

# Emerging Opportunities for Private and Foreign Participation in Higher Education

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# Foreword

India is at a critical juncture today – on the one hand it is a fast growing economy, waiting to take its position as a global force. On the other hand, India faces the challenge of leveraging its vast demographic potential by educating and training over 130 million people in the age group of 18-23 years with skills and capabilities relevant to the demands of a modern knowledge based economy. It is truly a daunting task, one that we may not be able to accomplish without the participation of the private sector.

This sector is seeing exciting times with a lot of changes in the offing. The Government has set in motion comprehensive reforms of the education sector to completely restructure the legal and regulatory environment of higher education. Several important bills – relating to accreditation, foreign universities, educational tribunals and unfair practices - have been introduced in the Parliament.

However, suspicion and mistrust of the private sector still remain deeply ingrained in some policy makers and academic circles in India. While there are many issues that merit extensive debate, we are focusing on opportunities for participation by the private sector and foreign players. This report examines the various models of private participation and focuses in particular on a growing basket of innovative services being provided outside the formal education sector as well as to it.

The Government has recently approved and adopted a symbol for the Rupee. The symbol imparts a distinct character and identity to our currency and highlights the strength of the Indian economy. This is a matter of great national pride for all of us and we are delighted to state that this will be the first PwC report to use this symbol.

Given the vital importance of this sector, we are happy to be knowledge partners to the Summit on Higher Education being organised by the Indo-American Society. This report is our contribution to this important event. We hope our report will provide new insights and add value to the ongoing national debate on education.



Jairaj Purandare  
Executive Director &  
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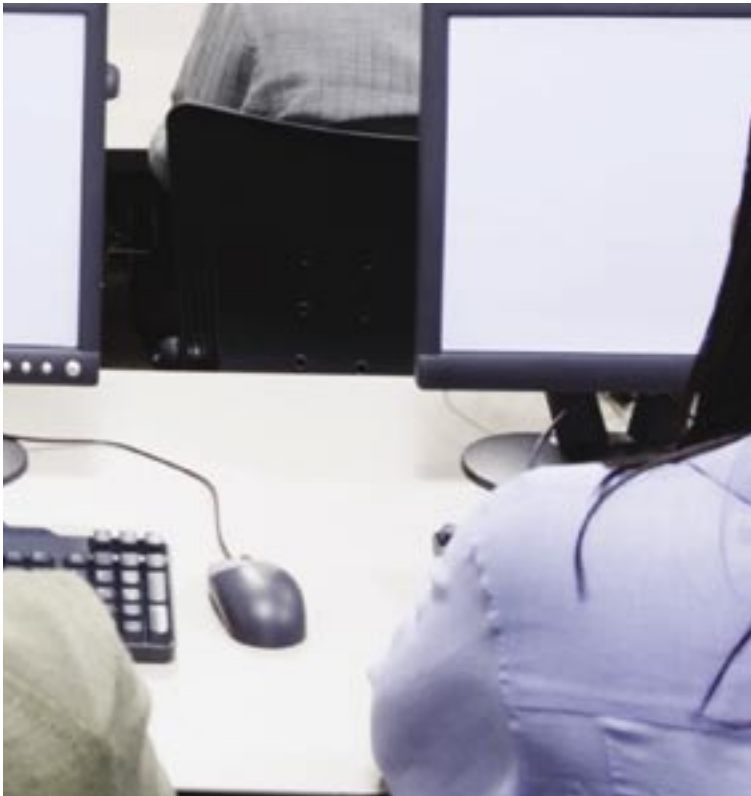
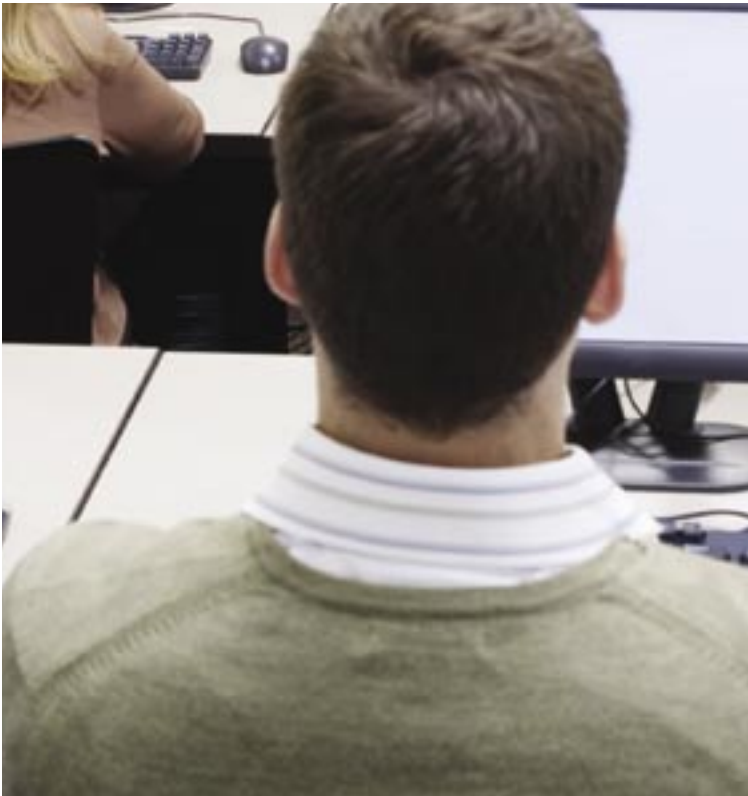


