



Company Alignment with the U.N.'s Sustainable Development Goals

A Case Study

Provided by Elevar Equity in Association with the EMPEA ESG Community

Varthana | GP: Elevar Equity

Varthana's Story

Varthana, founded in 2013 by Steve Hardgrave and Brajesh Mishra, typically provides infrastructure and project loans to help affordable private school entrepreneurs grow and improve their schools. Affordable private schools usually charge a monthly fee of less than US\$25 per student. Varthana's domain expertise is based on a cash-flow underwriting model customized for this segment of the education market. The loans—secured or unsecured—are used for various expansion and improvement projects, such as new classrooms, dedicated bathrooms for girls and computer and science labs. Varthana also provides short-term working capital loans catering to the tuition cycle of the schools and insurance products. As of April 2018, Varthana has a portfolio of over US\$115 million in loans and a branch network spread across 13 states, assisting more than 3,700 schools and reaching more than 2.5 million children and over 88,000 teachers.

Its distribution channel can also be leveraged to offer non-financial services or "beyond loan" products to its network of school customers. Initiatives include consulting for school entrepreneurs to improve student-teacher engagement and advisory services, such as project planning and capital allocation. These products further strengthen Varthana's relationships with school entrepreneurs and pave the way to enhance the quality of education through profitable and sustainable solutions.

The Role Played by Private Capital

From the very start, impact measurements were baked into Varthana's business; hence, aligning with the U.N. Sustainable Development Goals (SDGs) was straightforward and

did not require any changes to the business model. Varthana's model contributes to SDG Goal 4 (Quality Education) by allowing school entrepreneurs to build and scale their affordable private schools, while addressing a core need: access to education. Government schools often suffer from underfunding and overcrowding; affordable private schools offer parents the option to invest in a higher-quality education for their children. Indeed, Elevar's interactions with customers across India confirm that quality education for children is the primary priority for parents and a core part of the household budget allocation, especially within low-income communities.

Varthana also contributes to SDG Goal 9 (Industry, Innovation and Infrastructure) by specifically addressing target 9.3: "increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets." Most affordable private schools are started by local entrepreneurs passionate about education. Many invest personal resources in purchasing land or buildings for an initial set of classrooms, but they often run out of capital after their initial build. Traditional financial institutions, such as banks, are hesitant to lend to this segment, as they view schools as philanthropic endeavors (schools in India are registered as non-profit trusts) rather than enterprises. Local or informal money lenders that often become the source of financing for affordable private schools charge extremely high and variable interest rates. By providing access to affordable credit, Varthana empowers small school entrepreneurs to improve the quality of their schools and finance growth.

Elevar has worked closely with Varthana since the idea stage of the company, hosting the founders in its office and subsequently investing in the company after its launch in early 2013. Elevar supported Varthana's management team through introductions to

consultants and local players that provided advice on the non-banking financial company sector, including operations, market positioning and branding. In addition, Elevar worked with Varthana in establishing the proof of

THE COMPANY



Essentials

Year Founded: 2013

Website: varthana.com

Country of Operation: India

Sector: Financials and education

Business Focus: Financial services for affordable private schools

Size: Total loan portfolio of US\$115 million at the end of April 2018

GP: Elevar Equity, a venture capital firm with investments in India and Latin America (elevarequity.com)

Date of Investment: 2014, 2016 and 2018

Investment Amount: US\$5.6 million

Highlights

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concept for their business and their unit economics model and provided guidance and support with talent acquisition, governance and technology implementations. The company and Elevar together identified appropriate metrics at each stage. For example, in the early days, the company started tracking the number of schools as a measure of outreach and scale. Today, in addition to the number of schools, the company also tracks the number of repeat loans from borrowers as a measure of customer engagement and success. Furthermore, Varthana and Elevar worked closely to help attract capital from early-stage investors, such as LGT Impact Ventures, Omidyar Network and Kaizen PE, as well as larger private equity players, such as Chryscapital.

Measuring Impact

Elevar's impact framework identifies and assesses business metrics that best demonstrate the progress of the firm's portfolio companies via three main dimensions: community, business model and scale. This is consistent with Elevar's belief that, for lasting impact, it is important to identify business metrics that speak to impact as well as business performance—in effect, a commercial approach to impact investing.

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Direct goals: Elevar first identified the SDGs that are directly aligned with the primary business of each of the firm's portfolio companies. Mapping the impact metrics of Elevar's portfolio companies to the direct goals was accomplished by parsing through the respective targets associated with the relevant SDGs. In Varthana's case, Elevar saw their business model aligned with Goal 4 (Quality Education) and Goal 9 (Industry, Innovation and Infrastructure).

Positive externalities: There are some SDGs that are not directly targeted by the primary business of Elevar's companies, but the focus on direct goals often leads to positive externalities that spill over to other SDGs. These positive externalities portray Elevar's comprehensive contribution towards the SDGs but do not always have measurable metrics. For example, in Varthana's case, by expanding access to affordable education, Varthana has an indirect impact on SDG 1 (No Poverty), SDG 5 (Gender Equality) and SDG 10 (Reduced Inequalities).

SDG

Contribution(s) to the SDGs



- Elevar defines affordable private schools as those schools with tuition limits lower than the generally accepted monthly fee of around US\$25 per student. Based on this, Elevar measures the number of loans to affordable private schools as a percentage of Varthana's total number of loans outstanding in a quarter. Elevar also measures the cumulative number of students at Varthana-financed schools in order to capture the ultimate impact.



- In addition to measuring the number of loans to affordable private schools, Elevar measures the number of loans originated to pre-existing borrowers (or schools) as a percentage of total loans originated in a given quarter. This metric helps track customer stickiness and is reflective of how viable Varthana's products are in helping school entrepreneurs, who had little or no access to affordable credit.



Membership in the EMPEA ESG Community is open to all individuals at EMPEA member firms who have an active interest in ESG in the emerging markets space. This Community provides a platform to share resources and advice for EMPEA members considering how to build and/or expand their ESG management strategy, as well as offers practitioners and experts a forum to advance the development of ESG best practices through information exchange, research and the aggregation and development of innovative resources.

Find out more and get involved at [EMPEA.org](https://www.empea.org)

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