours a week or more (either in paid work or in a caring role), and earns under €20,000 a year.

Career Enhancement Support: This fund is applicable to provide loans and grants for longer courses of at least 400 hours of instruction, covering 40% of the course fee and examination fee.

Career Development Stipendium: Applicable for skilled workers who scored 1.9 or above in their trade qualification and who want to develop their skills through a first degree.

WeGebAU: Stands for "Continuing Education for the Low-skilled and Employed Older Workers in Enterprises", is aimed at unskilled workers or those who have not been in a skilled job for at least four years, as well as employees in small and medium-sized enterprises.

5.4.1 Vikalp Voucher Program in India[28]

Under NSDC's STAR scheme, Vikalp- Skill voucher pilot was acknowledged by the Ministry of Finance, Govt of India. It's a kind of skill voucher instrument given to an individual, which enables him to obtain skill development training from any training institute accredited with the provider of the voucher. This is different from existing models of intervention for skill development where instead of funds for training-to-training institute, a voucher worth of some monetary values has been allocated to individual. Once voucher will be allocated to individuals, they have the right to choose from skill development programs based on their aptitude and not on availability of schemes & courses. They can also opt in for learning the high-end courses from recognized institutions with high value of training cost through co pay the difference. **Co-pay = Amount of total training cost – Value of Voucher**

5.5 Support from Social and Private Foundations

Various social and private foundations also provide direct support to learning providers in promoting the skilling and livelihood initiatives. Some of the foundations involved in skilling and livelihood promotion are United Way Worldwide (US), Greater Impact Foundation, Michael and Susan (M&S) Dell Foundation, American Indian Fund and CITI foundation among others.

Expansion of 'Pathways to Progress' Program for Skilling and Livelihood in Asia Pacific[29]: CITI Foundation

Under Pathway to Progress' program, foundation has planned to invest $100 million to improve employability and economic opportunity around the world together with Citi Inclusive Finance and the Citi Impact Fund. The objective of the program to enhance positive social impact and financial innovations that benefit underserved communities around the world. Through equity investing, lending and grant making, Citi and the Citi Foundation are working in new ways to effect positive and meaningful change in the communities around the world.

5.6 Public Private Partnership (PPP)

PPP is a potential supplementary tool to be employed for the goals of a results-based initiative on job insertion or TVET strengthening. The public and private sectors share the costs, profits, risks, and obligations. PPPs in TVET refer to collaboration between the public and the private sectors with the objective of developing the technical and vocational skills of individuals. These skills can apply both within and outside of the formal labour force. Various successful PPP models under skill financing are mentioned below:

[27] https://thelearningprofessor.wordpress.com/2017/05/16/funding-skills-in-germany-financial-support-for-adult-learners/
[28] https://ccs.in/livelihood/pilot-projects/vikalp
[29] https://www.citigroup.com/citi/news/2020/200917a.htm

5.6.1 Case Study of PPP TVET Models in India

Case Study: Project Accelerated Mission for Better Employment and Retention (AMBER) in India–

The Project AMBER (Accelerated Mission for Better Employment and Retention) is a joint initiative of the NSDC and Generation India Foundation (GIF) under the aegis of MSDE. This project is co-funded by MSDE (under SANKALP programme) and private philanthropy and aims to train 30,000 youth, 50 percent of whom will be women trainees. The training will be conducted in Pradhan Mantri Kaushal Kendra (PMKKs) across 70 districts, in post-COVID resilient job-roles, over a period of two years. Under this project, the Government is working with the objective to design a scalable and sustainable model of skills development through a blended financing (1:1 leverage) model bringing part funding from the Government and private sector, thus, making it a unique public-private partnership

5.6.2 Case Study of PPP TVET Model Internationally

Creation of a Sectorial Vocational Training Centre Dedicated to Forestry Trades[30]-ACEFOP in Senegal, financed by the EU Emergency Trust Fund implemented by LuxDev.

Challenges: Wood and forestry trades constitute an important axis of development and employment in southern Senegal. In order to strengthen sustainable and respectful forest management, the construction and start-up of a vocational training centre dedicated to forestry and wood trades in the Sédhiou region is planned, in full consultation with private, public, and associative actors linked to the forestry sector.

