Designing an Effective Funding Model to Support & Enable Vocational Training for Haredim in Israel

April 2020

SHALDOR
From Insight to Impact

JEWISH FUNDERS NETWORK

Agenda

- The context, the issue, and the approach
- Test cases from the global arena
- Test cases in Israel
- Operational recommendations
- Financial Implications

Increasing Haredi Employment Despite 'Alternative Costs' Will Require High Quality (Financially Rewarding) Employment

The 'Cost of Working' — Income Not From Salary, Haredi families by number of employees

family of 8, (₪ a month)

- Child allowance: 1,020
- State allowance: 1,040
- 'Kollel scholarship': 850
- Additional Kollel income (donations & other sources): 1,500
- Charity and donations ('Gmach'): 200

- The 'cost of working' for a Haredi man in expenses and loss of benefits is estimated at ~5200 NIS.
- A December 2019 calculation published by the Ministry of Finance similarly placed the sum at 5,441 NIS)

Source: Levin 2009, Shaldor update & analysis

With human capital deficits limiting opportunities for quality employment, Vocational Training Programs have been identified as a leading effort

The Goal

To identify relevant mechanisms

for offset funding during vocational training

and design an effective integrative model

for offset funding in the context

of Haredim (or other disadvantaged groups)

* We suggest the term “offset funding” (i.e. funds to offset the loss of non-work income) as a suitable replacement to “living stipends”. As an acronym ‘in hindsight’, OFFSET stands for “other funds / financial support enabling training”.

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Case Studies for Customized Loans — The Reference Space

- Offset funding is essentially a "bridging problem", so bridging loans are a 'natural' solution
- As opposed to grants, loans create an inherent incentive to work, and enable broader support
- Since many Haredim can't easily receive bank credit – a customized loan model is required*
- Globally, customized loan models have been created specifically to address social issues relating to 'underbanked' populations

Interest-Free Loans:

- Interest-free loans are motivated by a social goal (e.g. to assist disadvantaged populations)
- To be viable, equity capital or dedicated funding is required to absorb default and operating costs

Subsidized Education Loans:

- Subsidized education loans aim to benefit society or the economy by enabling education and training
- Such loans may be modular and customized to the student's or the market's specific needs

* In addition, loan models need accommodate religious limitations on interest or usury

Case Studies for Impact Investments – The Reference Space

- Impact investing is increasingly an alternative or complementary aspect to traditional philanthropy
- For investors, it combines social benefits alongside "ordinary" financial return
- For stakeholders, it's not only a source of funds, but also a way to improve incentive models
- Considering these advantages, the relevance of various Impact Investments models to offset funding should be considered

Main relevant models

Income Share Agreement (ISA):
Investors supporting the training of individuals

- An investor assists in funding an individual's studies in exchange for an agreed share of future income
- If studies lead to gainful employment, investors enjoy a fair return; otherwise, repayment is usually minimal
- Managing a proper mix of borrowers is required to ensure loan repayment on average

Social Bonds:
Investors supporting social ventures

- An investor assists in funding a social venture, and is repaid (often by the state) according to the venture's success
- If the venture meets its social goals, investors enjoy a fair return; otherwise repayment is usually minimal

The Global Context – Two Main Categories of Case Studies

To design of an effective funding mechanism, two types of cases were reviewed:

	Case studies for Customized Loans	**Case studies for Impact Investments**
	Mechanisms tailored to populations with reduced credit accessibility	Mechanisms that cater to investors with social impact motivations
Main Cases (to be presented)	Modular Student Loans; Grants for Discharged Soldiers	ISA For Higher Education; Income-Contingent Repayment; Bonds for Professional Training
Additional Cases (background)	Fed. Funded Student Loans; Micro Loans (Grameen Bank)	ISA Loans for Education Purposes; Training Funding for Refugees

The global cases can be used identify key elements for the required funding mechanism.*
These elements can then be integrated and adapted for the Israeli and Haredi context.

* Even cases may differ in other regards (support duration, training context, etc.)

Case Studies in the Israeli Space

Case studies exemplifying the two main categories exist in local space as well:

	Case studies for Customized Loans	**Case studies for Impact Investments**
	Mechanisms tailored to populations with reduced credit accessibility	Mechanisms that cater to investors with social impact motivations
Main Cases (to be presented)	"Ogen" Interest-Free Loans "Koret " Loans (Arab women) "Koret" Loans (Ethiopian olim)	High Tech Training ISA Pilot Dropout Reduction Bonds (SFI)
Additional Cases (background)	"Temech": Employer-Based Training	

As with global cases, local cases can be used to identify required funding elements, to be integrated and adapted for the Haredi context.

* Even cases may differ in other regards (support duration, training context, etc.)

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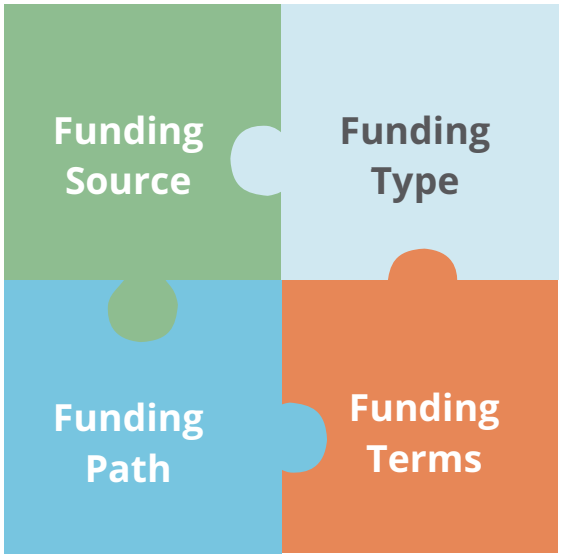
Designing an Effective Model - The Approach



1. Identifying key takeaways from the global and local best practice
2. Incorporating the identified elements into an integrative funding approach
3. Outlining and explicating the distinct funding models needed vis-à-vis selected 'target profiles'

Identifying Key Takeaways — Incorporating Customized Loan Models

1 key takeaways

Customized Loans

1. Utilize loans and grants as needed as part of a modular approach
2. Lend with convenient terms, such as low- or no interest.
   (In Israel, loans may need to be adapted to 'usury' limitations)
3. Spread loans over the training period to incentivize persistence
4. Offer financial guidance to improve repayment rates
5. Include the government (if possible) as a "guarantor",
   taking on default risk and operating costs

Identifying Key Takeaways —
Incorporating Impact Investment Models

1
key takeaways

Impact Investments

1. Impact investment / 'pay for success' models are highly suited to the offset funding issue, as success is clearly defined and measurable in the short term
2. Both approaches – income share and social bonds – are worth considering, yet both also raise complexities/challenges that will need to be addressed:
   - Even if income share agreements transfer risk from borrowers to lenders, the basic concept may deter some trainees ("Am I being bought?")…
   - Social bonds create effective incentives, but also increase complexity. At the outset, their attractiveness depends on whether they 'tip the scale' towards state involvement in a pay-for-success capacity
3. In both models, social investors take financial risks, but the models protect them through the effective actuary planning and risk dispersion
4. Limited local experience with and the inability to evaluate risk early on suggest that offset funding shouldn't be solely based on social investors at the outset

