



India - Higher Education Sector

Opportunities for
Private Participation



#01

Overview

The Market

With a median age of 25 years, India has over 550 million people below the age of 25 years. According to Census figures, over 32 per cent of the 1.1 billion population is between the age group 0-14. This means that the number of people in India needing primary and secondary education alone exceeds the entire population of the USA. Since these students will be seeking higher education in India over the next decade it illustrates the sheer size of the Indian education market. Presently about 11 million students are in the Higher Education system. This represents just 11% of the of the 17-23 year old population. The government hopes to increase this to at least 21% by 2017- a target which still falls short of the world average.

With the emergence of India as a knowledge-based economy, human capital has now become its major strength. This has put the spotlight on severe inadequacies of India's infrastructure for delivery of education, particularly higher and vocational education.

Demand-Supply Gap

Indian society puts a premium on knowledge and its acquisition - spending on education has figured as the single largest outlay for a middle class household after food and groceries. With its rapidly expanding middle class, India's private expenditure on education is set to increase manifold.

India's public expenditure on education (centre plus state expenditure) has ranged between 3.26 % and 3.85% from 2004-05 till 2009-10 and this needs to increase if it were to come at par with the expenditure incurred by the developed economies.

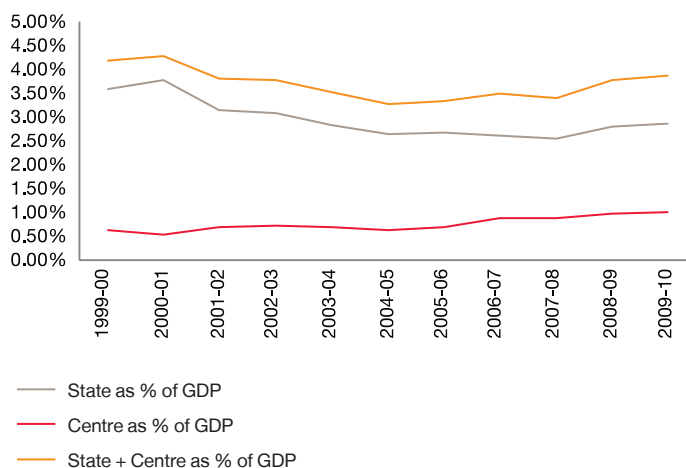
While there has been some private investment in setting up educational institutions, there remains a glaring mismatch in demand and supply, particularly in high quality institutions.

Example - only 1 out of approximately 150 applicants gets

admission into the elite Indian Institute of Management (IIMs) compared with the ratio of 1:10 for MIT. It is therefore not surprising that an industry chamber has recently reported that 450,000 Indian students spend over USD 13 billion each year in acquiring higher education overseas.

To reduce the demand supply gap in school education, it has been proposed in the 12th FYP (2012-17) to set up 6,000 schools at block level as model schools to benchmark excellence. Of these, 2500 will be set up under Public Private Partnership. Further, easy availability of education loans to students it has been proposed in Budget 2012-13 to set up a Credit Guarantee Fund for this purpose.

Spending on the education sector as % of GDP



Source: MHRD report titled "Analysis of budget expenditure on education (2007-08 to 2009-10)"



Policy Regime

- 100% FDI in education allowed through automatic route.
- A high-powered advisory body - National Knowledge Commission (NKC) set up
- NKC recommendations tremendously successful in increasing Government's focus and plan outlay on education
- NKC has recommended that the number of universities increase from the present 370 to 1500 by 2015, considered a highly ambitious target, but inadequate to meet demand for quality education
- Government has identified expansion, inclusion and rapid improvement in quality throughout higher and technical education system as the core focus of its 11th Five-Year Plan (2007-12)
- For higher education, an expenditure of USD 37.13 billion has been projected to achieve the proposed objectives during the 12th Five Year Plan (2012-17)
- In December 2010, AICTE notified regulations for grant of approval of technical institutions. The AICTE permitted Section 25 Company to act as a sponsoring body of a technical institute with the rider that no foreign investment (directly or indirectly) will be permitted in such a company

The Opportunity for Private Participation

Government resource allocation is inadequate to meet its own targets (30% GER by 2020) leaving enough scope for private participation. The Eleventh Five Year Plan (2007-12) allocation for technical and higher education has been raised by almost nine fold to ~USD 18.8 billion from ~USD 2.1 billion in the Tenth Plan. However, this is still a fraction of the estimated requirements for achieving the targets.