Intervention: Vocational training centre was proposed in collaboration of the Ministry in charge of vocational training and stakeholders in the forestry sector. This sectorial centre, developed on the models already tested in Senegal of PPP, co-managed by the National Union of Foresters Cooperatives of Senegal, representatives of local forest management structures and the Ministry of Professional Training, Learning and Handicrafts, under a PPP modality. The trades envisaged are wood processing and sustainable management of the forest heritage, processing of forest products and mechanics applied to forestry equipment. The modalities of dual training, adopted in Senegal through the Charter of Dual Training, will apply within the centre.

5.7 Support from Multilateral and Bilateral Agencies:

To strengthen the TVET ecosystem, various multilateral, and bilateral agencies such as World Bank (WB), ADB, DFID etc. are extending their financial and technical support to government, ministries, implanting bodies. The financial support could be in the form of a loan or a grant.

"PASET Initiative on Regional TVET Centres of Excellence" – World Bank Financed in East Africa (EASTRIP)[31]

Objective -To increase the access and improve the quality of TVET programs in selected Regional TVET Centers of Excellence and to support regional integration and regional economic corridors in East Africa. Strengthening selected.
Project Component: Regional Flagship TVET Institutes for high quality skills development in priority sectors; Creating national TVET enabling environments and enhancing regional collaboration in TVET and project coordination.

Project Implemented: Kenya, Tanzania & Ethiopia for the duration of 2019 to 2024
Disbursement: 30% advance upon effectiveness and thereafter DLI-based

5.8 Education and TVET Specific Taxation

In many countries, revenues are being complemented by tax receipts from education and TVET specific tax. The resources derived from these revenues are either entirely or in part ear-marked for use to finance public educational expenditures. This mode of financing provides sustainable and predictable funding from new sources and can further be integrated to skills and employment.

Education and TVET Specific Taxation in Latin America and the Caribbean[32]

Taxes deducted in Latin America and the Caribbean regions fall into two categories: those that finance education in general and those that fund TVET programmes (largely those outside the formal education system).

[30]https://luxdev.lu/files/documents/FP_UK.pdf
[31]"https://thedocs.worldbank.org/en/doc/847861561594868718-0090022019/render/EASTRIPMay202019DrAbdiwasaAbdilahiStateMinisterFinal.pdf
[32]https://repositorio.cepal.org/bitstream/handle/11362/44599/4/S1900376_en.pdf

Country	Tax name	Kind of tax	Use	Revenues
Panama	Seguro Educativo	Payroll (**Employers:** 1.50% on Payroll **Employees**: 1.25% of Salaries and Wages)	Public Schools and TVET Training Programmes	0.06% of GDP
Brazil	Salário-Educação (Education Wage Tax)	Payroll	Financing of Primary Education	0.3% of GDP
Costa Rica	Timbre Para la Educación y Cultura	Asset tax (Companies are Subject to an Annual Taxon their Net Capital)	National Museum to Finance Historical and Cultural Conservation Projects	0.002% of GDP

Inclusion of Training Levies Across the Taxation System in Spain[33]

Objective: To promote vocational training of private salaried and unemployed workers via a levy applicable to all enterprises.

Financial Arrangement: Contribution from enterprises of 0.7% of total wages, of which 0.1% is paid by workers. Based on collective bargaining and social dialogue, co-financing through the European Social Fund is also getting attracted.

Transparency: An annual evaluation plan reports on effectiveness, efficiency, satisfaction and impact, and governmental foundation Fundae carries out ex-ante and ex-post evaluations of all training initiatives for employed workers.

Monitoring & Evaluation: In 2015, Royal Decree established an evaluation and monitoring system to ensure training quality, build multi-annual strategic planning, create transparent tendering processes for private training providers, and set up an anti-fraud

5.9 Direct Funding or Provision of Skill Loan to the Direct[34] Beneficiary

In order to provide trainees institutional credit for skill development courses, NSDC has partnered with multiple Non-Banking Financial Companies NBFCs to provide direct loan financing.

Collaboration of NSDC with NBFC/MFI- Avanse Financial Services Limited & Varthana Finance Private Limited for Skill Loan[35]

National Skill Development Corporation (NSDC) has partnered with Avanse Financial Services limited & Varthana Finance Private Limited on 15th June & 17th August,2022 respectively in order to support students in the skilling ecosystem financially. Such partnership will help in closing the funding gap for education for low-income populations.