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# 01 Executive Summary



Expansion, inclusion and quality are the three cornerstones of our national goals in education. The Government has set a target of 21% Gross Enrolment Ratio (GER) by the end of the Twelfth Plan (2017). This is a formidable target considering the present GER of 12.4%<sup>1</sup>. There is unequivocal acceptance of the fact that we must involve the private sector to complement and supplement the efforts of the Government. In this report, we focus on the potential and opportunities for private and foreign participation in achieving our national goals and how the Government can facilitate this.

With a median age of 25 years and a population of about 587 million below the age of 25 years position India among the largest education markets in the world. According to population projections based on 2001 Census figures, in 2011 nearly 144 million of India's population will be between the age-group 18 to 23 – the target age group for Higher Education (HE). The emergence of India as a knowledge-based, service driven economy has made its human capital its major strength and opportunity for growth. This has put the spotlight on severe inadequacies in India's infrastructure for delivery of education, particularly higher and vocational education. This demographic dividend can become a drag if the demand for skilled personnel that a rapidly growing economy will require is not met both in terms of quantum and quality.

Rapid globalisation, driven largely by technological advancements as well as the inability of the educational system to appropriately educate and train this human capital has opened up a plethora of new areas in education and training. Not surprisingly, the private sector has responded faster in exploiting these opportunities than the government. While the regulatory regime continues to be onerous, prohibiting a for-profit delivery of formal education and limiting foreign collaboration, there has been rapid growth in innovative services to the formal and informal education sectors delivered through legitimate for-profit models. In an attempt to better understand this trend, we have segmented the sector into a regulated (that covers formal higher education that leads to a degree/diploma) and an unregulated services sector that is outside the purview of the regulatory regime (UGC, AICTE etc.), but which provides services on a legitimate, for-profit basis. As per our estimate, the private spend in the regulated market is ₹ 30,400 crores (USD 6.76 billion). In addition, the Government also spends about ₹ 31,000 crores (USD 7 billion) per annum<sup>2</sup> on Higher Education.

This translates into a total market size of nearly ₹ 61,000 crores (USD 13.8 billion) for higher education in the country. Sizing the unregulated market is more challenging due to absence of data. Based on discussions with industry experts and our analysis, we estimate the unregulated market at ₹ 11,300 crores (USD 2.5 billion) for just three services for which we were able to get information (skill enhancement and vocational training; test preparation and textbooks and content).

## Opportunities for Private and Foreign Participation

We believe that the private sector can and is, legitimately participating in the delivery of higher education in the following four ways:

1. Directly running universities on a not-for-profit-basis through charitable trusts/ societies – both by diversified industrial houses as part of a corporate social responsibility (CSR) mandate as well as individual companies and promoters.
2. Delivering innovative educational services on a legitimate for-profit basis both to institutions imparting formal education and directly to students. Companies like Career Launcher are excellent examples of this entrepreneurial trend.
3. Participating in public private partnership (PPP) initiatives in which there are varying degrees and forms of participation by both the public and private sector to jointly deliver formal higher education.
4. Running formal educational institutions on a for-profit basis; this is not currently allowed, but there are compelling reasons for exploring a model that enables this.

