Unlocking Human Potential

The Potential of Income Sharing Agreements (ISAs) in Singapore and ASEAN

September 2024

Prepared for UBS Optimus Foundation Singapore

WAISER

Acknowledgements

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Purpose of this document

What this document is

This document aims to share initial considerations on the use of Income Sharing Agreements (ISAs) in Singapore for the purpose of financing education at the postsecondary level. Particular attention has been given to the possibility of ISAs becoming an "investable" proposition, aiming to attract commercial capital to the space in the future.

Considerations addressed here for Singapore include:
- Education market analysis: educational offering, student demand, cost of education,
- Labour market analysis: projected job demand and expected starting salaries,
- A legal review of ISA in Singapore,
- Possible financial structuring,
- Possible legal structuring

We also began exploring the potential of other Southeast Asian countries, but each country would require in-depth research. We hope this can be a topic for follow-up collaboration. All data and references are as of mid-2024.

What this document is not

This document is not intended to be a final comprehensive research on the topic of ISA, or financing for education, in Singapore and Southeast Asia, nor is it intended to provide investment advice.

ISA is a new topic in many parts of the world, especially for Southeast Asia. We believe that the first few years of actual ISA implementation at a growing scale will offer important new data points, especially in important aspects such as adoption (by students and education institutions), cost of customer acquisition, default rate, and more. All data gathered is up to mid-2024, and therefore, we expect the cost structure and macroeconomic landscape to continue to evolve.

We also expect an evolution of the regulatory landscape in the coming years that this report doesn't seek to forecast.

We envision a world where every person has access to the education they need; to become their best self, to improve their community, and to better our whole society.

Executive Summary

There is a significant opportunity to start an ISA fund in Singapore and Southeast Asia.

The ASEAN region has a very large young population, a growing GDP, a demand for qualified talent, and a growing demand for household education. Secondary and tertiary enrollment rates are growing in every country, revealing a thirst for education that is only likely to accelerate.

The generous education subsidies in Singapore do not always cover the high cost of local education. This also applies to high-priority industries where we can expect significant growth in demand for talent in the future. In the Philippines, a degree is necessary to find a job, making university attendance in very high demand. The growing middle class in Cambodia, Vietnam, and Indonesia seeks education as a way of staying on the path of intergenerational improvement of quality of life.

ISAs are a novel tool that has been piloted at a small scale in the region, and they have the potential to help accelerate the development of human capital across Southeast Asia. By bringing an "investment" perspective on education, ISAs can help resolve the information asymmetries that cause significant inefficiencies in the education and labour markets, helping students make better career choices.

Philanthropic capital is best positioned to help catalyse the education financing revolution, leading the way for investment capital to follow.

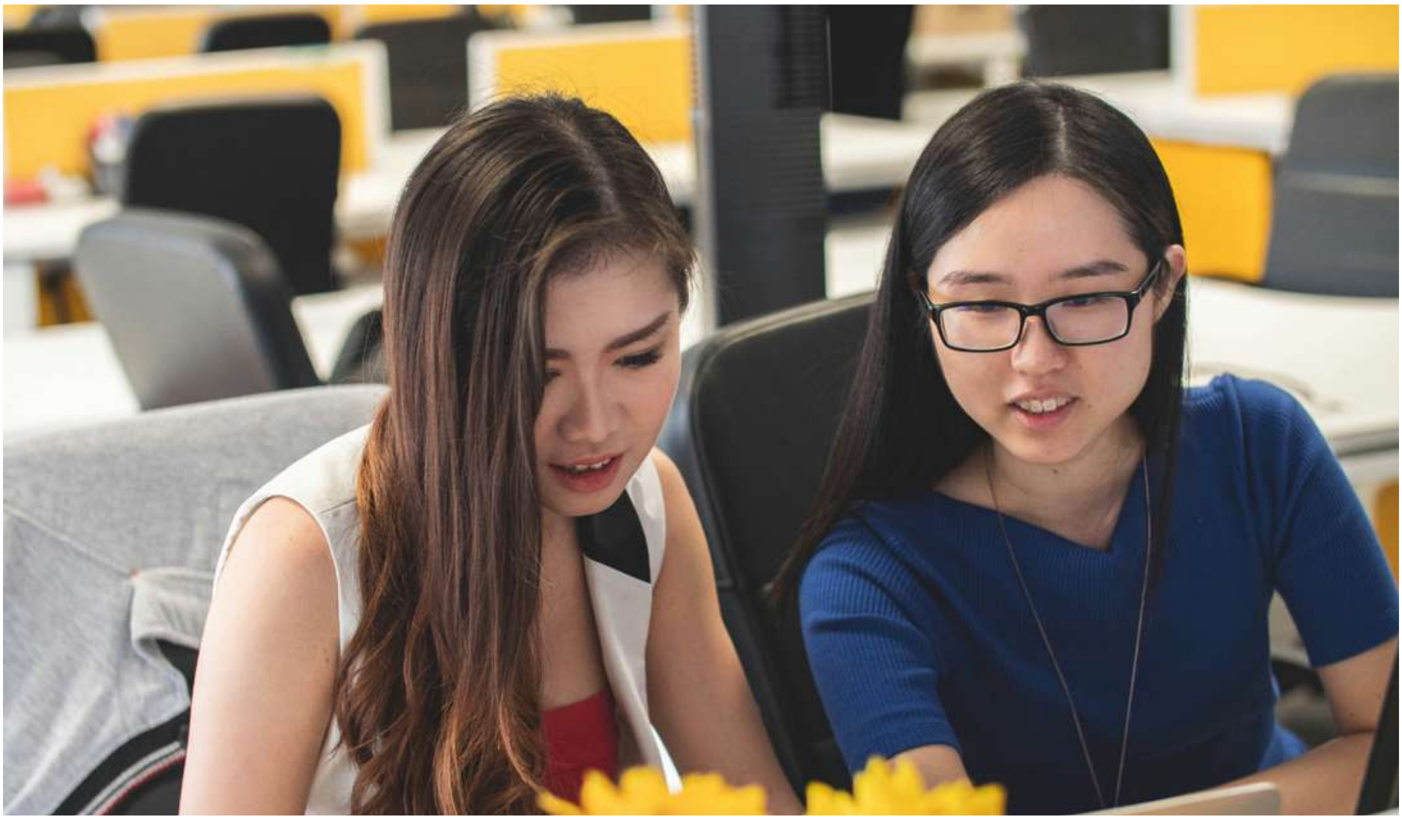
Catalysing System Change

ISAs can be crucial in changing the education and labour markets beyond merely increasing access to capital.