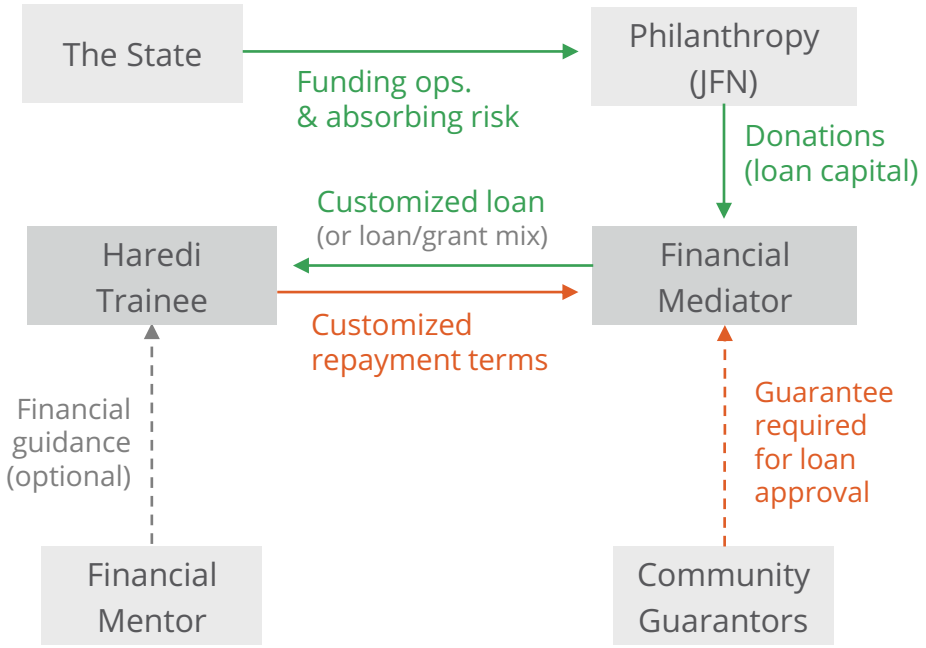
For the 1st Phase, the Approach Should Be Based Mainly on Customized Loan-Based Models

2
integrative funding approach

Why are loan-based models the right approach for offset funding?

- ✓ Loan-based models are a viable, effective way to address the "bridging problem" at the heart of the offset issue
- ✓ There's a clear role for the state: funding operations and absorbing risk
- ✓ Loan terms can be tailored to meet specific needs and incentivize training persistence
- ✓ Repayment terms and mechanisms (including income sharing) can be utilized to incentivize persistence in the workforce
- ✓ Financial guidance can help ensure the model's short- and long-term success

Delving Deeper: The basic model for phase one



(This should be the default for phase one, but specific sectors may require a variant, e.g. social bonds from the outset...)

The customized loan approach, as a simple and proven local model with a defined "role" for the state, sets a clear and straight-forward path to quick implementation

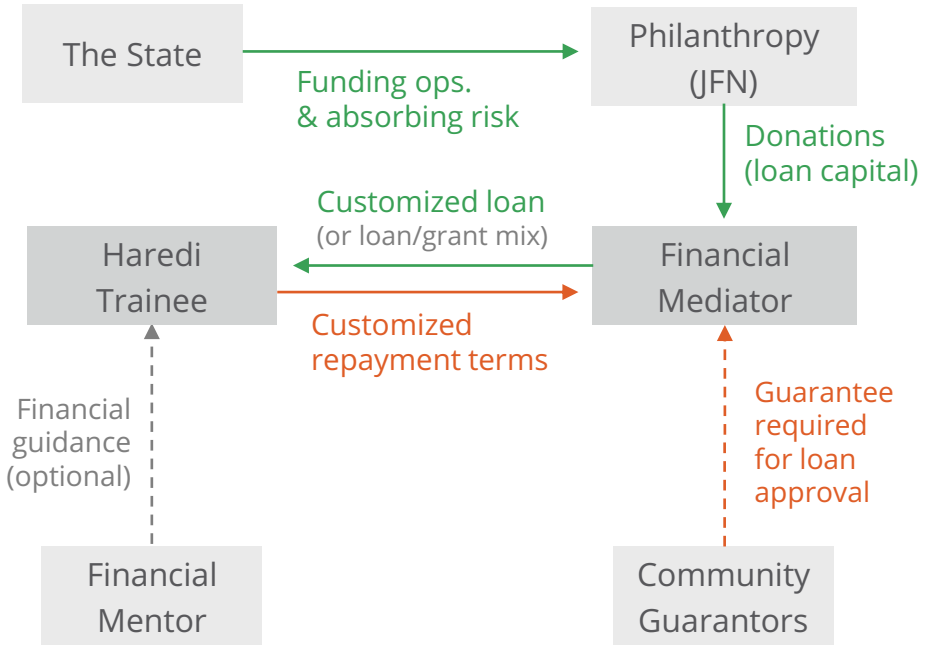
In the 2nd Phase, Social Bonds Can Be Utilized, in Tandem with an Expanded Role for the State

2
integrative funding approach

Why is a full-fledged social bond model right for phase two?

- ✓ 'Phase one' will create a basis for setting goals and evaluating risk vs. return — critical elements for a social bond model
- ✓ Shifting to a social bond model will preserve the basic model's advantages, while creating better incentives
- ✓ As an additional source of funding, social investors will strengthen the model's long-term financial sustainability
- ✓ In a social bond model, the state will have a new clear role: funding repayment and return for bondholders, based on success

Delving Deeper: The advanced model for phase two



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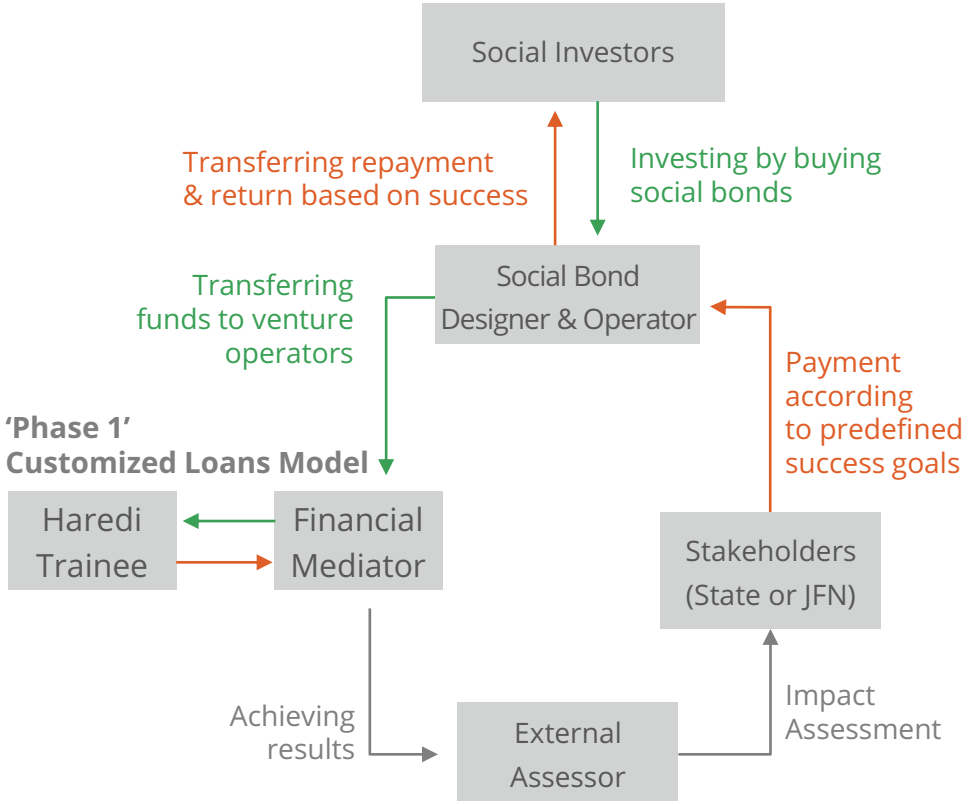
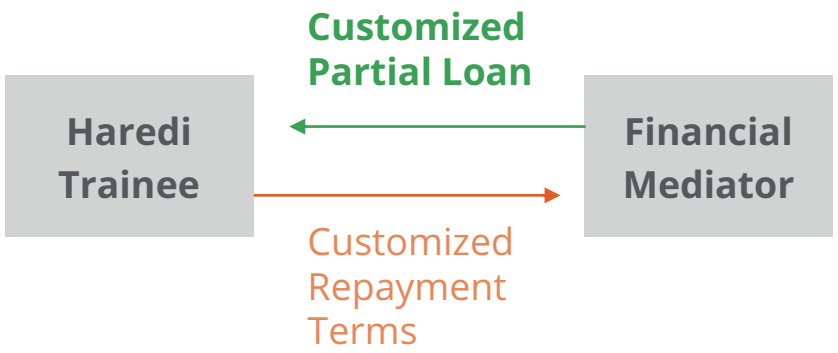