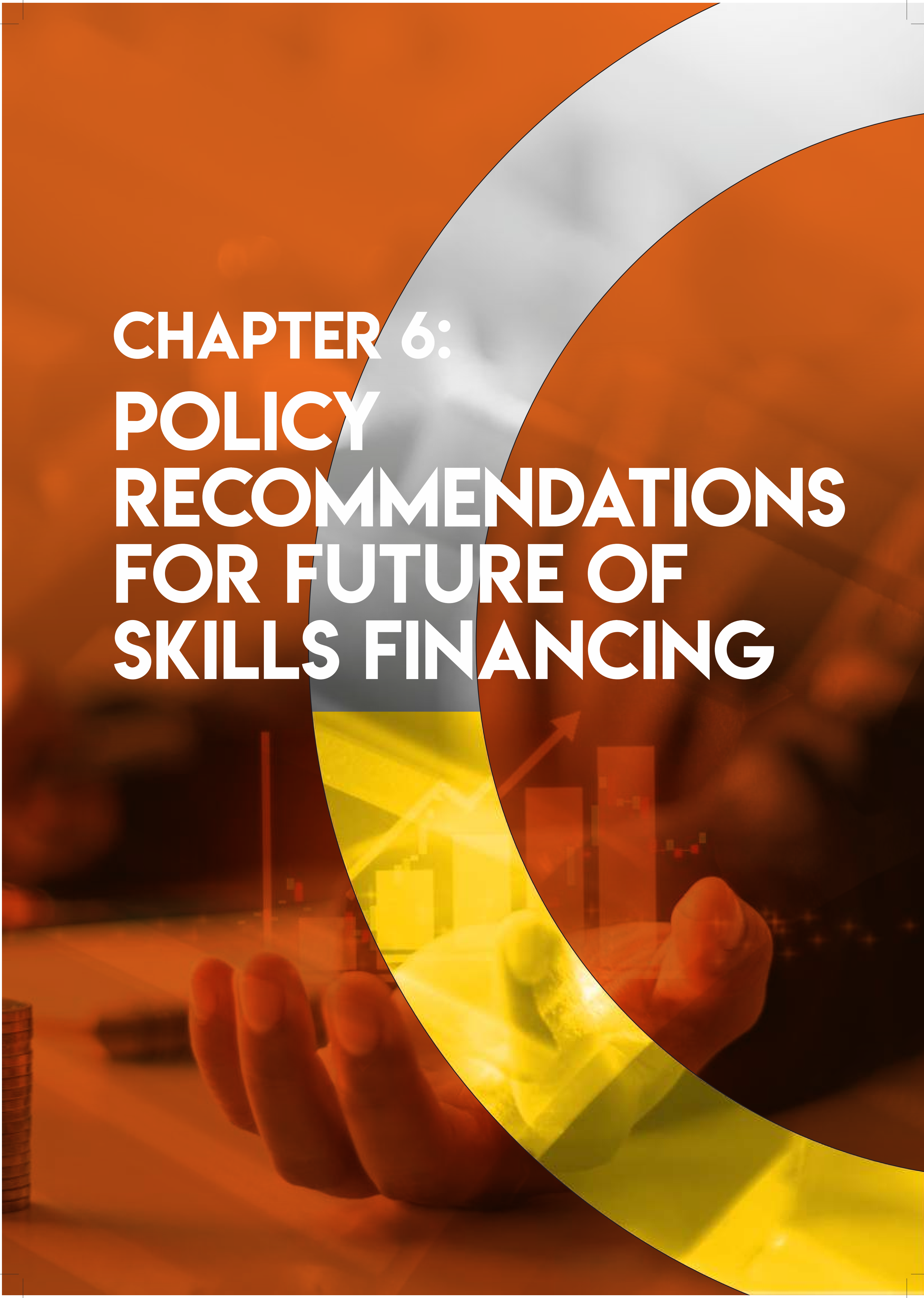
5.10 Milaap Crowd Funding[36] Platform

To leverage the benefits of digital shift and technology enablement, crowdfunding has emerged as a smarter and quicker way to meet unanticipated, pressing needs of anyone. Through this platform, anyone with a smartphone can participate and contribute for funding to a social cause to bring the big difference in society. One of the success stories in TVET in India has been the partnership between NSDC and Milaap which is a crowd sourcing platform and enables anyone across India to raise funds for healthcare, education, sports, disaster relief and other personal causes. Milaap has become the go-to platform and as of August 2019, the platform has raised nearly INR 700 Cr to support 100,000 causes, impacting millions of lives across the country.