By bringing an "investment" perspective to education, ISA providers gather important data on the cost of education and return on investment at a course, institution, and individual level. This information can, in turn, be shared with all students, even those who may not need an ISA, to help them make better decisions on career paths that should be considered in terms of the likelihood of unemployment, expected starting salaries, and career growth potential.

In shaping the demand for education, ISAs can help increase the quality of education offerings, creating a "race to the top" amongst education providers at every level.

While the future of labour markets will always be difficult to predict for everyone, we firmly believe that ISAs have the opportunity to "change the rules of the game" in the education sector, improving the lives of every student, not just those financed by ISAs.



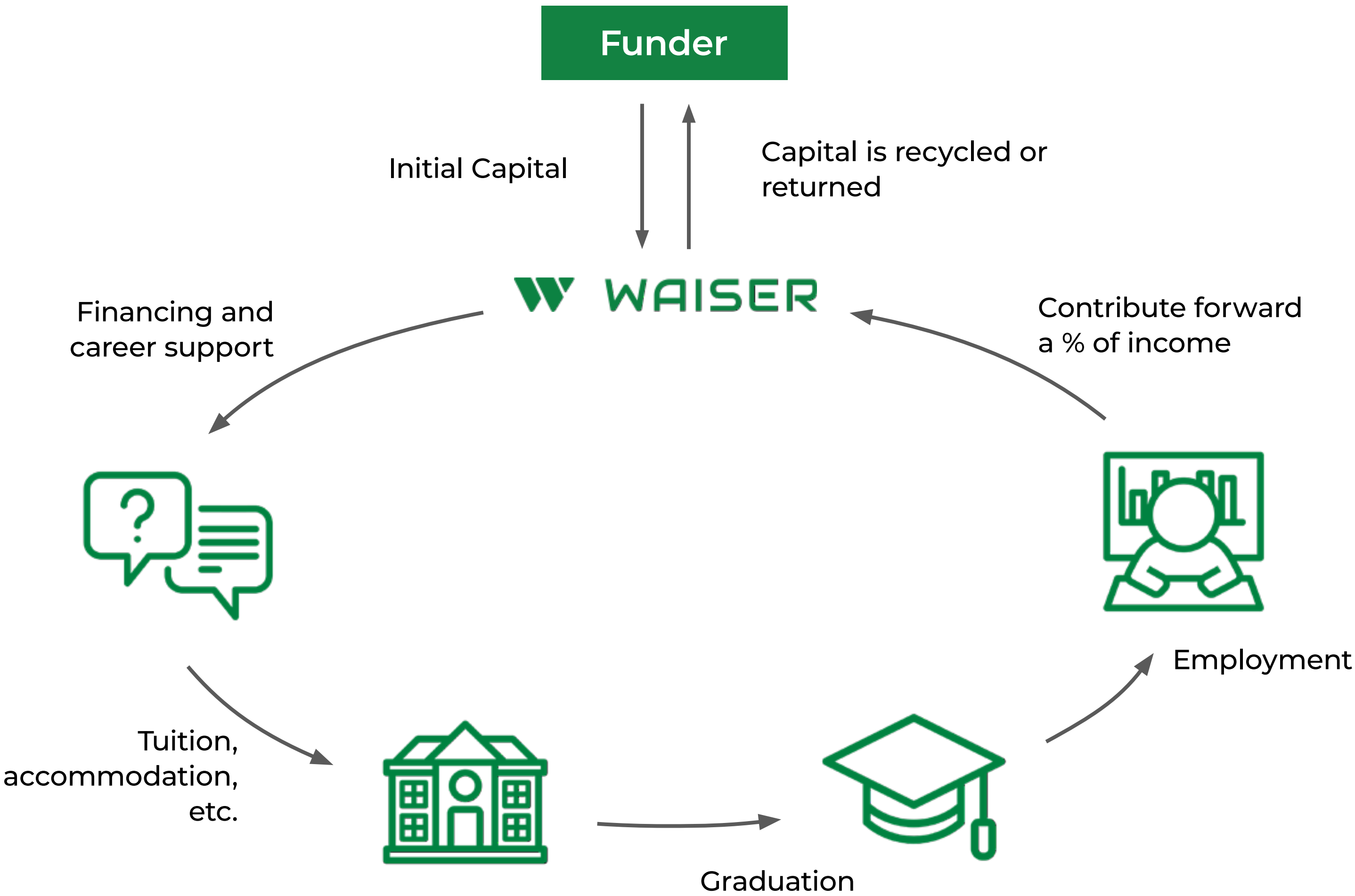
How Do ISAs Work

In an Income Sharing Agreement (ISA) a funder agrees to fund upfront the education of a student in exchange for a percentage of their income for a fixed amount of time once they graduate and find a job.

Funders can be philanthropic and impact focused or seek a return.

ISA are tailored on the needs of students, so they can focus on their studies. Contributions back in the ISA fund are flexible and will always be affordable since they can never be more than a pre-agreed percentage of income.

Compared to scholarships ISAs are a way of using capital more efficiently and supporting more students by creating a “pay it forward” culture.



Market Insights For Singapore

With the consulting support of Tri-Sector Associate (TSA) and the Singapore Institute of Management (SIM), we sought to understand what the demand for ISAs in Singapore might be and estimate the number of students who may need ISAs in the coming years; what is the expected funding shortage per person (average ISA contract size); and in which sectors we might more readily achieve investability.