#02

Regulatory Framework

*Central theme of Regulators and Courts:
“Education should be a not for profit activity”*

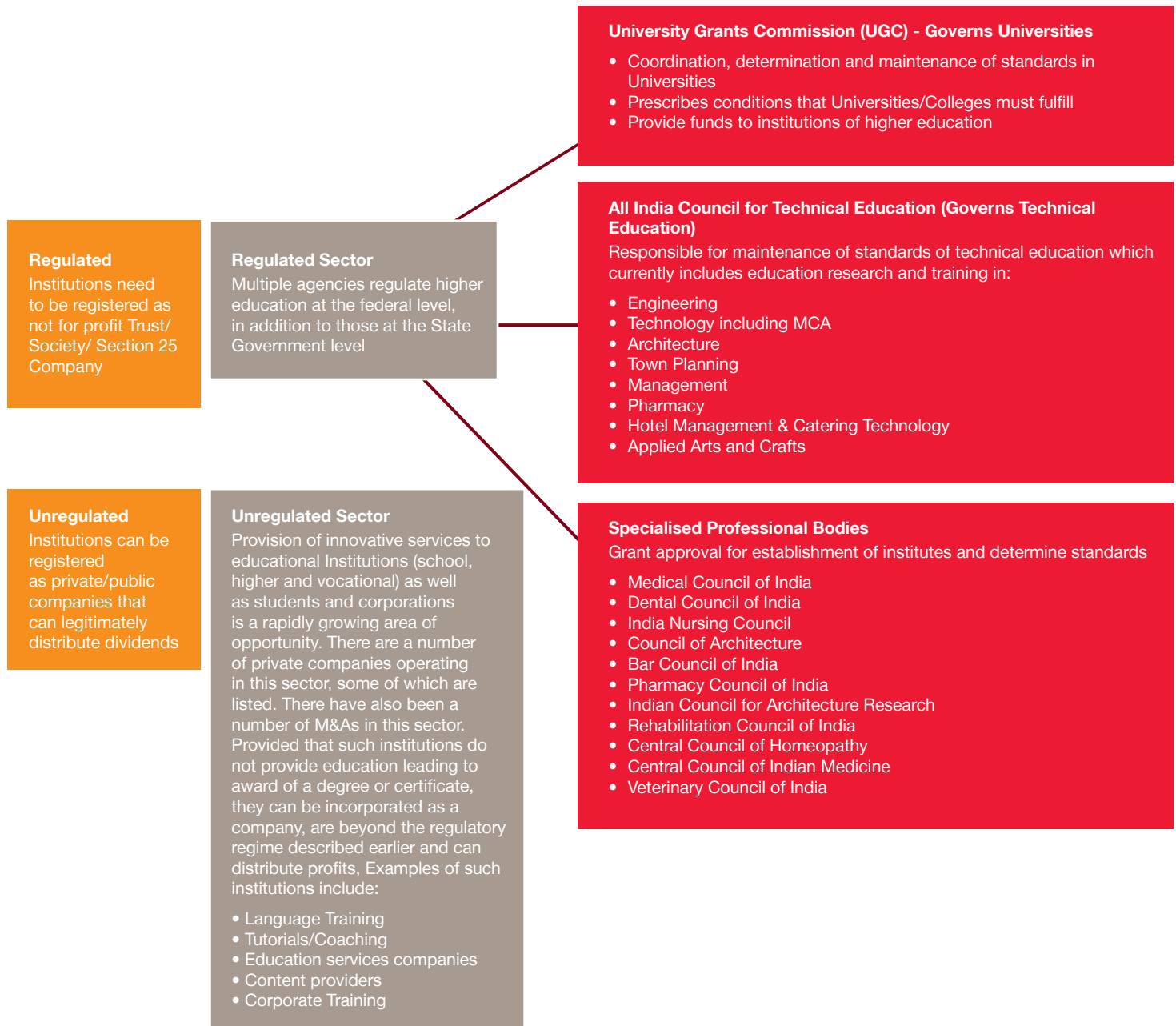
India has a federal set-up and the Indian Constitution places ‘Education’ as a concurrent responsibility of both the Centre and the State. While the Centre co-ordinates and determines standards in higher and technical education, school education is the responsibility of the State. The key policy making agencies for higher education are:

- Ministry of Human Resource Development (Higher Education Department) - lays down the National Policy on Education
- Central Advisory Board of Education (CABE) - coordination and cooperation between the Union and the States in the field of education
- State Councils for Higher Education – coordination of roles of Government, Universities and apex regulatory agencies in higher education within the State.