## The key messages of this report are:

- There are immense opportunities for participation of the private sector – both domestic and foreign.
- It is possible to legitimately provide “for-profit” services. This is probably the fastest growing segment in higher education.

1. There are varying estimates of GER using NSSO, SES or Census data and depending on whether enrolment in unrecognized and informal programmes is included. This estimate is from a MHRD reply to a Parliament Question  
2. Draft Report of Working Group on Higher Education for 11th Five Year Plan

- Government should seek to harness the creativity, energy and capability of the private sector and create synergies by working with, rather than in competition with it.

We believe that private participation is inevitable – it is already taking place. In fact, the Planning Commission estimates that by the end of the Eleventh Plan (2012), almost half the incremental enrolment target will be met through private institutions. To attract quality private participation, it is essential to allow investors a reasonable and legitimate return on their investment. We make two specific suggestions in this regard: one, instead of insisting that the Trust/Society/Section 25 company own both the land and building, the Government should allow a long term 30 year lease of the land and building as these are the two major components of the initial Capex. This is allowed for school education and is in the CBSE guidelines for recognition. Such an amendment will significantly ease private participation, even on a not-for-profit basis. Second, as is being done in other regulated sectors like electricity, the Government can cap profits by allowing a reasonable rate of return to for-profit universities. This can easily be done through the existing fee fixation committees that have been set up in each State for technical education. This would prevent excessive profiteering yet provide private investors an economic incentive to set up higher education institutions.

In the absence of a legal mechanism to earn a reasonable rate of return on investments made, investors are induced to resort to illegitimate practices to secure and siphon off their profits. Allowing a for-profit model would bring these profits into the tax net. We estimate that the potential tax revenue could be as high as ₹ 2000 crores (USD 444 mn) by 2012. It is, therefore, critical that the government, other stakeholders and civil society acknowledge this reality and that the government puts in place a regulatory regime that would oversee the functioning of both public and private institutions in a transparent manner to ensure that both access and funding for quality education is available to every Indian citizen. It is also a fact that there is a lot of (misplaced) ideological opposition to a for-profit model. Given the compulsions of a democratic process, achieving consensus on this will take time and will not be easy. However, as experience with reforms in other sectors of the economy has shown, de-control has led to long-term gains. We believe the same would be borne out in the education sector as well: we just need to bite the bullet.

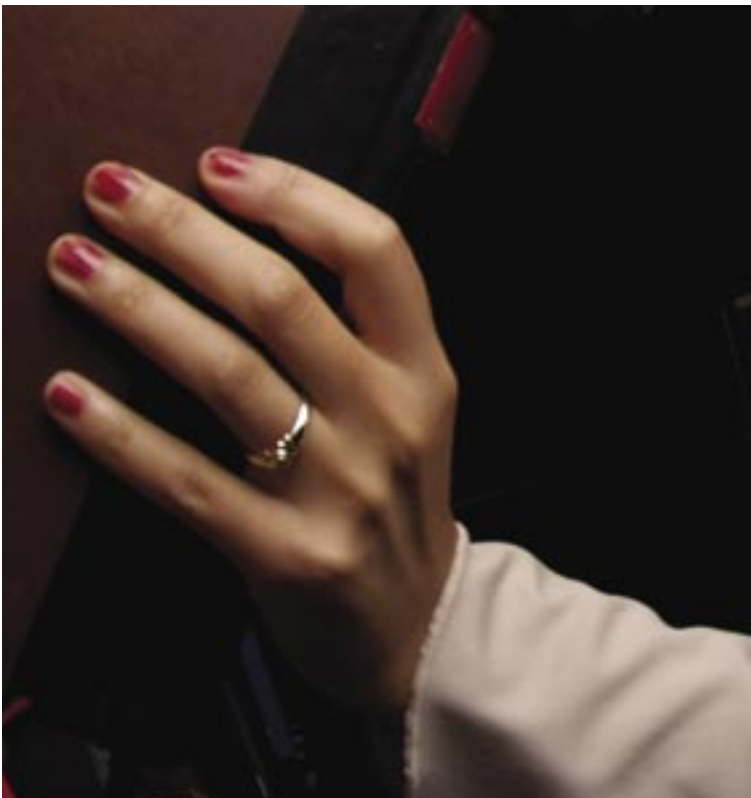
## Winds of Reform

Building consensus for a for-profit model will admittedly take time, but in the meanwhile we must applaud the sincere efforts that the new Human Resource Development Minister is making to reform this sector. The Government has tabled four new Bills in the Parliament that are likely to overhaul the higher education system in India. While two of these Bills address quality and benchmarking (mandatory accreditation and foreign universities), the third deals with malpractices and the fourth aims to facilitate speedy resolution of disputes. These Bills are the first major reform initiatives in higher education in free India, demonstrating the changing mindset of the government for opening up a sector that is crucial for India's sustainable growth in the global knowledge economy.