Social bonds and the expanded state role will make the model smarter & stronger; Still, getting there will be more feasible with a basic model up and running…

Designing Customized Loan Models Requires Addressing Financial Flexibility & Attrition-Levels

3 distinct funding models



- In principle 'low concessionality' (e.g. a low grant element) should always be preferred
- In practice, departure from this principle may be required by two considerations:
  - Low financial flexibility may make a low-grant loan unfeasible for some individuals
  - High attrition rates in some programs may deter individuals from risking a low-grant loan

The distinct partial loan models to be designed need to account for variability in financial flexibility and for programs with high attrition rates

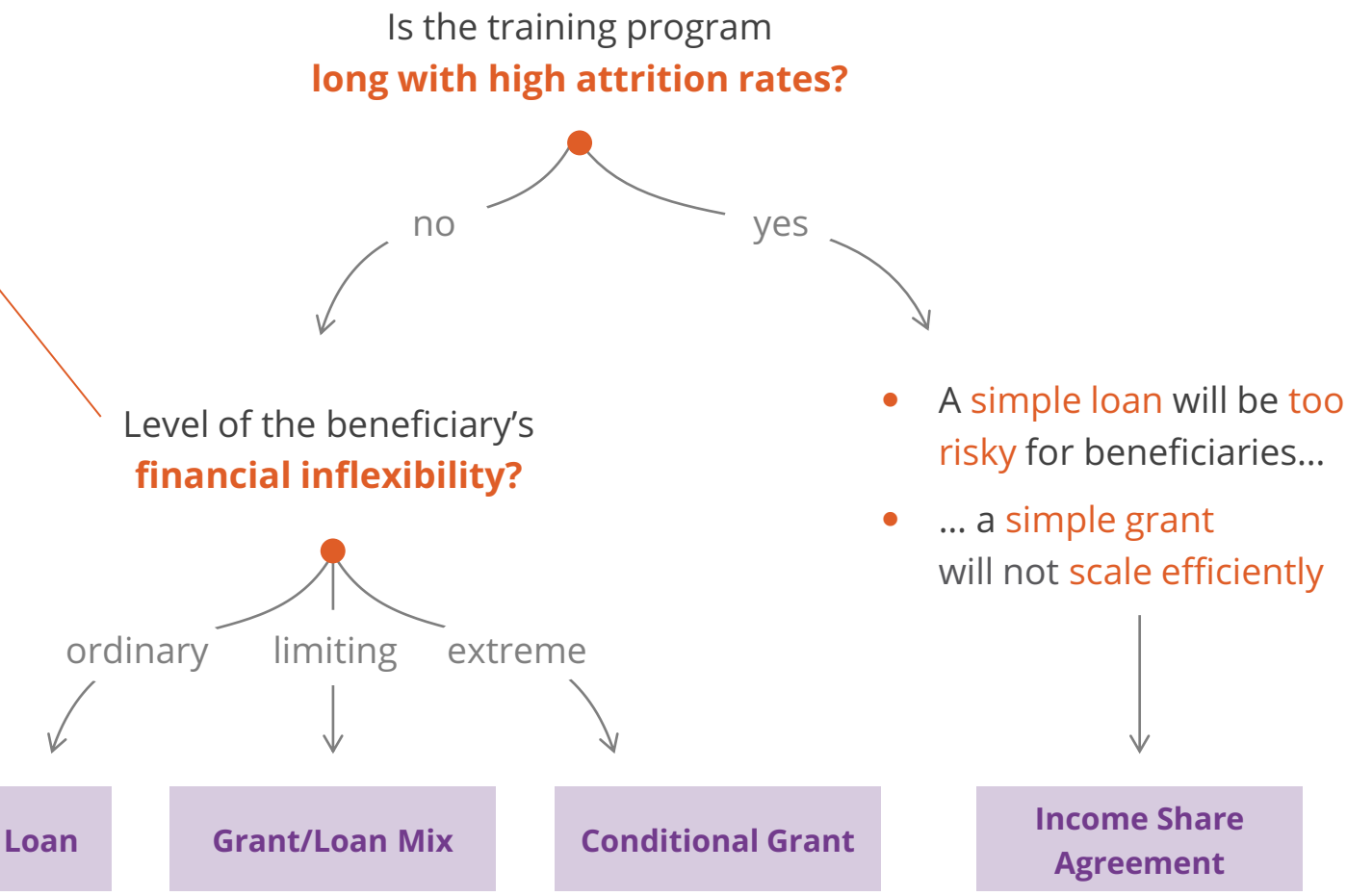
Addressing Financial Flexibility & Attrition-Levels Requires 4 Distinct Customized Loan Models

3 distinct funding models

Operational Decision Tree

How should extreme inflexibility be defined?

- Beneficiary and partner both unemployed
- Unique needs of dependents (elderly, sick, handicapped, …)
- Unique circumstances limiting communal support



Addressing Financial Flexibility & Attrition-Levels Requires 4 Distinct Customized Loan Models

3 distinct funding models

Fixed Grant/Loan Models — Characteristics

	No-Interest Loan	Grant/Loan Mix	Conditional Grant
Grant Element	**5%** (Repay 95%)	**35%** (Repay 65%)	**75%** (Repay 25%)
Incentive Scheme	• Grant varies **from 0% to 10%** based on perseverance	• Grant varies **from 30% to 40%** based on perseverance	• Grant varies **from 70% to 80%** based on perseverance
Other Elements	• Max. 5-year repayment • Financial planning support **required**	• Max. 5-year repayment • Financial planning support **required**	• Max. 5-year repayment • Financial planning support **offered**
	The 'default', to use whenever possible	Fall-back position for unique cases	To be used very sparingly…

Addressing Financial Flexibility & Attrition-Levels Requires 4 Distinct Customized Loan Models

3 distinct funding models

Income Share Agreement Model — Characteristics

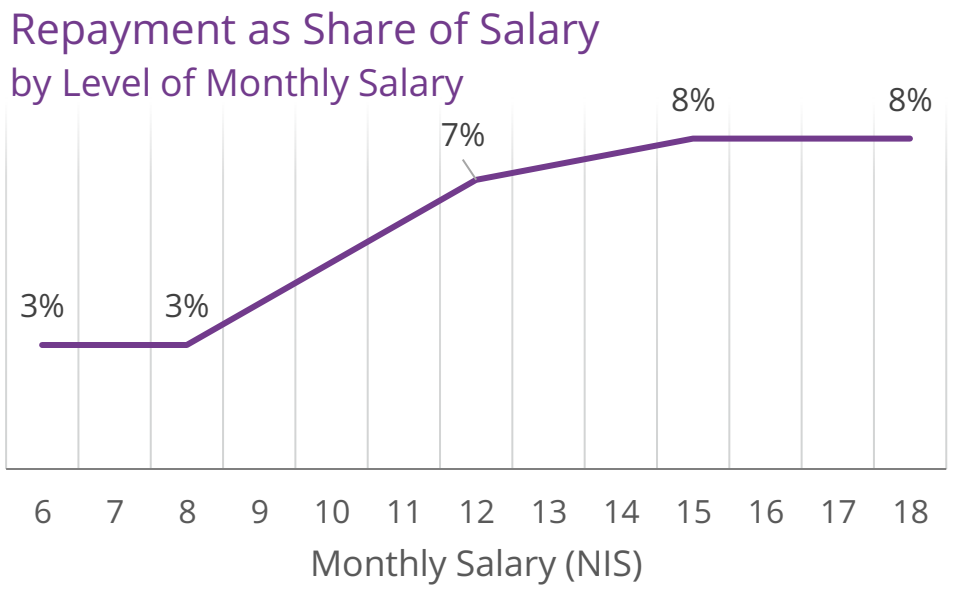
Income Share Agreement

Incentive Scheme

- 5-year repayment, tied to monthly salary
- **Minimum** payback: **20%** of total support
- **Maximum** Payback: **110%** of total support