Singapore has a complex postsecondary education system, and we sought to identify a specific and small number of opportunities aligned with the priorities of the government of Singapore, where we can expect sustained growth over several years and achieve significant economies of scale.

Findings

There can be potentially **10,600 skilling programme participants annually** who could have a need for an ISA.

~1,920 potential ISA candidates in **Digital & AI**	The highest demand growth will be in data and information visualisation. Additionally, the Singapore Government is seeking to increase the number of digitally skilled workers by 55% (1.2M) by 2025
~160 potential ISA candidates in **Green Economy**	Estimated 50,000 new green jobs in Singapore by 2030, with the highest demand coming from the built environment, urban farming and green manufacturing.
~2,560 potential ISA candidates in **Engineering**	Hiring demand reached 134,767 in 2022 with areas such as Industry 4.0 and sustainable engineering driving this demand. Additionally, engineers are seeing some of the highest changes to their skill compositions, requiring additional training.
~4,640 potential ISA candidates across the three priority areas with the potential for	Data analysts to earn \$3k per month after paying \$4k - \$9k for training Sustainability analysts to earn \$3.3k per month after paying \$6k - \$9k for training Engineers can expect to earn \$3.2k per month after paying \$18k - \$20k for training

Why Students Like ISAs

Accessible. ISAs have no collateral, no guarantor, and no prepayment required—students can focus solely on their degree.

Community focused. Students contribute to helping others achieve their educational goals and can pause payments if personal issues arise.

Affordable. Payments begin only when the student secures a job and has income.

Fair. Payments are capped at twice[1] the amount originally received.

[1] Different ISA operators use different caps. Some even use "dynamic caps" where the total amount owed changes as a function of time. At Waiser, we believe a 2X cap represents a fair and ethical application of a fixed cap approach, and we will use that as the reference in this report.

Regulatory Insights For Singapore

Are ISAs loans?

The legal review regarding the application of ISA in Singapore was conducted in collaboration with the Singapore office of Withers Worldwide (Withers KhattarWong LLP).

The purpose of the review was to determine whether ISAs are lawful in Singapore, whether any specific licensing requirements apply, and to identify other critical considerations related to the issuance of ISAs in the country.

The findings of the review confirm that ISAs are not loans and will not be considered as such, provided that key clauses are included in the ISA contract. These essential clauses shift the nature of the relationship between the parties involved, ensuring that the ISA provider is not entitled to income solely based on the passage of time. This avoids the classification of earnings as "interest-like" and ensures they are not subject to money lending regulations.

Structures to be avoided include certain ISA clauses that could potentially make an ISA "loan-like." for instance, if the maximum repayment amount varies based on the duration from when the education funding was provided (e.g., allowing earlier prepayment at a reduced multiple of the funding amount),

How to issue ISAs?

We considered options for incorporating "for-profit" and "nonprofit" entities.

While pursuing a nonprofit model may offer potential tax benefits, our analysis suggests that these advantages are uncertain and likely minimal. Additionally, operating as a charity in Singapore would subject the organisation to various restrictions, governance requirements, and oversight by the Commissioner of Charities, which may limit the potential of ISA deployment in Singapore.

As "investability" is a key factor for the long-term growth of ISAs, a for-profit structure is the most suitable option for launching ISAs in Singapore today.

A Singaporean entity can enter into an ISA with a student located outside of Singapore. However, in the event of a legal dispute with a foreign student or partner, such agreements may face significant limitations regarding enforceability in foreign jurisdictions.

In conclusion, establishing a for-profit entity in Singapore would enable the issuance of ISAs domestically and facilitate the piloting of ISA contracts abroad. Once foreign transactions reach a significant scale, local incorporations should be considered. Examples of potential legal structures can be found in Annex 2.

Governance Of ISAs: The Need for Ethical Standards

ISAs have the potential to be investable. When the investment is structured as debt, the return to investors can follow a traditional interest model. However, when the investor's return is "residual" or linked to the performance of the ISA, there is a risk that operators may be incentivised to increase the financial burden on students, potentially making the model extractive. Should ISAs take such a negative turn, their reputation will suffer, making it difficult, if not impossible, to establish partnerships with educational institutions or attract students willing to enter into ISAs.

ISAs present a particularly attractive investment opportunity for individuals and institutions focused on achieving positive social impact. However, the risk of the mechanism becoming extractive towards students could be a significant barrier to attracting capital.

We believe it is critical for ISA operators globally to adopt governance structures that prevent ISAs from becoming extractive and detrimental to the students they aim to serve.

In this regard, embedding specific provisions within company bylaws and adhering to ethical standards, such as those outlined by the Global ISA Alliance, can be vital risk mitigation strategies for investors. Most importantly, these measures help ensure ISAs reach their full potential and drive meaningful impact.

Who Wants To Fund ISAs And How

We consulted a range of stakeholders, including foundations, family offices, and high-net-worth individuals, many of whom expressed interest in ISAs from differing perspectives.

Foundations and Philanthropists

There is a significant pool of philanthropic capital dedicated to scholarships in Singapore and Southeast Asia. ISAs offer an attractive opportunity to increase the impact per dollar allocated toward educational financing. Many stakeholders indicated that if ISAs could demonstrate the ability to reach more students than scholarship funds managed through an endowment model, there would be substantial capital inflows. These would primarily take the form of grants and donations from Singapore and abroad.

We do not see ISAs as a replacement for scholarships but as a complementary tool. When combined with scholarships, ISAs provide a path toward increasing the average number of students reached per dollar allocated.

We believe philanthropic capital will be pivotal in the early years of ISAs and will help de-risk the product, establish a track record, and crowd in other funders at later phases.

Impact Investors

Impact investors have shown interest in providing equity, debt, and first-loss guarantees for ISA contracts and equity for the company managing them.

While their desired returns vary, they are all impact-first investors.

These investors are likely to play a key role in the early stages of ISA development and remain crucial in later phases.