Against the backdrop of capacity constraints, over-regulation and malpractices, these Bills come as a breath of fresh air. We believe their potential impact will be to tighten regulation while improving governance and transparency, create the infrastructure for benchmarking and quality rating and lay the foundations for creating an eco-system in which multiple providers – whether public or private, domestic or foreign, for-profit or not-for-profit – will be able to provide quality formal education as well as innovative support services. We will review each of these bills in the report.

We firmly believe that the education sector will be the next big growth story of India and, as in the IT/ITES and auto sector India has the potential to become a global hub for education. The key issue is not whether, but how quickly we can capture this opportunity.

# 02 The Higher Education Sector





## Vision, Goals & Targets

The 11th Five Year Plan has set its goals as “Expansion of enrolment in higher education with inclusiveness, quality, and relevant education, with necessary academic reforms in the university and college system. Our long-term goal is to set India as a nation in which all those who aspire good quality higher education can access it, irrespective of their paying capacity”. Expansion, inclusion and quality are thus the three cornerstones of our national goals in education. The Government has set a target of 21% Gross Enrolment Ratio (GER) by the end of the Twelfth Plan (2017) with an interim target of 15% by the end of the Eleventh Plan 2012.

India spends about 3.7% of national GDP on education. Of this, a meager 0.66% is the amount spent on higher education, which is less than sub-Saharan Africa’s median. The Education Commission set up in 1964 under the chairmanship of Dr. D.S. Kothari (Kothari Commission) had recommended that government should spend at least 6% of its GDP on education. However, in over 40 years, we have been able to achieve only half the target. The Knowledge Commission additionally recommends an increase of at least 1.5% of GDP for higher education out of a total of at least 6% of GDP for education overall. Inadequate budgetary provisions and low fee structures have led to a slow expansion of government institutions and created a huge demand-supply gap in the HE space.

Yet, it must be acknowledged that the Government has tried to address the problem of funds. The Eleventh Plan allocation for technical and higher education has been raised by almost nine fold to ₹ 85,000 crores (USD 18.8 billion) from ₹ 9500 crores (USD 2.1 billion) in the Tenth Plan. However, this is still a fraction of the estimated requirements for achieving the targets.

A UGC study<sup>3</sup> estimates that to achieve the GER target of 15% by 2012 would require enrolment to increase by over 7 million between 2006 and 2012 at an annual growth rate of about 9%. To put this in perspective, we need to compare this with the growth during the previous five year period of the 10th Plan, during which enrolment increased by 4.5 million. This would require massive additional capacity creation. Another UGC<sup>4</sup> study estimates that meeting the GER targets would require an additional 380 – 735 Universities, depending upon the norms used and over 2000 new colleges. Against these projected

requirements, the Plan provides for a total of 30 new Central Universities (with medical and engineering colleges), eight new IITs, 20 NITs, 20 IIITs, 3 IISERs, seven IIMs, and two SPAs and 373 new colleges in districts with GERs that are below the all-India average. It also provides for new Polytechnics in unserved districts, 500 new community Polytechnics, and 210 new community colleges. A second strategy envisages expanding intake capacity of existing institutions in the Central, State and private sectors. However, it is clear that this will not be enough.

In terms of estimating the financing requirements to meet the GER targets, it is difficult to arrive at exact numbers because there are no established norms for recurrent expenditure to meet quality standards and capital expenditure to create capacity. However, we quote estimates from the UGC as well as present our own analysis to get a directional sense of the numbers involved. In both cases, the requirements vastly exceed the provisions.