Other Elements

- Aptitude test required (to filter high risk cases)
- Career planning support **required**



Most appropriate for longer training programs with high levels of attrition, dependent on ability rather than (only) motivation, such as 'coding bootcamps'

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1. Specific funding models
2. Overall funding model

Designing Specific Funding Pilot-Programs — Several Elements to Be Modeled

- Determine precise offset funding sums required based on sector- or profile-specific considerations
- Determine precise repayment period based on similar factors
- Refine the mapping of loan-models to specific trainings or profiles based on:
  - Supply and demand (e.g. high-demand may required lower offset funding)
  - Employment status (e.g. upskilling may require less training for a first job)
  - Training schedule (e.g. flexible or evening training may require less)
  - Employer involvement (e.g. specific employers might be able to share offset burden)
  - Availability of relevant untrained work (e.g. part-time jobs related to target vocation)
  - Market impact (e.g. making inroads where Haredim are under-represented)
  - Long term earning capacity (e.g. high-salary fields might require lower support)
  - And possibly other factors (e.g. gender, age, family status, …)

Modeling for Three Possible Pilot Cases

Three possible pilot cases have been identified:

Industry & construction sector: CNC machine operation
training in "Beit Shemesh Engines Ltd." for Haredi men

Education sector: Teacher's upskilling
training for teachers in Haredi boys' primary education

Health sector: Dental hygiene
training for Haredi women

Loan Model
Operational Decision Tree

Industry: CNC Operation

Education: Boys' primary

Health: Dental hygiene

1 Specific funding models

Is the training program long with high attrition rates?

no

yes

Level of the beneficiary's financial inflexibility?

ordinary

limiting

extreme

No-Interest Loan

Grant/Loan Mix

Conditional Grant

Income Share Agreement

Loan Model
Operational Decision Tree

Industry: CNC Operation

Education: Boys' primary

Health: Dental hygiene

1 Specific funding models

Is the training program long with high attrition rates?

~3 months of training

no

yes

~12 months of training

Level of the beneficiary's financial inflexibility?

ordinary

limiting

extreme

No-Interest Loan

Grant/Loan Mix

Conditional Grant

Income Share Agreement

Loan Model
Operational Decision Tree

Industry: CNC Operation

Education: Boys' primary

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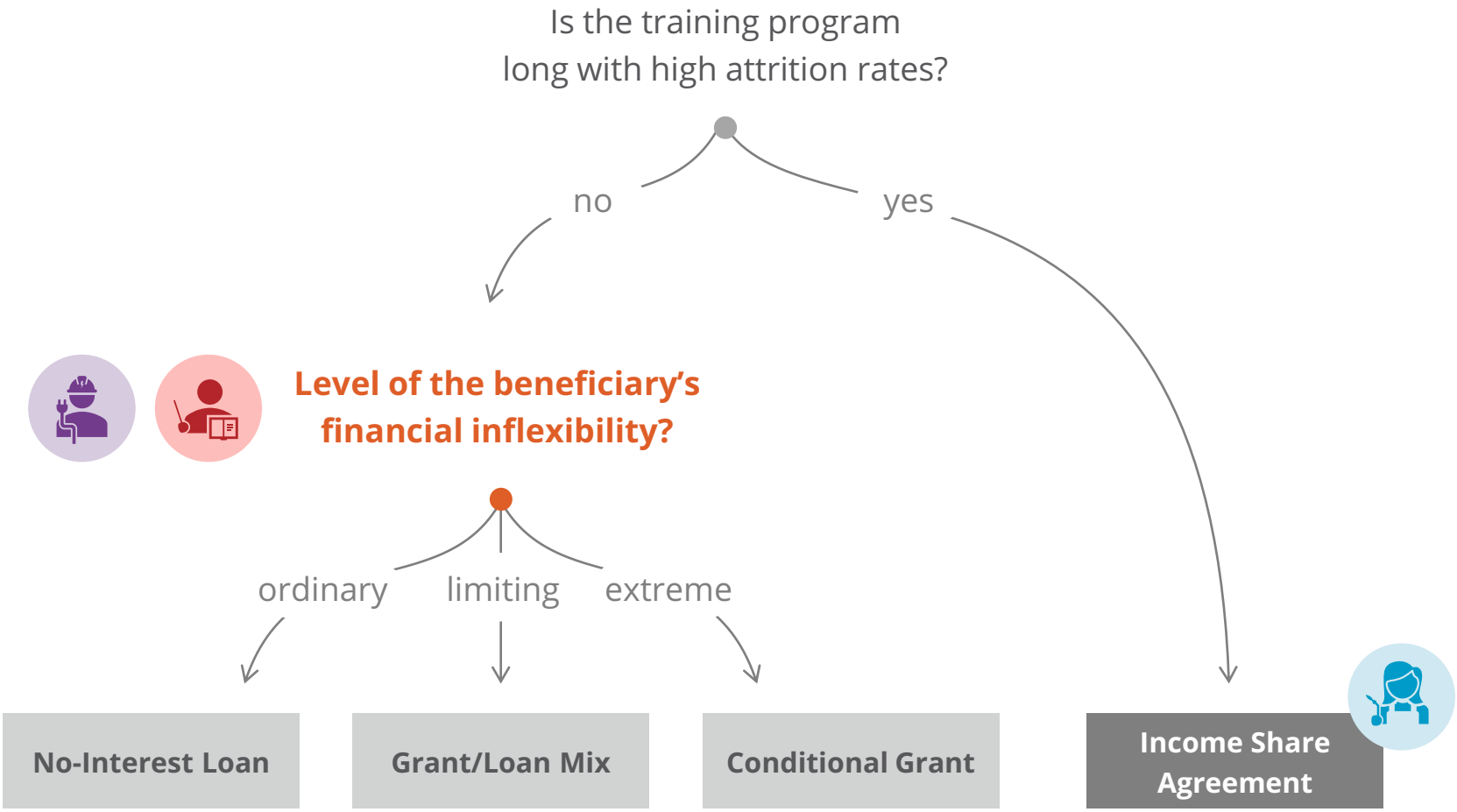
1 Specific funding models