Commercial Investors

Commercial investors seek market-level, risk-adjusted returns. As ISAs are a novel financial product and considered risky, commercial investors demand higher returns to offset perceived risks.

These investors may be better suited for engagement once ISAs have established a track record in Asia that de-risks the product and lowers the cost of capital.

Why Funders Like ISAs

Investible solution. ISAs use capital more efficiently than traditional scholarships, attracting additional funders.

Data driven. ISAs are allocated based on students' actual income potential, promoting productive career paths and an investment-in-education mindset.

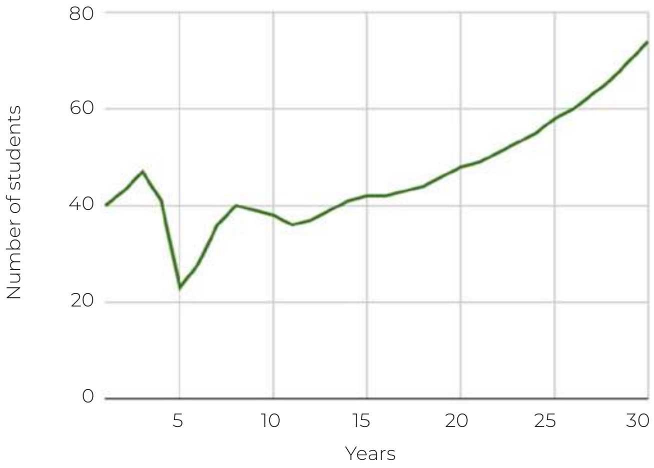
Impact Multiplier. By reinvesting capital, ISAs can support more students than traditional scholarships, creating greater impact.

Tailored to students. ISAs are tailored to students' needs and future potential, providing better support for improved career outcomes.

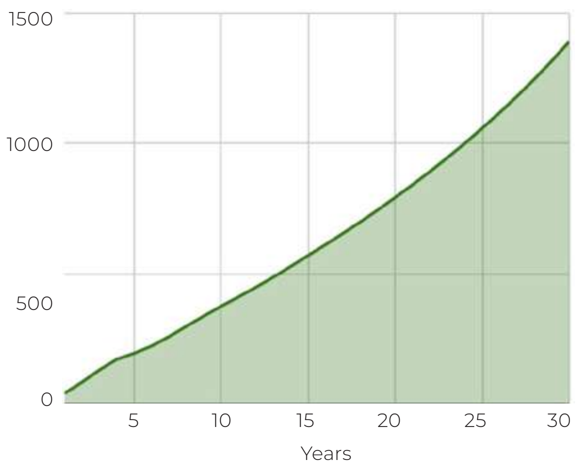
Modelling of an ISA fund in Singapore

Based on our market research, we modelled the number of students served per year by allocating 1 million USD in Singapore and projecting the impact over 30 years. Assumptions for this model are detailed in Annex 1.

Students served per year

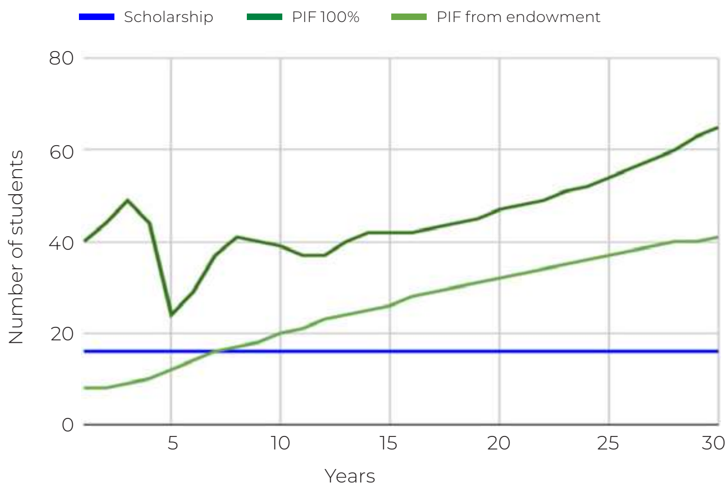


Cumulative number of students served

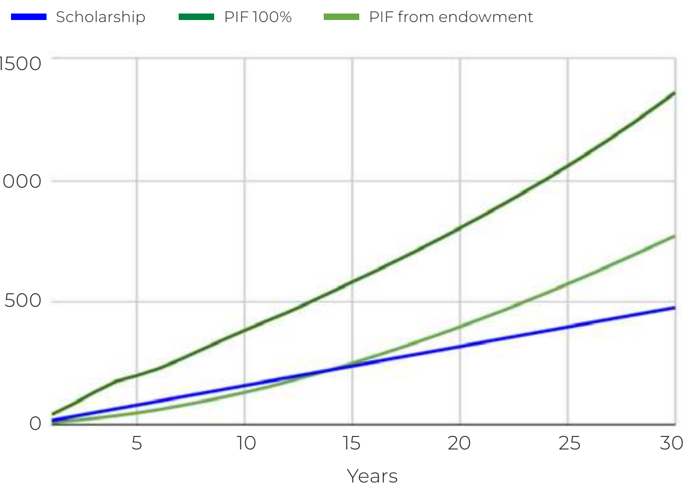


Based on funders' requests, we also created scenarios comparing the performance of an ISA fund with a scholarship fund managed as an endowment, where profits are allocated to scholarships or directed toward ISA. Assumptions for this comparison are outlined in Annex 1.

Students served per year



Cumulative number of students served



Case Study: the Singapore Institute of Management (SIM)

Bachelor degree in Computer Science (CS)

The Singapore Institute of Management (SIM) is a leading private university in Singapore, attracting thousands of students annually at bachelor's and master's levels.

The Bachelor of Computer Science (CS) program is a prime example of providing cutting-edge education with pathways to well-paid jobs. A degree in Computer Science at SIM can be transformative for students.

Students in Singapore have access to a range of financial support options to make this dream come true, from scholarships, to bursaries, to loans. Every year the CS bursaries programme at SIM receives significant demand for bursaries from students experiencing financial difficulties.