A UGC study<sup>5</sup> estimates an additional requirement of between ₹ 47,000 crores to ₹ 78,000 crores (USD 10.4 to 17.3 billion at 2006-07 prices) is required between 2006-07 and 2011-12, to finance an additional 8.3 million students being enrolled in higher education. This study assumes that private expenditure on higher education is minimal, and the variance in the estimates is based on the difference in the norms used to estimate recurring expenditure per student enrolled.

Our industry discussions indicate that per student capital expenditure, for a private university, is in the range of ₹ 1,25,000 (USD 2,800), assuming the university is not located in an urban area. This implies that capacity for an additional 7.6 million (over the 2009 formal higher education enrolment of 13.6 million translating into a GER of approximately 10%) would be required, to take enrolment in formal recognised degree and diploma programmes to 21.2 million (which would imply a GER of 15%) students; this would require a capital investment of ₹ 94,600 crores (USD 21 billion). Comparing the estimated size of the sector (taking into account private as well as government spend per annum) and the total enrolment, gives a per-student annual cost/revenue of approximately ₹ 45,000 (USD 1000) (average across all streams); this could be higher than the actual recurring ‘cost’, as fees charged by private institutions may include a margin to allow for return on the capital invested. However, if one were to take this as the upper

3 “Enrolment Forecast of Higher Education for Inclusive Growth in the 11th Five Year Plan”, P Duraisamy, in “ibid.

4 “Universities and Colleges Requirements for 15% Target during 11th Plan – An Estimate” by Sudhanshu Bhushan, in ibid.

5 “Financing Higher Education in India – Estimate for 15% Enrolment under 11th Plan” by Ravi Srivastava; in Higher Education in India; UGC 2008. This takes into account enrolment as per SES which covers only formal higher education programs

limit of the recurring cost that could be incurred per student, the incremental annual recurring cost, to support a GER of 15% would approximately be ₹ 34,400 crores (USD 7.6 billion).

While the estimates may vary depending on the approach taken, directionally the evidence is unequivocal: the incremental investment required to support the increase in enrolment in the formal higher education sector is very large, and the resources of the government may not be sufficient to support the entire investment required.

Further, 'The Right of Children to Free and Compulsory Education Act' will create a huge upward push from primary and secondary schools, which may require upward revision of the targeted numbers. It is clear that there is need for additional financing and new market based solutions with a greater role for the private (including foreign) sector.

## Structure of the Market

From the perspective of entry and regulation of private and foreign participation, economic activities in higher education can be divided into two segments – a regulated and an unregulated segment. We have used this classification for the purposes of sizing these markets and the ensuing discussion in this report.

The regulated segment comprises formal degree-granting universities and their affiliated colleges, institutions of national importance and other organisations offering formal degrees or technical programmes and is regulated by the UGC, AICTE, DEC and other regulating and accrediting authorities. Entities in this sector have to be not-for-profit (Trust, Society or a Company incorporated under Section 25 of the Indian Companies Act). The unregulated segment comprises a rapidly emerging and fast growing collection of innovative services provided,

mainly by private sector organisations, to higher education institutions, individuals and even to employers that complement or sometimes supplement the formal higher education system. The entities providing these services can be legitimately incorporated as for-profit as they are outside the purview of the education sector regulations. They are of course subject to all other relevant laws and regulations of the land, eg Companies Act etc.

## Regulated Segment

Regulated higher education in India is a concurrent subject and comprises four broad sectors: universities and colleges recognised by the UGC/State Governments, technical education institutions, vocational education and training and, specialised education in different subjects (eg agriculture, health).

India has one of the largest populations in the 18-23 age group, making it among the most attractive higher education markets in the world. As per government estimates, India is expected to have an addressable higher education population in excess of 144 million during the year 2011-12.

As of March 2009, the country had nearly 26,500 institutes of higher education; 504 Universities and university level institutions and 25,951 colleges. At the commencement of the academic year 2009-2010, the overall formal system enrolment in the various universities and colleges was reported at 13.6 million, while the total number of faculty members has been reported at 0.59 million. Though the absolute numbers are large, they form only a small proportion of the potential market; less than half of those who complete their schooling (Class 12) go on to complete a graduate or post-graduate degree, and the Gross Enrollment Ratio is estimated at 12.4%. When we compare this to the global average of 23% (54.6% for developed and 22% for Asian countries), we realise how far away we are from fully leveraging our much-touted "demographic dividend".