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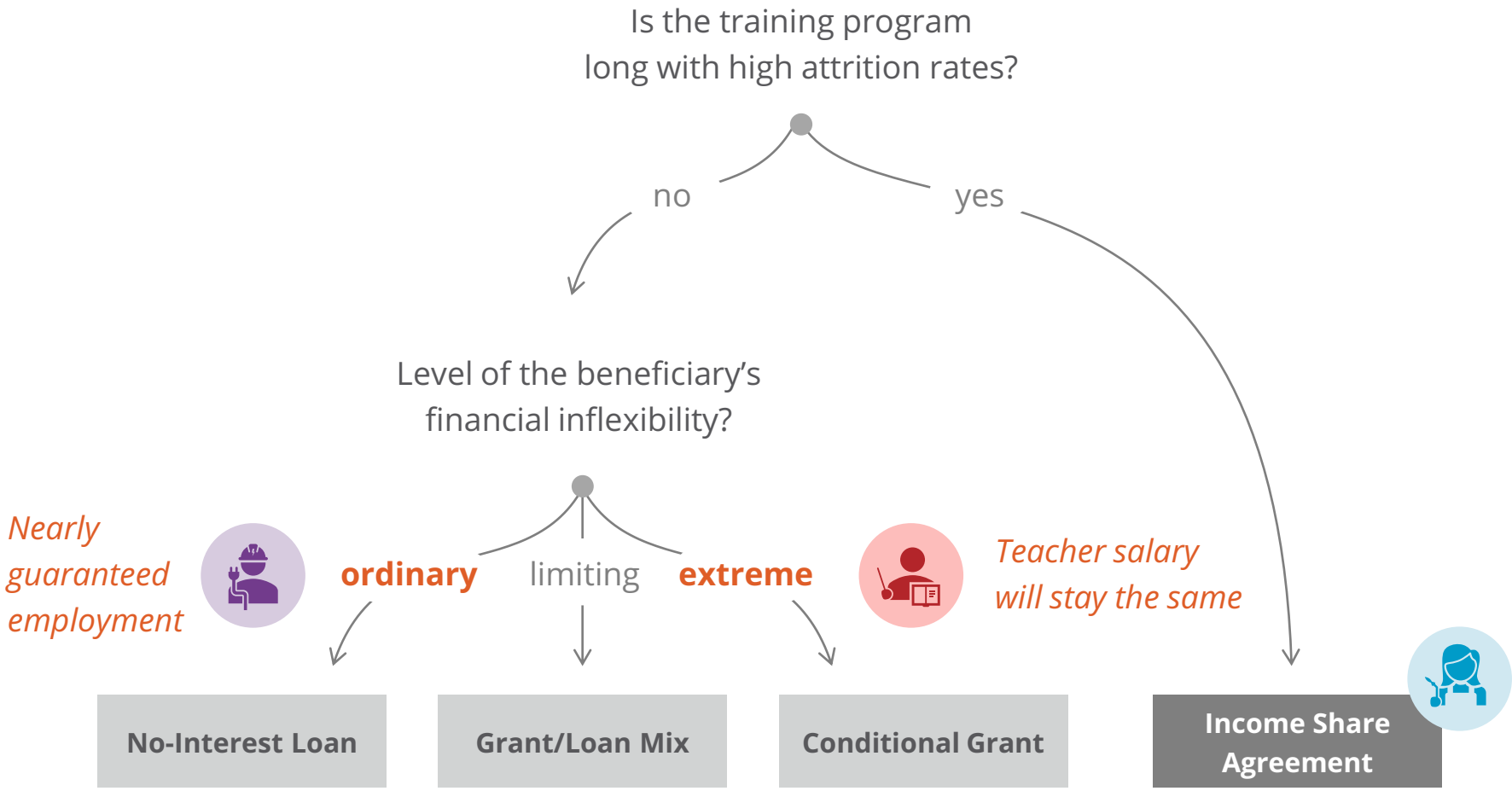

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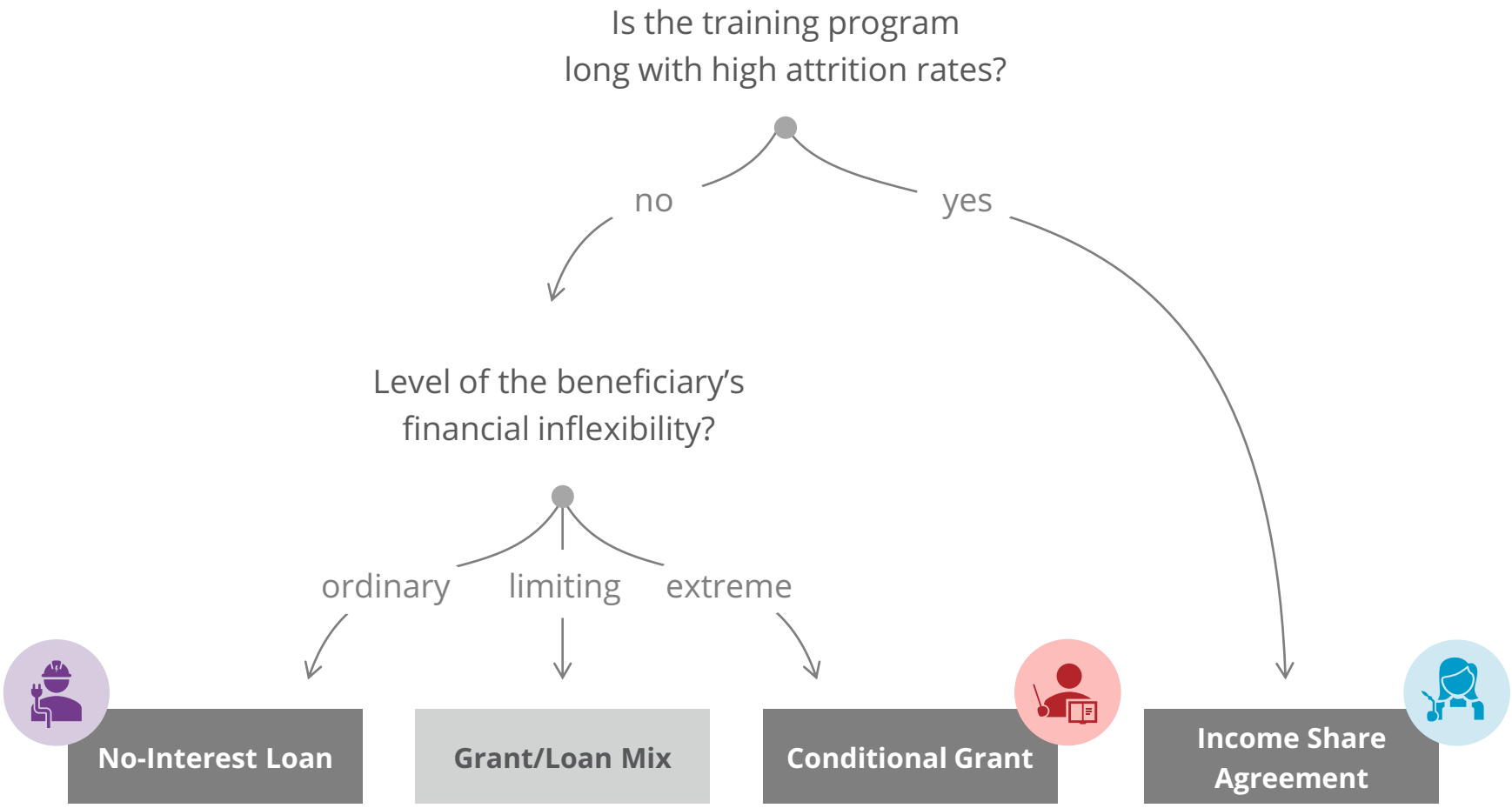


Modeling for Three Possible Pilot Cases

	Industry: CNC Operation	Education: Boys' primary	Health: Dental hygiene
Best Fit Loan Model	No-Interest Loan	Conditional Grant	Income Share Agreement
How likely is state involvement?	Uncertain	Relatively likely	Uncertain
Best Fit Overall Funding Mechanism	**No-Interest Loans** *funded via* **Philanthropy and/or Employers**	**Conditional Grants** *funded via* **Social Impact Bonds covered by Gov.**	**Income Share Loans** *funded via* **Income Share Agreements**

Offset Funding in the Education Sector May Be Based on Social Bonds from the Outset

- Social bond models work best in social programs which have been running for a while, after establishing a basis for setting goals and evaluating risk
- Such a basis for evaluation is crucial not only for investors, but also for the government or other stakeholder who ultimately repays them
- For this reason, we assume that in most sectors, social bonds will be a viable option for offset funding only in the 2nd phase
- However, in the case of training Haredi teachers in English, math, etc. — which is a high priority policy goal — we assume the government is likely to support a pay-for-success model from the outset

Having identified appropriate funding mechanisms for the pilots, what are the financial implications?