Though a significant part of the Indian higher education system is regulated, there are certain areas that are not. As a result, the opportunities for the private players can be divided into two segments as shown on the following page.



Market segmentation



University / College Education

A University can be set up only through a legislation passed by Parliament or a State Legislature. Alternately, UGC can confer 'deemed/ denovo university' status to an institution which can then grant degrees.

Colleges are either affiliated to a University or are independent. Only students of colleges affiliated to Universities can get degrees.

The regulatory authorities, entity options and implications for setting-up Universities/Colleges are set out in the chart below. Since these need to be registered as not for profit entities, they cannot distribute profits. However, it is possible to structure provision of services to them through private companies.

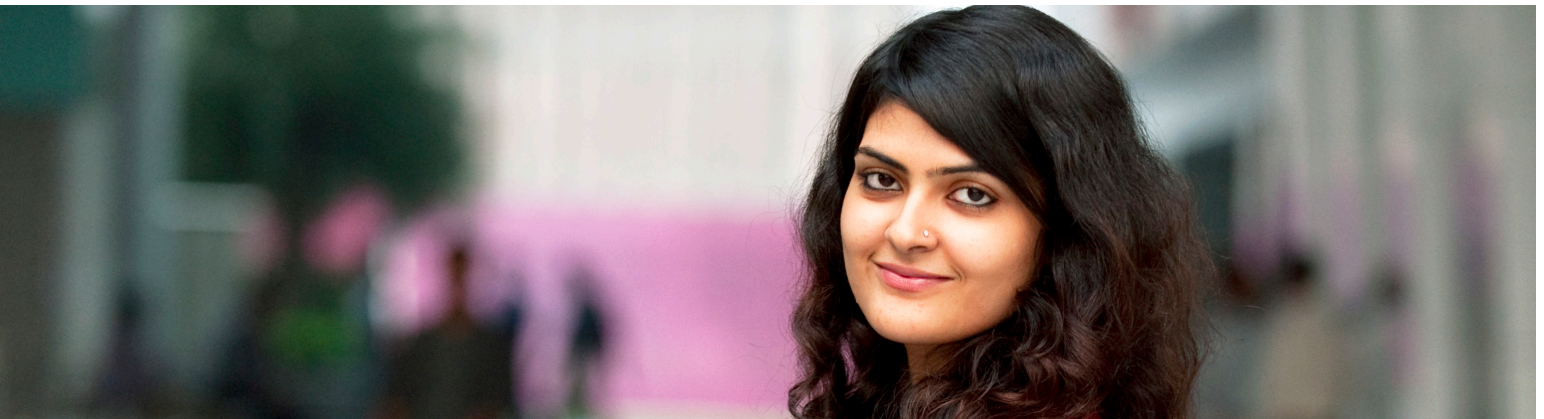
Vocational Education

The Government has been actively encouraging private participation in vocational education – both through private enterprises and public private partnerships. The government has also announced incentives including financial assistance for public private participation in Industrial Training Institutes.

The All India Council for Technical Education (AICTE), Ministry of Human Resource Development (MHRD) recently launched the National Vocational Education Qualification Framework (NVEQF) to be implemented in polytechnics, engineering colleges and other colleges in the university system from 2012-13. This is expected to cater to at least 5 million students applying for vocational degrees and diplomas every year, which can provide self-employment or meaningful employment even if 1/3 of the institutions are approved to conduct these programmes. AICTE would provide the requisite statutory approvals to any institutions wishing to conduct these programmes from the academic year 2012 throughout the country. The institutions can choose a maximum of 500 students per institute with 100 students per sector in any five sectors out of the sectors identified.

Services in the Education Sector

There is a vast opportunity for provision of innovative services. Given regulatory constraints, lack of infrastructure and severe competition for quality education, there is a large and rapidly growing market for coaching and tutoring services imparted through new and innovative means, particularly the internet. In addition corporates are increasingly outsourcing skill training activities to specialised institutions.