## Calculation of incremental cost of meeting 15% GER in formal higher education

Enrolment - 2009 ('000)	13,642
GER - 2012	15.0%
Incremental Enrolment -2012 ('000)	7,568
Capex per student (₹)	125,000
Additional Capex till 2012 (₹ Crores)	94,600
Opex per student (₹)	45,462
Annual Opex for incremental enrolment (₹ Crores)	34,406

Source: Annual Report 2008-09, MHRD; Selected Educational Statistics, MHRD; Higher Education in India, UGC; Industry discussions, PwC analysis

Type of Institution	Number
State Universities	243
State Private Universities	53
Central universities	40
Deemed Universities	130
Institutions of National Importance under Acts of Parliament	33
Institutions establishes under State legislations	5
<b>Total</b>	<b>504</b>
Other Colleges	25,951

Source: MHRD Annual Report, 2009-10

Technical Education is treated as a separate sector. There are 65 centrally funded institutions like IITs, IIMs, NITs, IISc, etc. Additionally, State Governments have also set up technical institutions. AICTE and equivalent sectoral regulators (like the Medical Council of India) both approve and regulate technical institutions in engineering/technology, pharmacy, architecture, hotel management & catering technology, management studies, computer applications and applied arts & crafts.

Vocational education and training is also a concurrent subject with multiple Ministries and Departments of the Central and State Governments running various programmes at the school and college levels. India had a labour force of 509.3 million (as of 2006) with about a net 12.8 million being added annually. Only 10% (a mere 2% through formal training and about 8% through on-the-job training) of the Indian industrial workforce is skilled as compared to 85% in Southeast Asian countries.

Private and foreign participation in this area is being actively encouraged by the government in recent years - both through private entities and PPPs. A National Skill Development Corporation has been set up in partnership with the private sector and the Government has also announced fiscal incentives including financial assistance, for private participation in running ITIs, with a target to add 1,000 new Polytechnics in Govt/ PPP & the Private Sector by 2012. Discussions with industry indicate that the PPP experience so far has been mixed, However, this is a segment that has otherwise grown rapidly as private enterprise has discovered imaginative independent models: from training to operate cash counters at retail stores to running collaborative programmes with banks to train future employees in marketing etc.

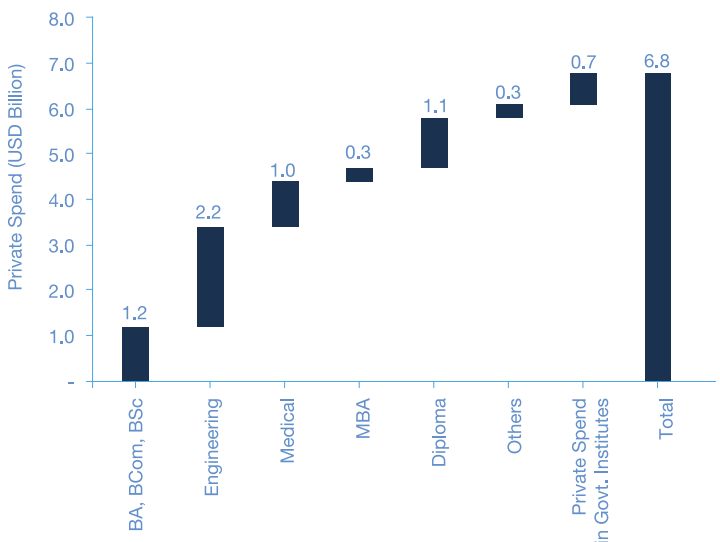
**Size of the Regulated Segment**

Increasing proliferation of private colleges in the country and growing paying propensity of Indians to spend on quality education (especially in professional courses such as Engineering, Medicine and MBA) has led to significant private spend on higher education. As per MHRD statistics, there were 13.6 million students enrolled in formal, recognised higher education programmes in 2009. As per our estimates, the total private spend on higher education in 2008-09 was approximately ₹ 30, 400 crores (USD 6.76 billion) of which a significant share of nearly 36% was spent on engineering courses alone.

In addition to the private spend, the Government spends an additional ₹ 31,000 crores (USD 7 billion) per annum on Higher Education every year. This translates into a total market size of over ₹ 61,000 crores (USD 13.8 billion) for higher education in the country.