CNC Machine Operation Training for Haredi Men — Modeling Assumptions & Results

1 Specific funding models

Industry:
CNC Operation

No-Interest Loans *funded via* **Philanthropy and/or Employers**

Main Model Assumptions

Length of training	4.5 months
# to be trained Individuals	40 individuals
Offset funding Per month	1,500 NIS supplements current state grant of 1,500 NIS / month
Default rate	8%
Repayment period From year after training	3 years
Loan element As opposed to grant	85%*

Model Financial Implications

NIS

Outflow	Offset Funding Expense	270K
	Op. Expense	5K
	Bond Repayment	—
Inflow	Loan Payback Over 3 years	211K
	Donor Support	59K
	Social Investments	—
	Gov. Payback (Covering op. expense)	5K
	Fund Balance	0

* The relatively low loan element (compared to 95% in generic 'no interest loan' model) is an incentive reflecting low Haredi demand for CNC operation work

Upskilling Primary Education Teachers of Haredi Boys — Modeling Assumptions & Results

1 Specific funding models

Education: Boys' primary

Conditional Grants *funded via* **Social Impact Bonds covered by Gov.**

Main Model Assumptions

Length of training	3 months
# to be trained Individuals	60 individuals
Offset funding Per month	3,500 NIS
Default rate	8%
Repayment period From year after training	3 years
Loan element As opposed to grant	25%
"Success"/"fail" return to investors after 3 years	110% / 0%
"Success" rate vis-à-vis 3-yr. goals	70%

Model Financial Implications

NIS

Outflow	Offset Funding Expense	630K
	Op. Expense	13K
	Bond Repayment After 3 years	388K
Inflow	Loan Payback Over 3 years	148K
	Donor Support	—
	Social Investments	482K
	Gov. Payback (Covers ops. + investor repayment after 3 yrs.)	401K
	Fund Balance	0

Dental Hygiene Training for Haredi Women — Modeling Assumptions & Results

1 Specific funding models

Health:
Dental hygiene

Income Share Loans *funded via* **Income Share Agreements**

Main Model Assumptions

Length of training	12 months
# to be trained Individuals	20 individuals
Offset funding Per month	3,000 NIS
Default rate	8%
Repayment period From year after training	3 years
Min./max. payback % of offset funding	110% / 20%
"Success"/"fail" salary Per month	12,000 / 5,000 NIS

Model Financial Implications

NIS

Outflow	Offset Funding Expense	720K
	Op. Expense	14K
	Bond Repayment	—
Inflow	Loan Payback Over 3 years	616K
	Donor Support	104K
	Social Investments	—
	Gov. Payback (Covering op. expense)	14K
	Fund Balance	0

Pilot Programs Financial Overview

1
Specific funding models

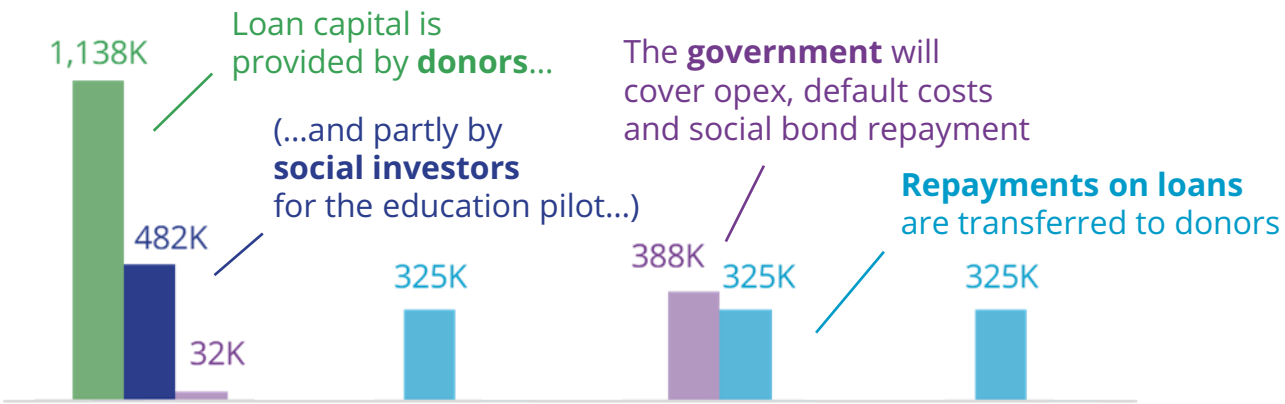
Overall Financial Implications for the Pilot Programs

All financial sums in **thousands** NIS

Industry:
CNC Operation

Education:
Boys' primary

Health:
Dental hygiene



	Years	1	2	3	4	4 YEAR TOTAL
	# Trained (Individuals)	**120**	—	—	—	**120**
Outflow	Loans Expense	1620	—	—	—	1620
Outflow	Operating Expense	32	—	—	—	32
Outflow	Bond Repayment			388	—	388
Outflow	Loan Repayment		325	325	325	1002
Inflow	**Loan Repayment**		**325**	**325**	**325**	**975**
Inflow	**Donor Support**	**1138**	—	—	—	**1138**
Inflow	**Social Investments**	**482**	—	—	—	**482**
Inflow	**Government Payback**	**32**	—	**388**	—	**420**
	Fund Balance	0	0	0	0	0

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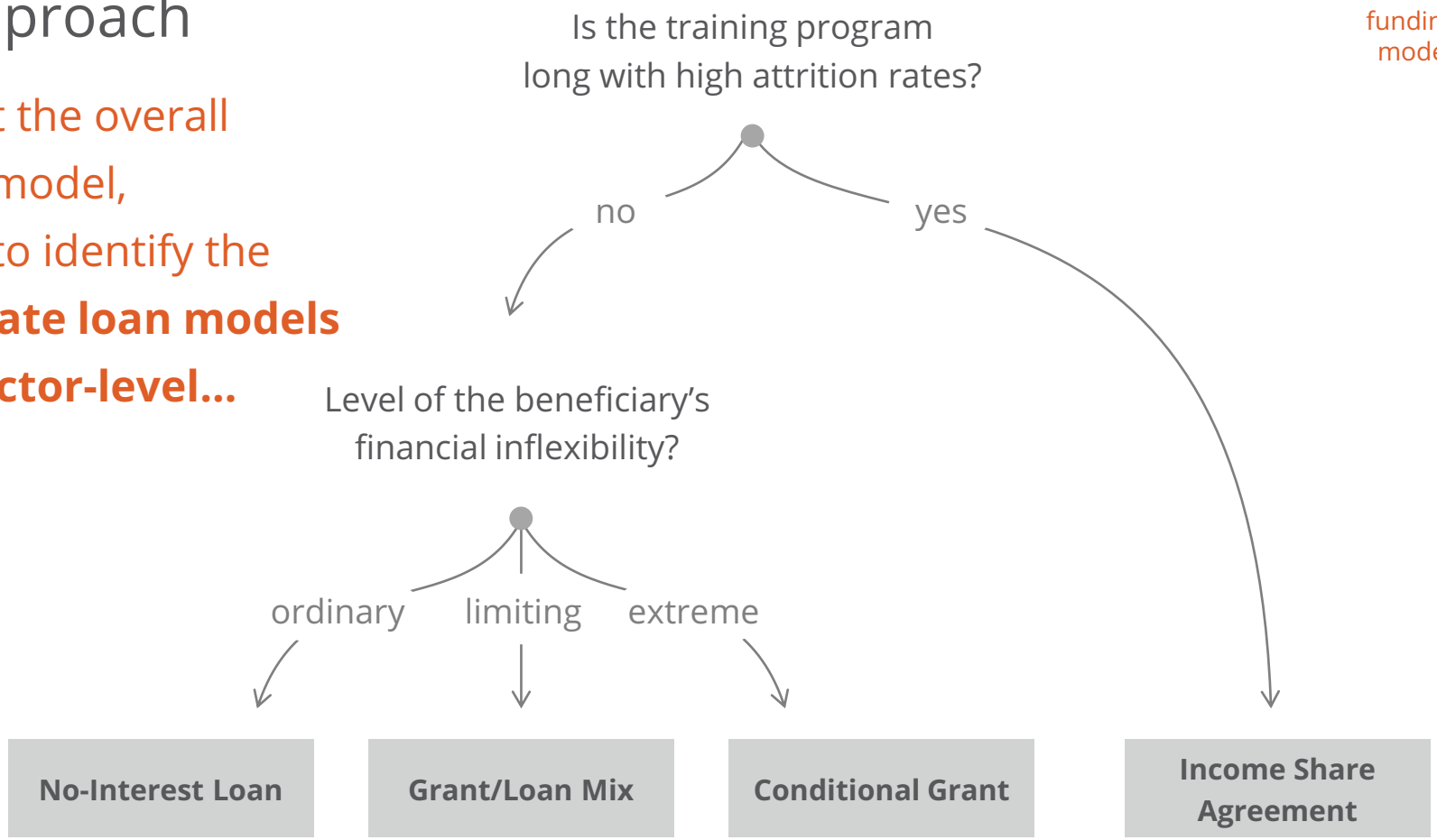
Overall Funding Model — The Approach

To lay out the overall financial model, we need to identify the **appropriate loan models at the sector-level...**



White-Collar Services

Industry & Construction

Blue-Collar Services

Health

Education

High Tech

Following this process, which model is the best fit for each sector?