	No of UOW CS Bursary Applicants	No of UOW CS Bursary Recipients	Average Amount
2021	27	8	Either $6,000 (Tier 1) or $3,000 (Tier 2)
2022	48	31	
2023	46	16	

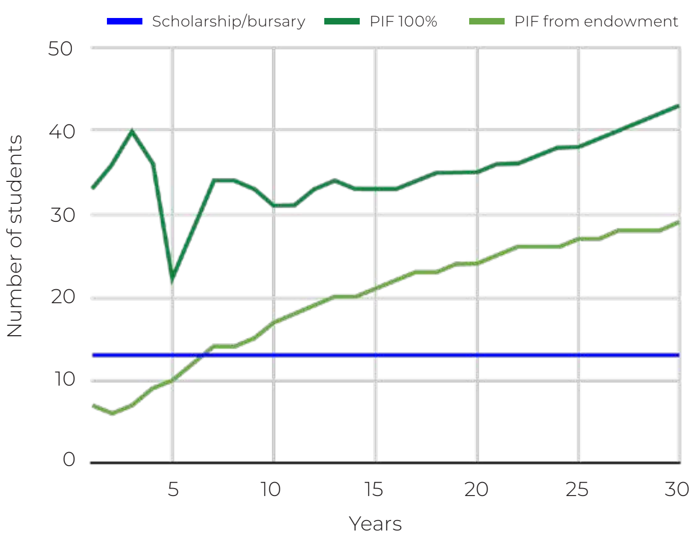
Allocating a pool of resources through an ISA/PIF model could close the funding gap more effectively than traditional bursaries, helping to support more students in a more financially sustainable way.

Below is a model showing how many students could be supported with 1 million SGD allocated to students at $6,000 per year (equivalent to a Tier 1 bursary). It assumes students will earn an average of $3,000 per month post-graduation and take 3-4 months to find their first job.

The model includes:

1. Scholarships via an endowment with a 200% government match and 4% annual returns disbursed as bursaries.
2. Full amount allocated to ISA/PIF (PIF 100% scenario).
3. Endowment with returns allocated to ISA/PIF (PIF from endowment).

Students served per year



Total students served over 30 years	
Scholarship	330
PIF 100%	1,053
PIF from endowment	595

The model demonstrates that ISA/PIF can support more students from the outset and help scale long-term impact, potentially increasing support for more students or allowing for higher bursary amounts.

However, there are concerns related to launching an ISA/PIF program:

1. Understanding and Adoption:
ISA/PIF is a new model, and it will take time to educate students on how it works, which may lead to initial confusion or dissatisfaction, potentially harming the institution's reputation.

2. Comparison to Bursaries and Loans:
Unlike bursaries, ISAs/PIFs require repayment, similar to student loans. While more flexible and accessible than traditional loans, some students may find ISA/PIF less favourable, potentially leading to fewer applications compared to bursaries or loans, at least initially.

3. International Students:
ISA/PIF may be most valuable for international students, especially for covering living expenses. However, international students will require more funds and may struggle to access jobs in Singapore, potentially leading to poorer financial performance for these allocations compared to students with access to the local job market.

High Level View Of ISA In Southeast Asia

Different landscapes

Southeast Asian countries vary significantly in their education systems, regulations, and cultural attitudes toward financial instruments.

These differences require ISA fund performance models to be tailored to each country's local education costs, state subsidies, private education roles, starting salaries, labour market conditions, and overall economic and political stability. We cannot assume that ISAs will reach investability in every market.

The legal outlook in each country is also critical for understanding ISA investment risks, making it impossible to generalise across the region. Therefore, entering new markets in Southeast Asia will require detailed market and legal studies, similar to the study conducted for Singapore.

Some commonalities

Despite these differences, Southeast Asian countries share key traits.

The young population makes up a large portion of the total demographic, and there is widespread aspiration among youths and their families to improve their quality of life, with education seen as a vital investment toward this goal.

Country outlooks

In the following pages, we highlight key facts from countries in the region sourced from World Bank datasets, Waiser ISA funding applications, and conversations with potential partners.

We believe that Vietnam, Indonesia and the Philippines should be the priority countries for future expansion, followed by Malaysia and Cambodia.