Education Sector Regulatory Heat Map

K- 12	Higher education	Professional education	Vocational training	Skill development	Other educational services
<i>Comprises of Schools</i> <ul style="list-style-type: none"> Affiliated to Indian Board Affiliated to an International Board (IB) 	<ul style="list-style-type: none"> University College Distance Education Research 	<ul style="list-style-type: none"> Technical Education Professional courses 	<ul style="list-style-type: none"> ITIs, ITCs, private vocational colleges 	<ul style="list-style-type: none"> Unregulated vocational courses (languages, training, Finishing school) 	<ul style="list-style-type: none"> Tutoring Course content Multimedia Test preparations Infrastructure Books
<i>Regulatory Control</i> <ul style="list-style-type: none"> Central & State government Affiliating Board (CBSE/ ISCE etc) 	<ul style="list-style-type: none"> UGC AICTE State Laws 	<ul style="list-style-type: none"> AICTE Statutory Authorities (BCI, MCI, NCI, DCI , DGCA etc) 	<ul style="list-style-type: none"> DGET Various ministries/ dept of vocational education 	Not Regulated	Not Regulated
<ul style="list-style-type: none"> IB – Respective Board 					
<i>Choice of entity</i> <ul style="list-style-type: none"> CBSE – Society/Trust ISCE – Society/Trust/ Section 25 Company States: Differs to States: Depending on Respective Regulation 	<ul style="list-style-type: none"> Society Trust Section 25 Co 	Society/ Trust / Section 25 Co. (AICTE & MCI recently allowed Companies)	<ul style="list-style-type: none"> Typically Society/ Trust if regulated Unregulated in certain trades 	Not Regulated	Not Regulated
<ul style="list-style-type: none"> IB – Possible if State laws permit 					
Some Additional Conditions Min Land Requirements	<ul style="list-style-type: none"> Minimum infrastructure requirements Fee regulation 	<ul style="list-style-type: none"> Minimum infrastructure requirements Fee may be regulated 	<ul style="list-style-type: none"> Minimum infrastructure requirements 	Not Regulated	Not Regulated

■ Highly regulated
 ■ Greater autonomy
 ■ Not regulated

#03

Regulatory Framework- Foreign Institutions

Entry of Foreign Entities

While 100% FDI in companies engaged in higher education is allowed on the automatic approval route, regulatory issues have constrained the actual flow of FDI. The major bottle-necks have been the “not for profit principle” and lack of clarity on existing regulations. AICTE prohibits foreign investment either directly or indirectly in the sponsoring entity.

AICTE regulations for Foreign Universities

AICTE has in place regulations for Foreign Universities / Institutes which propose to collaborate / enter into twinning arrangement (where a student does a part of the course in India and part overseas) in Technical Education. The broad features of these regulations are:

- Franchise is not permitted
- Fee/seats prescribed by AICTE
- Degree/institution to be recognized in the home country
- Compliance with affirmative action mandatory
- For degree granting institutions, affiliation / tie-up with Indian University mandatory

Foreign University Campuses – Legislation Awaited

The Foreign educational institutions (Regulation of entry and operations) Bill, 2010 has been tabled in Parliament.

Key features of the Bill (based on newspaper reports) are:-

- Own Campus
- Franchise route not permitted
- Prior Central government approval mandatory

- Embassy to certify antecedents of the University
- Reservation applicable
- Fee and admission policy will be regulated
- No profiteering/commercialisation allowed
- Some relaxations for universities of excellence if they fulfill certain conditions
- Requirement of a deposit of INR 50 crore (~ USD 10 million) as corpus fund

Possible Collaborations by a Foreign University / Institution in the current regulatory framework

Although there are regulatory hurdles it is possible for an overseas education provider to look at opportunities in India, subject to appropriate structuring. These are summarised below:

University	College	Technical Institute	Non-Technical Institute/ Content Providers
Provision of Course Content	<ul style="list-style-type: none">• Provision of Course Content• Provision of Foreign Degree*	<ul style="list-style-type: none">• Provision of Course Content• Provision of Foreign Degree*	<ul style="list-style-type: none">• 100% owned institute

*Affiliation/tie-up to local university mandatory

#04

Growth, Key Issues & Challenges



Growth trends

Type	No.	Growth trends	Examples
Universities (under Govt.)	329**	Growing Slowly	Delhi University
Private universities	102**	Emerging on the scene	Sikkim Manipal University, Amity University
Deemed universities	130**	Growing slowly	Manipal Academy of Higher Education , Indian Institute of Foreign Trade
Government Colleges	7450*	Growing slowly	Government Law College, Mumbai
Private Colleges	23874*	Rapid Growth	Rajalakshmi Engineering College, Chennai
Distance Learning	146*	Growing	IGNOU, Sikkim Manipal University
Vocational :- • Government ITIs • Private ITIs/ ITCs	2027^ 7305^	Growing slowly Growing	Industrial Training Institute, Shahdra NSIC Technical Service Centre
Foreign Institutions	150**	Awaiting new law	Asia Pacific Institute of Information Technology (APIIT) tie up with Staffordshire University, U.K.
Education Services Providers	Un-reported	Rapid Growth	Educomp Solutions, Career Launcher
Medical Colleges	335^^	Growing	Rajiv Gandhi Institute of Medical Sciences, K J Somaiyya Medical College
Healthcare Management	50^^^	Rapid Growth	Institute of Health Management Research (Jaipur)