Overall, the 30K 'Open Positions' Can be 'Matched' to Appropriate 'Loan Models' at the Sector-Level

2
Overall funding model

	White Collar		High Quality Blue Collar		Health		Education
	High Tech	White-Collar Services	Industry & Construction	Blue-Collar Services	Health (long training)	Health (short training)	Education
Stats	**3,500 Jobs** **10K NIS / month** **~33K candidates**	**1,200 Jobs** **8K NIS / month** **~33K candidates**	**22,000 Jobs** **11K NIS / month** **~29K candidates**	**1,800 Jobs** **9K NIS / month** **~29K candidates**	**2,500 Jobs** **11K NIS / month** **~31K candidates**	**2,500 Jobs** **8K NIS / month** **~31K candidates**	**5,000 Jobs** **6.5K NIS / month** **20K candidates**
Jobs	• Programmer • QA Tester • ...	• Real Est. Agent • Prof. Clerk • ...	• Mechanic • Const. Worker • Driver • ...	• Plumber • Drain Layer • Elec. Specialist • ...	• Dental Hygienist • Lab Technician • ...	• Equipment Operator • Assistant • ...	• Primary teacher • ...
Training	**6 months** course	**2–7 months** course	**2–4 months** course	**2–7 months** course	**8–16 months** course	**2–7 months** course	**2–4 months** course

Notes:

- Supply and demand for training in relevant sectors reflects 2018 report estimates
- Education sector stats refer to upskilling trainings needed for current teachers
- Programs durations reflect the 2018 report estimates
- Due to high variability within the health services sector in terms of training programs and job types, it is treated as two distinct sectors in the model

To consider appropriate loan models, sectors will be reordered by training length/attrition...

Overall, the 30K 'Open Positions' Can be 'Matched' to Appropriate 'Loan Models' at the Sector-Level

2
Overall funding model

Regular Training

High Attrition Training

	White-Collar Services	Industry & Construction	Blue-Collar Services	Health (short training)	Education	High Tech	Health (long training)
Stats	**1,200 Jobs** **8K NIS / month** **~33K candidates**	**22,000 Jobs** **11K NIS / month** **~29K candidates**	**1,800 Jobs** **9K NIS / month** **~29K candidates**	**2,500 Jobs** **8K NIS / month** **~31K candidates**	**5,000 Jobs*** **6.5K NIS / month** **20K* candidates**	**3,500 Jobs** **10K NIS / month** **~33K candidates**	**2,500 Jobs** **11K NIS / month** **~31K candidates**
Jobs	• Real Est. Agent • Prof. Clerk • ...	• Mechanic • Const. Worker • Driver • ...	• Plumber • Drain Layer • Elec. Specialist • ...	• Equipment Operator • Assistant • ...	• Primary teacher • ...	• Programmer • QA Tester • ...	• Dental Hygienist • Lab Technician • ...
Training	**2–7 months** course	**2–4 months** course	**2–7 months** course	**2–7 months** course	**2–4 months** course	**6 months** course	**8–16 months** course
Model Best Bit	**No-Interest Loan**		**Grant/Loan Mix**		**Conditional Grant**	**Income Share Agreement**	

Loan Scenarios with Different Impact on the Overall Funding-Model Need to be Taken Into Account

General assumptions across all scenarios

- **Offset funding of 4000 NIS / month** for training program duration, representing a substantial portion of the 'alternative cost' of not working as estimated in the 2018 report
- 8% default rate on loans (conservative assumption based on cases examined)
- 5-year repayment period for all loans
- Mid-range grant-levels (reflecting average 'perseverance' of trainees)

Other assumptions vary between specific sector- and profile- based scenarios…

Loan Scenarios with Different Impact on the Overall Funding-Model Need to be Taken Into Account

Loan Profiles / Outcomes — Example

High Attrition Training

High Tech 

Each 'loan scenario' represents an individual loan and outcome that's assumed to be 'typical' for a specific sector

ISA 'Success'

In this case, the loan scenario is a successful income share agreement in the high tech sector

- 24K NIS funding
- 10-13K NIS salary
- Repays full loan
- 'Cost' ~0 NIS

Each scenario includes the sum of financial support provided, based on program duration

(For income share loans the salary is included, since it determines the payback amount)

Each scenario includes the payback outcome...

...and the corresponding 'cost' to the fund in terms of the expended ('burned') resources

Loan Scenarios with Different Impact on the Overall Funding-Model Need to be Taken Into Account

2
Overall funding model

Regular Training

High Attrition Training

Loan Profiles / Outcomes

White-Collar Services	Industry & Construction	Blue-Collar Services	Health (short training)	Education	High Tech	Health (long training)
No Interest Loan • 24K NIS funding • Repays 95% • 'Cost' ~3K NIS	**No Interest Loan** • 15K NIS funding • Repays 95% • 'Cost' ~1.4K NIS	**No Interest Loan** • 24K NIS funding • Repays 95% • 'Cost' ~1.4K NIS	**No Interest Loan** • 24K NIS funding • Repays 95% • 'Cost' ~3K NIS	**No Interest Loan** • 15K NIS funding • Repays 95% • 'Cost' ~1.4K NIS	**ISA 'Success'** • 24K NIS funding • 10-13K NIS salary • Repays full loan • 'Cost' ~0 NIS	**ISA 'Success'** • 60K NIS funding • 10-13K NIS salary • Repays ~70% • 'Cost' ~20K NIS
Grant/Loan Mix • 24K NIS funding • Repays 65% • 'Cost' ~9.5K NIS	**Grant/Loan Mix** • 15K NIS funding • Repays 65% • 'Cost' ~4.7K NIS	**Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~4.7K NIS	**Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~9.5K NIS	**Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~4.7K NIS	**ISA 'Miss'** • 30K NIS funding • Low salary • Repays 30% only • 'Cost' ~15.5K NIS	**ISA 'Miss'** • 60K NIS funding • Low salary • Repays 20% only • 'Cost' ~39K NIS
Conditional Grant • 24K NIS funding • Repays 25% • 'Cost' ~18K NIS	**Conditional Grant** • 15K NIS funding • Repays 25% • 'Cost' ~9K NIS	**Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~9K NIS	**Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~18K NIS	**Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~9K NIS		

'Darker' profiles erode funds faster, hurting the overall sustainability...

The prevalence of each scenario impacts the overall model.
What scenario prevalence should we assume for phase I?