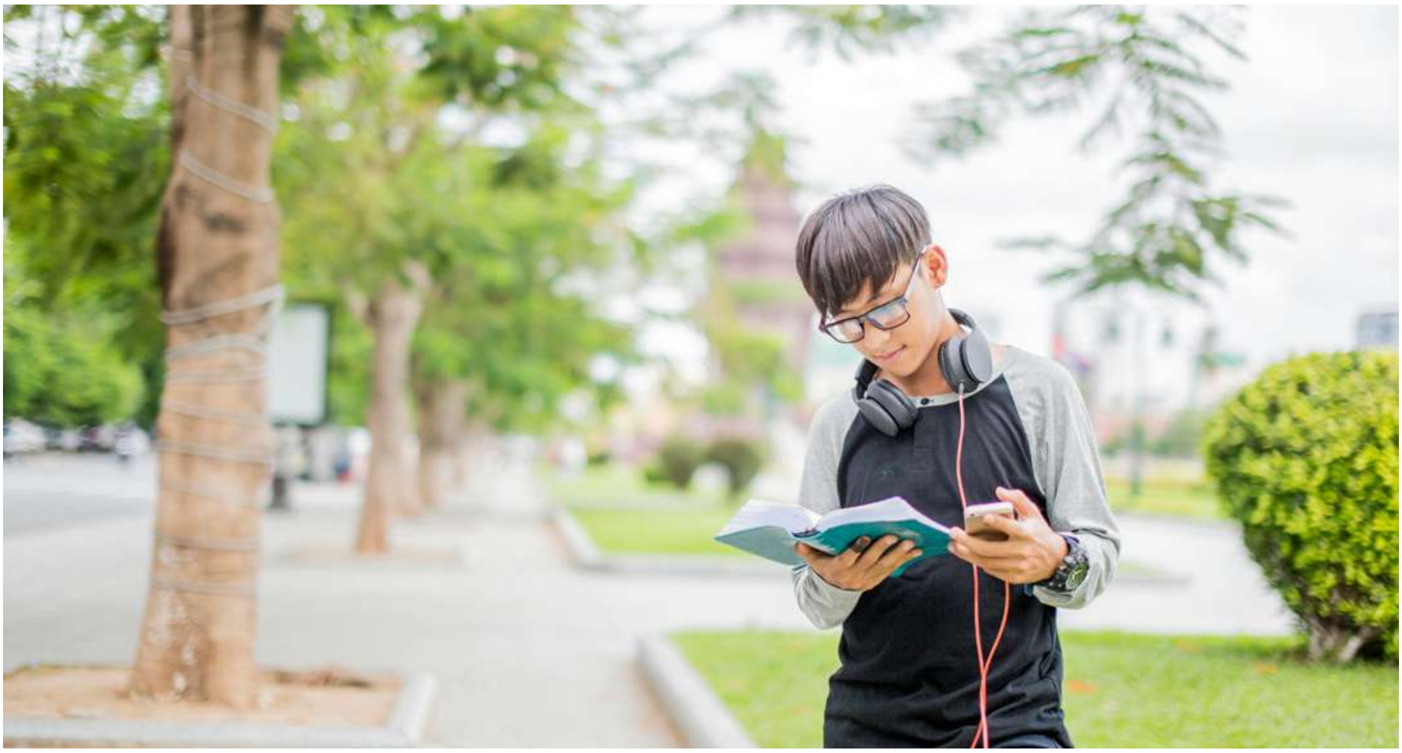
Selected Country Outlook

Cambodia

15% of Cambodians over the age of 25 hold a bachelor's degree. With a population of 13 million, enrollment rates are rapidly growing, and the young population shows strong financial literacy.

However, the quality of tertiary education remains a concern, with many students pursuing multiple degrees to improve job prospects—leading to overinvestment in both time and money. ISA providers could play a crucial role in mitigating this issue by providing market-fit data for specific courses.

Cambodia has seen the first ISA contracts tested in Southeast Asia, with funders and operating partners eager to expand the industry. Waiser already has distribution MoUs in place that are ready to activate once suitable funders are identified. The low cost of local education has already produced satisfactory returns on ISAs disbursed in the country, indicating strong potential for an investable capital pool.



Indonesia

48% of Indonesia's 275 million citizens are between the ages of 15 and 29. The country has one of the lowest formal education attainment rates in the region—only 12% of the population over the age of 25 has postsecondary education.

However, the market for skill-based training, such as coding boot camps, is growing, and ISAs could be particularly effective in boosting the vocational sector and enhancing the country's human capital.

ISAs have already been tested in Indonesia with mixed success, offering valuable insights for local operators.

In summary, Indonesia is a crucial regional market, and Waiser is already prepared to activate an MoU with a coding boot camp once suitable funding is secured.

Malaysia

Malaysia, with a population of 34 million, boasts one of the highest GDP growth rates in the region (8.7% in 2022) and has nearly 50% of its population between 15 and 29 years old. Its gross tertiary education enrollment rate is over 40%.

Malaysia is home to a large refugee population, and several funders and institutions are seeking innovative ways to fund the education of this vulnerable segment. However, due to current labour regulations and the magnitude of the refugee population, ISAs might only have a marginal impact on addressing the refugee education challenge.

In Malaysia, Waiser has been approached by an emerging education institution interested in using ISAs to replace scholarships, fostering a "Pay It Forward" culture among alumni. In summary, we have reason to believe that student unit economics can support ISA investability in some segments of the market.

Myanmar

Myanmar has experienced ongoing political instability in recent years, which has led to a significant rise in demand for education abroad, as students see it as a pathway to better opportunities outside of the country.

However, based on the funding applications Waiser has received, the Myanmar labour market and the region's capacity to absorb Myanmar talent do not currently support large-scale ISA investability. Specific segments, such as construction engineering in Yangon, show investment potential, and we are exploring additional areas to achieve sufficient aggregate scale.

Philippines

With 18% of its population over the age of 25 holding a bachelor's degree, the Philippines has one of the highest educational attainment levels in the region. A degree is often seen as essential for employment, even in roles that technically don't require it, leading to degree inflation and the rise of low-quality "diploma factories."

With 116 million people, the Philippines' population is relatively young. 54% of the population aged 15-29, has a good level of English proficiency, and holds a tradition of migration.

Investments in ISAs for university degrees and vocational training, such as nursing, have the potential for high returns, combining low cost of training and high employment rates, both at home and internationally.

While past ISA experiments had mixed results due to regulatory challenges, the Philippines remains one of the most promising markets for ISAs.

Thailand

Thailand, with a population of 72 million, was one of the first countries in the region to experiment with ISAs. However, its relatively low GDP growth and ageing population (only 38% aged 15-29) make it less ideal for ISA expansion.

The public education system is well-regarded, and historically, there has been little demand for education financing, including ISAs. As a result, Thailand is not seen as a priority country for growing ISA programs.

Vietnam

With a population of 98 million and an economy growing over 8% annually, Vietnam continues to invest heavily in technical education and skills-based training, boasting one of the highest tertiary enrollment rates in the region. While there is an ecosystem of financial players (mostly banks) supporting investment in education, the products are not specifically tailored to student needs.

Waiser has received multiple inquiries from educational institutions and funders interested in exploring ISAs, particularly for skill-based learning (e.g., English language and nursing).

We consider Vietnam a high-priority country for exploring large-scale ISA applications.

A Phased Approach For The Industry

Benefits of a phased approach

Organisations looking to launch ISA operations should consider a phased approach similar to the Waiser example shared below.

Waiser has made progress in this direction, developing experience that similar organisations may find valuable. Pieces of the infrastructure Waiser is establishing can be immediately leveraged by operators who choose to collaborate with us on specific aspects of ISA management.