However, the potential of the market, from the perspective of private consumption spend on higher education, is significantly larger. As we have pointed out, the GER is a low 12%, implying there is huge untapped potential. In addition, a large number of Indians go abroad for higher education and professional skills training spending an estimated over ₹ 1,800 crores (USD 4 billion) per year; finally, though unreported and almost impossible to compute, some analyst reports estimate that over ₹ 4,500 crores (USD 1 billion) may be spent each year on 'capitation fees' and 'donations' to secure admissions at various colleges or universities in India. Growth of the sector is, therefore, not constrained so much by willingness or ability to pay, as by supply and availability.

**Private Spend on Higher Education by key disciplines**



Note:  
 1) Except "Private spend in Govt Institutes", all other spends are at private institutes  
 2) Medical includes ancillary streams such as Dentistry, Pharmacy, Nursing, Ayurvedic, Homeopathic etc.  
 3) Others include faculties such as Hospitality, Journalism, Law, Mass Communication, MCA etc.  
 4) Assumed 1 USD = 45 ₹  
**Source:** Selected Educational Statistics, MHRD, UGC, IDFC SSKI Report on Education, Annual Report 2009-10 – Department of Higher Education, Centrum Research, PwC Analysis

### The Unregulated Segment

There are a large and growing number of innovative services, provided mainly by the private sector to the formal sector. These include include professional skill enhancement, test preparation, text books and content, other services and technology to higher education institutions or their faculty members. As mentioned earlier, these services are, by and large, outside the purview of the regulators though they do complement the existing higher education system. Most of the organisations offering these services are for-profit enterprises and operate successfully and legitimately.

Nearly 23 million people get added to the Indian population annually. However, of this population, only about 4 million complete tertiary education (including graduate or post graduate degrees and various diploma and vocational training programmes) and another 7.7 million people complete secondary school (Class X). A significant part of the population (over 11 million) consists of school dropouts.

For a variety of reasons, a large part of the formal education system in India is unable to produce graduates with all of the skills necessary in the workplace. A report published by NASSCOM (the industry body for the IT and ITES industries) estimated that 70 % of technical/professional graduates (e.g. engineers) and up to 80% of ‘general’ graduates (e.g. BA, BSc) are not immediately employable in the IT and ITES sectors. Another study published by the CII estimated that, in the Banking & Financial Services, Healthcare and Manufacturing sectors, only 40-45% of those academically qualified for a particular job were actually employable. Reports published by the National Skills Development Corporation (NSDC) indicate

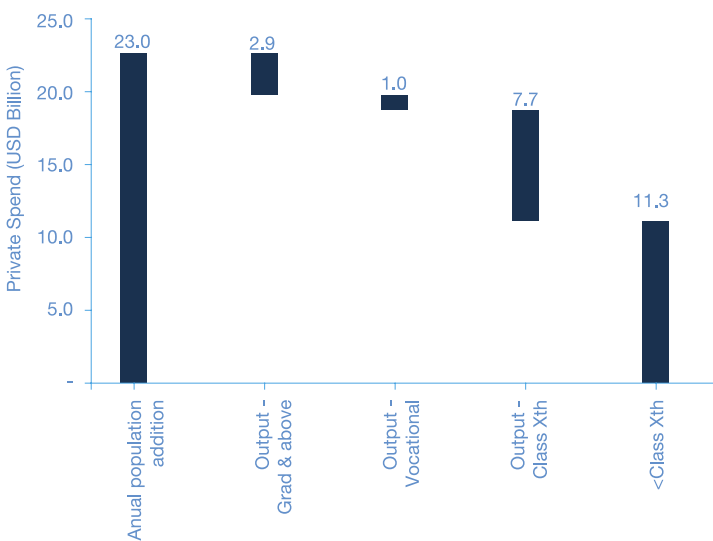
severe skill gaps related to technical knowledge as well as ‘soft skills’ compared with the requirements for most industries.