Collaboration Between NSDC with Milaap for TVET Financing[37]

The National Loan Portfolio Fund was established by the NSDC and Milaap in order to give thousands of deserving young people access to affordable and convenient loan options. Through the Milaap platform, the Fund facilitates social investments in the field of skill development. Trainees in IT, Hardware & Networking, Healthcare, Banking & Financing, Retail and BPO sectors are already benefitting from the Fund.

[33] Policy guidancenote_Training levies.pdf (europa.eu)
[34] https://www.msde.gov.in/index.php/en/schemes-initiatives/Other-Schemes-and-Initiatives/Skill-Loan-Scheme
[35] NSDC collaborates withVarthana Finance Private Limited (nationalskillsnetwork.in)
[36] https://milaap.org/about-us/overview
[37]https://milaap.org/supporters/impact



CHAPTER 6:
POLICY RECOMMENDATIONS FOR FUTURE OF SKILLS FINANCING

Similar to any other area of public policy, vocational education and training systems and their performance are shaped to a significant degree by financing. With the growing importance of VET for employment, productivity, and international competitiveness, there is a renewed impetus around identifying and implementing TVET funding reforms.

6.1 Need for Alternative Funding Models other than Govt Funds

Alternative financing models includes usage of combination of instruments that help towards generating additional development funds by tapping new funding sources, enhancing the efficiency of financial flows, and making them more result oriented.

The Indian economy is experiencing favourable and structural head winds which has resulted in requirement of additional funding to support emerging skill requirements. With the global manufacturing organizations adopting a de-risking approach and looking at India as a major geography and the aim of the government to transition to a greener economy, there are huge requirements for skilled manpower in the areas of semiconductor manufacturing, specialty chemicals, electric vehicles etc. Additionally, the impetus through the PLI scheme, the government has approved investments in 10 sectors which shall create a requirement for labour with specialised skills. Meeting the planned initiatives would require large investments and exploring of alternative funding models shall be pivotal.

6.2 Priority areas for investment

Some of the initiatives where joint partnership can prove to be beneficial are listed below:

- School of vocational studies (on lines of B.Voc. programs): such schools can be considered for providing degree courses (B.Voc. programs) in various technical fields and thereby provide placement support as well
- Structures for technical and advisory assistance: many of skill providers including industries do not seek funding but need assistance in complementary activities such as generating course curriculum, content, tech-savvy job roles, demand mapping and skill market entry strategy etc.
- Internationalization of Indian TVET offerings: global benchmarking, trainings at international level and making the candidates ready for transnational jobs, existing capabilities of service providers need to be scaled up, help setting up of international skilling centres in India and abroad (through collaborations)
- Training of trainers and assessors: effective training of Trainers (ToT) and Training of Assessors (ToA) models should be designed to match the global standards to ensure that the skilling outcomes are globally accepted
- Skill Universities and Pathways to Formal Education: To make the trainings aligned to the formal education in terms of curriculum, pedagogy, faculty, mode of delivery, eligibility, assessment criteria, etc. Degrees/Diplomas received after completing education from a skill university will help candidates to pursue further education and will open doors for them in the labour market
- Embed Technology in Training Delivery: blending technology in the current training delivery can help improve reach and access to service offerings and ensure improved training delivery curated to the learning requirements of the individual.
- Funding Reskilling and Upskilling Programmes: Funding the reskilling and upskilling programmes shall not just help bridge the skill gaps but also helps in ensuring employability and skill fulfilment for future requirement.
- Funding of New Age Courses: Special emphasis to be given to programmes which cater to creation of training infrastructure for conducting skill development in new age courses in the areas of IoT, Artificial Intelligence etc.

6.3 Adoption from Global Models

TVET financing globally is undergoing massive transformation with the introduction of new instruments and stakeholders. In line with the requirements of the ecosystem, many developed countries and a few developing countries have established customized financing instruments, which are enabling adequate financial resources are mobilized for the delivery of vocational education. Thus, careful consideration of these best practices is crucial before implementing any TVET reform. Adoption of these models needs to be benchmarked to international best practices, while keeping our vision and objectives in consideration. All the suggestive operating structures along with target groups should be studied and their adoption should be tailored basis our requirements.