For the "Scale Exponentially" approach to succeed, it is essential that operators, funders, and educational institutions work together. This collaborative approach will benefit all parties and, most importantly, provide students with more flexible financial options and better career planning resources.

A Phased Approach To ISA Development For Operators

Example of phases to consider

Phase	Goal	How	Sources of capital
Start	Establish the local infrastructure, achieve economies of scale, and lower unit costs.	Create an SPV and begin issuing ISAs in Singapore with select local education partners. Focus on market creation by educating students and funders about the benefits of ISAs.	Primarily philanthropic funds, with contributions from local impact investors.
Grow	Reach break-even and expand into new education niches across Southeast Asia.	Focus on serving a large number of students. Create local SPVs only when necessary.	Continue leveraging philanthropic capital to attract impact investors and prepare for commercial capital access.
Expand Exponentially	Fund 1,000,000 years of education by 2050.	Prioritise cost control and productivity to achieve the unit economics needed to attract commercial capital.	Seek large volumes of impact-aligned, non-extractive investments, including the potential issuance of bonds.

Conclusion

This research highlights the opportunity for ISAs to create significant positive social impact by increasing access to education in Singapore and Southeast Asia. In Singapore, there is a clear legal framework for ISA investing and a supportive ecosystem of funders that could establish Singapore as a regional hub for education investments.

A capital pool dedicated to ISAs can become investable, attracting substantial contributions from philanthropists, impact investors, and eventually, commercial investors.

ISAs also have the power to drive systemic change by providing students with valuable insights, leading to better decision-making and fostering competition among educational institutions to offer courses with strong job outcomes.

The ISA industry requires support to develop. The experiments from early movers are helping to de-risk the field for others. In these early stages, targeted philanthropic investments can catalyse an outsized and long-lasting impact, reaching millions of students for decades to come.

Contact

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Annexes

1

Assumptions To The Model

General Information	
Amount	1,000,000
Allocation per student	5,000
Inflation	Not included

Scholarships from return of an endowment	
Return on the endowment	5%
% used for scholarship	80%
Operating costs	NA
Principal matching	100%
Use of principal	None

Cost of PIF operations	7.00%
Default rate	15%
Years of contract including studies	6.2
Years of study	1.2
Years contributing	**5**
Cap	**200%**
Starting salary	3,000
Capital reallocation	80%
Salary growth	1%
Percentage of income	5%

Evergreen status achieved?