Loan Scenarios with Different Impact on the Overall Funding-Model Need to be Taken Into Account

2 Overall funding model

Scenario Prevalence — Phase I (Years 1-to-5)

Loan Profiles / Outcomes

White-Collar Services	Industry & Construction	Blue-Collar Services	Health (short training)	Education	High Tech	Health (long training)
65% **No Interest Loan** • 24K NIS funding • Repays 95% • 'Cost' ~3K NIS	65% **No Interest Loan** • 15K NIS funding • Repays 95% • 'Cost' ~1.4K NIS	65% **No Interest Loan** • 24K NIS funding • Repays 95% • 'Cost' ~1.4K NIS	65% **No Interest Loan** • 24K NIS funding • Repays 95% • 'Cost' ~3K NIS	65% **No Interest Loan** • 15K NIS funding • Repays 95% • 'Cost' ~1.4K NIS	80% **ISA 'Success'** • 24K NIS funding • 10-13K NIS salary • Repays full loan • 'Cost' ~0 NIS	80% **ISA 'Success'** • 60K NIS funding • 10-13K NIS salary • Repays ~70% • 'Cost' ~20K NIS
20% **Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~9.5K NIS	20% **Grant/Loan Mix** • 15K NIS funding • Repays 65% • 'Cost' ~4.7K NIS	20% **Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~4.7K NIS	20% **Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~9.5K NIS	20% **Grant/Loan Mix** • 24K NIS funding • Repays 65% • 'Cost' ~4.7K NIS	20% **ISA 'Miss'** • 24K NIS funding • Low salary • Repays 30% only • 'Cost' ~15.5K NIS	20% **ISA 'Miss'** • 60K NIS funding • Low salary • Repays 20% only • 'Cost' ~39K NIS
15% **Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~18K NIS	15% **Conditional Grant** • 15K NIS funding • Repays 25% • 'Cost' ~9K NIS	15% **Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~9K NIS	15% **Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~18K NIS	15% **Conditional Grant** • 24K NIS funding • Repays 25% • 'Cost' ~9K NIS		

How will scenarios change in phase II (year 6 and onward)?

Loan Scenarios with Different Impact on the Overall Funding-Model Need to be Taken Into Account

2
Overall funding model

Scenario Prevalence — Phase II (Years 6 and Onward)

Loan Profiles / Outcomes

White-Collar Services	Industry & Construction	Blue-Collar Services	Health (short training)	Education	High Tech	Health (long training)
90%	90%	90%	90%	90%	80%	80%
No Interest Loan	**No Interest Loan**	**No Interest Loan**	**No Interest Loan**	**No Interest Loan**	**ISA 'Success'**	**ISA 'Success'**
• 24K NIS funding	• 15K NIS funding	• 24K NIS funding	• 24K NIS funding	• 15K NIS funding	• 24K NIS funding	• 60K NIS funding
• Repays 95%	• Repays 95%	• Repays 95%	• Repays 95%	• Repays 95%	• 10-13K NIS salary	• 10-13K NIS salary
• 'Cost' ~3K NIS	• 'Cost' ~1.4K NIS	• 'Cost' ~1.4K NIS	• 'Cost' ~3K NIS	• 'Cost' ~1.4K NIS	• Repays full loan	• Repays ~70%
					• 'Cost' ~0 NIS	• 'Cost' ~20K NIS
10%	10%	10%	10%	10%	20%	20%
Grant/Loan Mix	**Grant/Loan Mix**	**Grant/Loan Mix**	**Grant/Loan Mix**	**Grant/Loan Mix**	**ISA 'Miss'**	**ISA 'Miss'**
• 24K NIS funding	• 15K NIS funding	• 24K NIS funding	• 24K NIS funding	• 24K NIS funding	• 24K NIS funding	• 60K NIS funding
• Repays 65%	• Repays 65%	• Repays 65%	• Repays 65%	• Repays 65%	• Low salary	• Low salary
• 'Cost' ~9.5K NIS	• 'Cost' ~4.7K NIS	• 'Cost' ~4.7K NIS	• 'Cost' ~9.5K NIS	• 'Cost' ~4.7K NIS	• Repays 30% only	• Repays 20% only
					• 'Cost' ~15.5K NIS	• 'Cost' ~39K NIS

Assuming the 'solo grant element' is reduced across the board, and 'full grants' are discontinued

Dimensioning an Overall Financial Model – Funding Assumptions

Phase I (years 1-to-5)

- 1000 trainees at year 1, with the number growing by 500 every year
- In the six main sectors, capital for loans is provided by private donors
- In the education sector, funding is provided by investors in social bonds and covered by the government
- Default costs and operational costs covered by the government
- For simplicity, a linear 5-year repayment is assumed, starting one year after training
- Program costs & tuition are not included in the model
- Capital costs / capitalization not included in the model

Phase II (years 6 and onward)

- 4000 trainees supported every year
- Funding in all sectors shifts to social investors
- The government funds the repayment and return to investors in a success scenario
- If goals are met, 3-year bondholders receive 115% of the original sum (equivalent to ~4.8% annualized ROI) but are not repaid otherwise.
- Other elements are unchanged

High-level Financial Implications

2
Overall funding model

Financial Implications — 'Target Scenario'

All financial sums in millions NIS

Target Outcome:
providing offset funding
to enable the vocational training
of **~40K Haredim over 12 years**

In Phase I...
...loan capital is provided by **donors**...

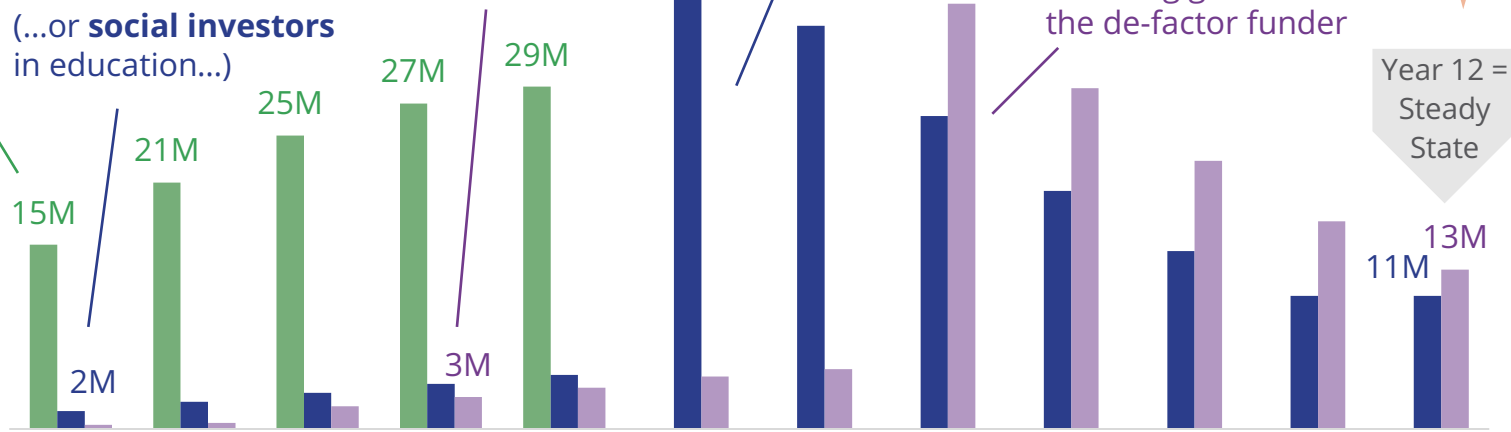
(...or **social investors** in education...)

...with **government** covering opex, defaults, and investor returns

In phase II...
...all capital funding shifts to social investors...

...making government the de-factor funder

Year 12 = Steady State



	Years	1	2	3	4	5	6	7	8	9	10	11	12	12 YEAR TOTAL
	# Trained (K)	1	1.5	2	2.5	3	4	4	4	4	4	4	4	38
Outflow	Loans Expense	17	25	34	42	51	68	68	68	68	68	68	68	646
Outflow	Op. Expense	0	1	1	1	1	1	1	1	1	1	1	1	13
Outflow	Bond Repay.			1	2	2	3	4	34	27	21	16	12	123
Inflow	Loan Payback	0	3	6	11	18	25	34	42	48	53	57	57	354
Inflow	**Donations**	**15**	**21**	**25**	**27**	**29**								**117**
Inflow	**S. Investments**	**2**	**2**	**3**	**4**	**5**	**43**	**34**	**26**	**20**	**15**	**11**	**11**	**175**
Inflow	**Gov. Payback**	**0**	**1**	**2**	**3**	**3**	**4**	**5**	**36**	**29**	**23**	**17**	**13**	**136**
	Fund Balance	0	0	0	0	0	0	0	0	0	0	0	0	0