6.4 Stakeholder Engagement Mechanism

Given the nature of India's skilling ecosystem and the diversity of requirements in terms of the labour force – For e.g. an economically progressive state like Maharashtra viz a viz the North-eastern states, makes implementation of TVET reforms a huge challenge. Thus, success of any reforms implemented in the TVET sector requires adequate support from multiple stakeholders including having State level plans on demand and supply scenario of the labour market and understanding of local/regional priorities. Some of the key operational considerations for effective stakeholder mechanism are listed below:

- For any type of new instruments to be created all involved stakeholders must be clearly identified and the roles and responsibilities of the identified stakeholders need to be clearly defined. Some of the potential areas which need clarity are described below:

- o Who are the target beneficiaries?
- o What are the components of financing?
- o Time horizon and structuring of financial mechanism
- o Potential risks and mitigation strategies
- o Scope for further cooperation

- Clearly defining the regulatory support required to ensure the rights and responsibilities of all parties are unambiguously defined and adhered to
- Development and implementation of financial incentives to encourage training participation towards the development of in-demand skills. Incentives shall be developed to encourage training institutions, beneficiaries, and employers amongst others
- Clearly identifying and defining the objectives of partnership, especially with the private sector including clear alignment of objectives provides the minimum guarantee of success. For the private sector, the objectives usually relate to financial benefits, while for the government, the objectives generally relate to improved quality and relevance of VET provision and increased VET availability for wider groups of the population
- Piloting new initiatives by forging partnerships with a range of stakeholders- funding agencies like- Development Banks, Multilateral agencies, Philanthropic funds, impact measurement firms with a clear definition of objectives, risks and return expectations

6.5 Monitoring and Evaluation

The critical success factor for funding of skilling initiatives depends on the impact created which is measured and controlled through concurrent monitoring measures. The size and scale of interventions across multiple thematic areas, requires a robust monitoring mechanism. Some of the key operational considerations for periodic monitoring and evaluation are listed below:

- Clearly defined performance indicators, which need to be tracked on a real time basis
- Leveraging technology infrastructure for effective monitoring and transparent reporting of initiatives for all stake holders
- Creation of customized dashboards to provide real time information on the key parameters
- Forging partnerships with impact evaluation and measurement agencies to conduct a qualitative and quantitative assessment of the on-ground progress. This is especially important in case of outcome-based funding initiatives like SIB, DIB, R4P by multilateral agencies etc.
- Development of an effective knowledge management system to capture the key learnings. This will provide useful feedback which can be incorporated in designing future initiatives

Conclusion

India will be a talent powerhouse and the largest contributor to the global workforce if financing in TVET is supported by multitude of stakeholders which include the Government, private players, multilateral organizations, philanthropists etc. According to the India Skill Report 2022, employability has improved from 33 percent in 2014 to 45.97 percent in 2022[38]. Yet, more than half of the working population is still unemployable.

To support the ever-changing requirements of the skilling ecosystem, there is a need to develop new and innovative instruments of financing. A careful analysis of all the global financing instruments suggests that for a country like India, there is a need to develop strategic efforts in designing effective pilot projects. Development Impact Bond (DIB), Skill vouchers, and Public Private Partnerships are some of the important models of skill financing. These models will help the country in successfully tapping the available resources and collaborate effectively with the major stakeholders- such as corporates and industries and further increase private sector participation.

To ensure successful designing and implementation of various modes of financing, policy makers will need to deliberate upon the below important operational considerations:

- Structure/design pilots to capture on-ground evidence and develop a proof of concept
- The type, scale, and the objectives of various stakeholders involved
- Identify and influence the creation of an enabling environment required to meet the needs of the beneficiaries
- Evaluate existing schemes and institutions, to draw synergies in achieving the joint objectives
- Encourage existing lending institutions to offer financing products through making the process of risk assessment more efficient and effective and providing initial loan guarantees

In conclusion, all efforts should be directed to develop a range of options which encourage greater participation from stakeholders to promote an ecosystem which is both self-sustaining and market driven.

[38]https://economictimes.indiatimes.com/news/india/countdown-2047-how-demographic-dividend-can-become-a-demographic-curse/articleshow/93561676.cms

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