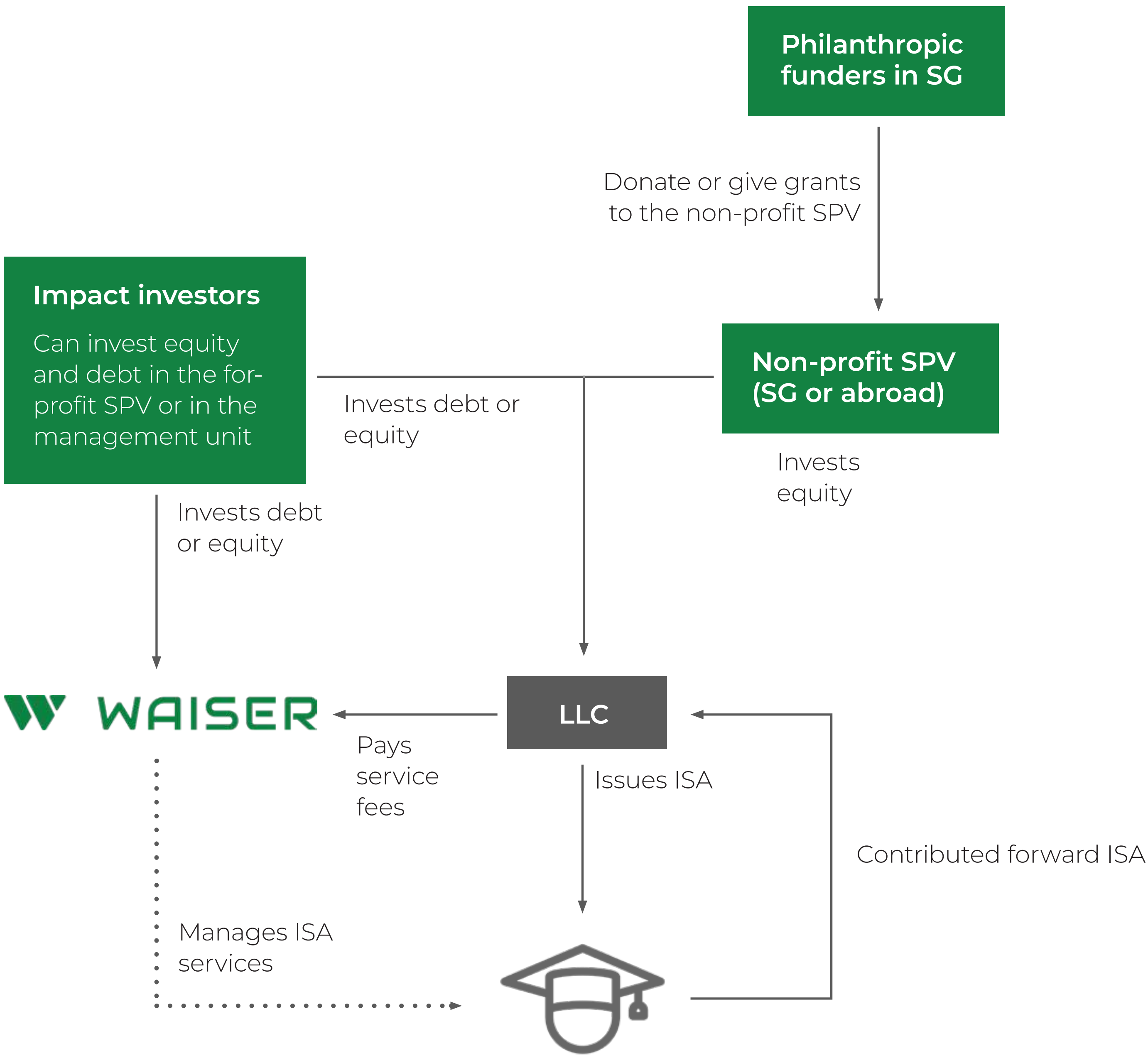
Yes

ISA individual contract gross IRR

13.3%

2a

Structuring In Singapore Option 1



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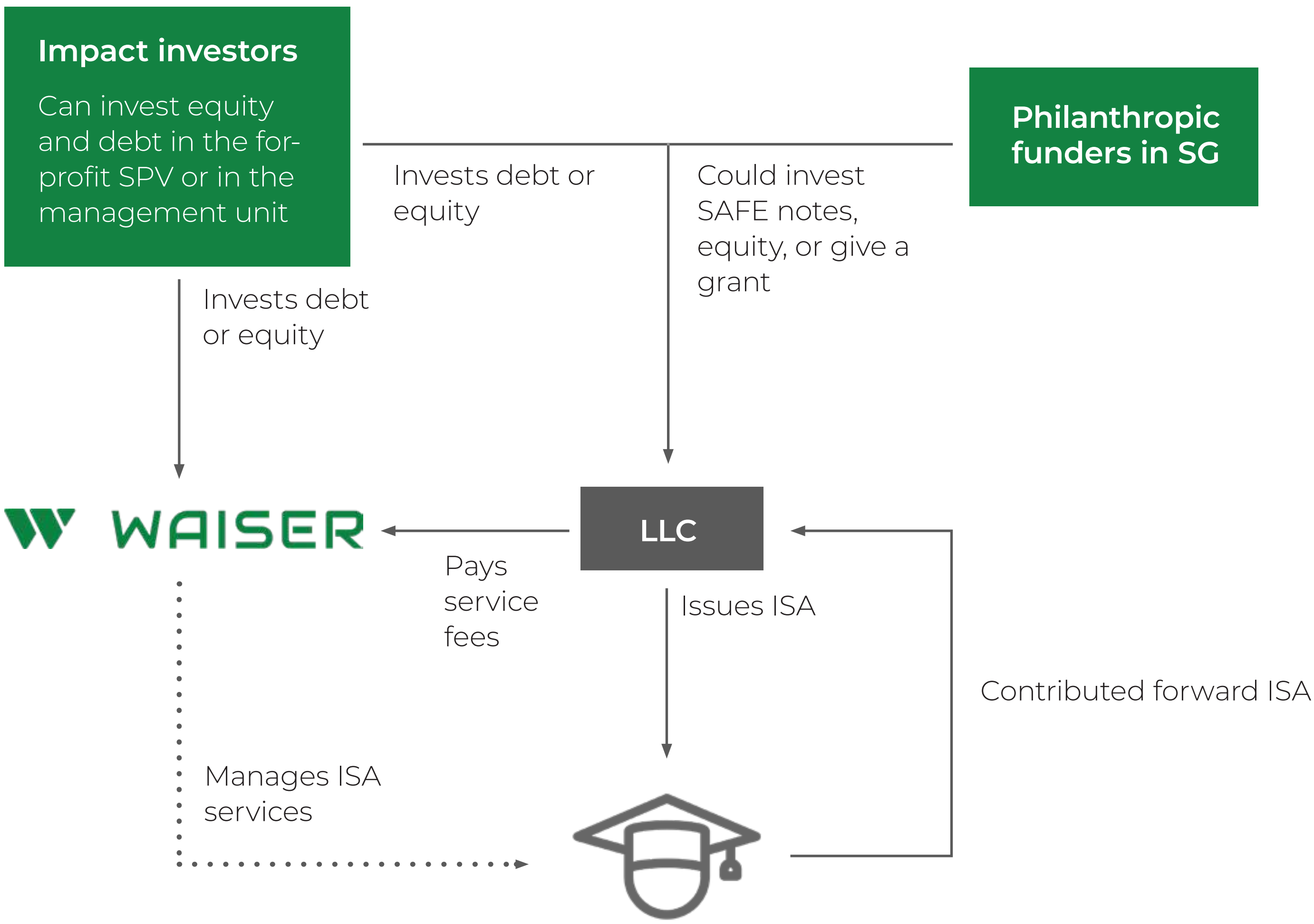
Structuring In Singapore Option 2



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What Are Ethical ISAs?

Ethical ISAs are issued by members of the Global ISA Alliance that is defining criteria to protect students and the integrity of the overall process.

Summary of The Global ISA Alliance "CARE" Criteria

Customer Centric	Partnership with customers, provide transparent information, avoid excessive burden, and implement supportive measures for low-income members
Accessible and Affordable	Anybody can have access to the capital, and the cost to the student should be in line with other sources of capital in that country
Respect and Professionalism	The provider shall strictly adhere to global best practices in consumer protection as well as the specific local regulation.
Education/training Focused on economic improvement	The utilisation of an Income Share Agreement (ISA) shall be limited to financing educational purposes in a broad context or the ultimate goal of improving the income and the economic condition of students.

GLOBAL ISA ALLIANCE

It provides a central platform for ethical ISA organizations to collaborate, navigate regulatory challenges, and present positive ISA outcomes to the world. By addressing these critical issues, Global ISA Alliance aims to foster the growth and sustainability of ISAs while ensuring their ethical and transparent operation. The Alliance currently has 9 organizations with operations across 4 continents. Further, they have collectively generated over US$ 356m of ISAs, helping over 28k students achieve their educational dreams. Most of the organizations are expecting to increase or significantly increase activity in the coming year.

4
Acronyms

ISA: Income Sharing Agreements

LLC: Limited Liability Corporation

CLG: Company Limited by guarantee

PIF: Pay It Forward contract. PIF and ISA can be used interchangeably

IRR: Internal Rate of Return

SPV: Special Purpose Vehicle

TVET: Technical and Vocational Education and Training

SEA: Southeast Asia

Waiser is the first in Asia committed to providing ethical ISAs offering extra care and protection to students and educational institutions.