* UGC Annual Report 2009-10

** UGC Website

^ DGET

^^ Colleges Teaching MBBS as per Medical Council of India Website

^^^ PwC Estimate

Key Issues and Challenges for Foreign Participation

- The “Not-for-Profit” entry barrier for private capital.
- Regulatory framework is a major barrier. Multiple approvals are required. Policies are also inconsistent. For instance, though the FDI Policy permits 100 % FDI through automatic approval route in the education sector, AICTE prohibits foreign participation - direct and indirect in JVs in Indian institutions .
- UGC not open to recognizing Foreign Universities
- Limitations on intake of students (quotas, foreign students, mode of admission etc.)
- Limited choice of entity – Trust, Society or Section 25 company
- Lack of availability of trained faculty
- Course content not in line with the expectations of the industry leading to poor employability
- Low industry interface
- Excessive and multiple regulators and regulations
- High capital expenditure requirements for setting up Higher Education institution with quality infrastructure

PwC’s Service offerings

PwC offers a comprehensive range of services in the education sector:	
Tax & Regulatory Structuring	<ul style="list-style-type: none">• Advice on evolving a tax efficient and regulatory compliant structure keeping in mind regulatory restrictions relating to entities, level of return, repatriation, exchange control and other related issues• Implementation assistance• Tax advice in relation to various tax incentives, special dispensations, transaction taxes, corporate tax, expatriates taxation and transfer pricing• Transaction documentation drafting and review• Assistance in structuring contracts, tax reviews, health checks and due diligence from an indirect tax perspective (including service tax)
Regulatory Approvals/ Representations	<ul style="list-style-type: none">• Assistance in obtaining relevant regulatory approvals• Assistance in making representations/seeking clarifications from regulatory authorities
Advisory Services	<ul style="list-style-type: none">• Feasibility study and market assessment• Joint venture partner search and due diligence• Transaction support including valuations• Performance improvement• Developing State-level education sector vision• Sector/ Organisational restructuring• Institutional strengthening
Information Technology Enablement	<ul style="list-style-type: none">• Advice and assistance in system’s integration and Implementation – Students’ Lifecycle Management and e-Governance solution• Implement ERPs like Oracle, SAP and Microsoft – hosting solutions either on premise or on cloud• Development of customized solutions• IT effectiveness review, strategy and IT Blueprinting• Conduct training to ensure “Industry readiness” of students• Assistance in development of content management and archiving system• Assistance and advice on “E-learning” strategy and implementation• Integration of mobile devices• Data security, mining and reporting intelligence• Managed application services

Notes

Contacts

Dhiraj Mathur

National Education Leader
Phone: +91 124 3306005
Email: dhiraj.mathur@in.pwc.com

Bharti Gupta Ramola

Executive Director
Phone: +91 124 3306020
Email: bharti.gupta.ramola@in.pwc.com

Nikhil Bhatia

National Tax Head- Education
Phone: +91 22 66891488
Email: nikhil.bhatia@in.pwc.com

North

Dinesh Arora

Executive Director
Phone: +91 124 3306015
Email: dinesh.arora@in.pwc.com

Rohin Kapoor

Phone: +91 124 3306044
Email: rohin.kapoor@in.pwc.com

Rahul Dhandhanias

Phone: +91 124 3306043
Email: rahul.dhandhanias@in.pwc.com

South

R Sridhar

Phone: +91 44 42285059
Email: r.sridhar@in.pwc.com

East

Ashok Varma

Phone: +91 33 44043099
Email: ashok.varma@in.pwc.com

Arup Dutta

Phone: +91 33 44043094
Email: arup.dutta@in.pwc.com

West

Dushyant Singh

Phone: +91 22 66681525
Email: dushyant.singh@in.pwc.com

Poonam Prabhu

Phone: +91 22 66891416
Email: poonam.prabhu@in.pwc.com

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