There is, therefore, a significant opportunity, for the private sector, to provide a range of innovative training and assessment/certification services to supplement, or even, in some cases replace, the formal education system. These opportunities can be classified into the following categories:

- Opportunities related to improving the employability of those coming out of the formal education system, by providing targeted training in specific vocations or on specific skills.
- Opportunities related to working with the large section of the population currently outside the ambit of the formal higher education system, and providing this section with specific vocational skills.
- Opportunities to provide services to existing higher education institutions, including their faculty, in order to enhance their effectiveness or efficiency

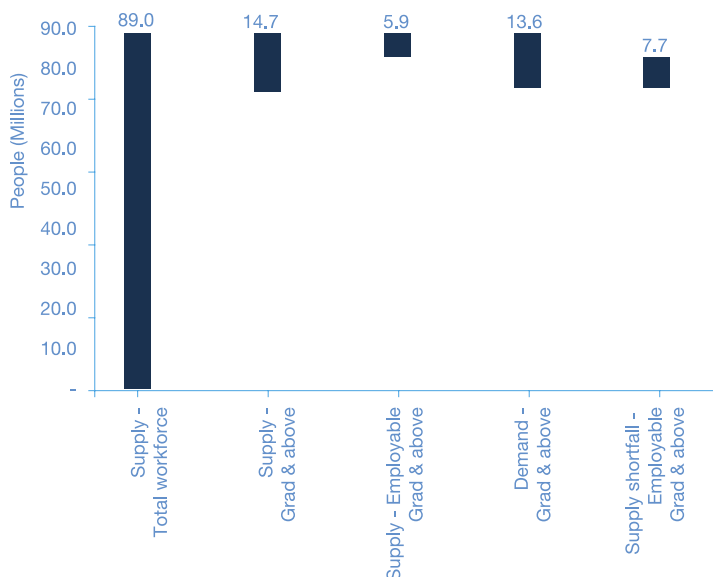
The absence of data makes it difficult to size this diverse market. We estimate the market for three services: professional skill enhancement, test preparation and textbook and content to be approximately ₹ 11,300 crores (USD 2.5 billion). This gap between demand and supply of employable people creates a variety of opportunities for private sector players in the Higher Education space. We will discuss this growing opportunity in detail in the later part of this report.

### Composition of potential additions to the workforce



Source: Selected Education Statistics, UGC, PwC Analysis

### Shortfall in ‘employable’ educated workforce



Source: CII-BCG Report – India’s demographic Dilemma; Selected Education Statistics, UGC, PwC Analysis  
 Note 1: The above figures are for a five year period – 2007 to 2012.  
 Note 2: 89 million is the gross addition over a five year period

# 03 The Regulatory Regime



The central theme of this report is the growth of innovative services in the education sector. This growth has been driven as much by technological innovations, as by entrepreneurship. As mentioned earlier, almost all of these are outside the realm of the formal regulated sector. What has thus emerged is a segmentation of the sector between the regulated formal sector and a fast growing unregulated sector comprising innovative services. A key difference is that these services can be provided through for-profit entities. Education, in India, has been regarded as a philanthropic or non-profit activity. Thus the current regulations permit only registered Societies or Trusts and in certain spheres not-for-profit companies (registered under Section 25 of the Indian Companies Act which are not permitted to distribute dividends) to establish educational institutions. Discussions with industry participants confirm our belief that it is this ability to legitimately make profits by providing novel services that is attracting an increasing number of entrepreneurs to the services sector. It is important to note that the term “unregulated” is with reference to those activities that are not included in formal education system. These companies are subject to all other relevant laws of the land like income tax, shops/establishment polices, labour laws, company laws etc.

Historically, AICTE, MCI, DCI, ICAR, VCI were formed to focus attention on specialised areas. These institutions issue licenses, control curriculum and standards and, regulate operations through inspections and reporting requirements. Each has its own set of regulations. The Yashpal Committee Report has recommended that the multiple agencies, bodies should all merge into one National Commission for Higher Education and Research (NCHER), which can be the umbrella organisation or a one-stop shop for all regulatory work in higher education.

To better understand the dynamics and the differences of these two sectors, the table below compares the extent and intensity of restrictions that existing regulations place. It explains why there is so much interest in the unregulated sectors.



## Regulatory Heat Map

	Higher Education	Professional Education	Vocational Training	Skill Development	Support Services
<b>Comprises of</b>	<ul style="list-style-type: none"> <li>University</li> <li>College</li> </ul>	<ul style="list-style-type: none"> <li>Technical Education</li> <li>Professional courses</li> </ul>	<ul style="list-style-type: none"> <li>ITIs, ITCs, private vocational colleges</li> </ul>	<ul style="list-style-type: none"> <li>Unregulated vocational courses (languages, training, Finishing school)</li> </ul>	<ul style="list-style-type: none"> <li>Tutoring</li> <li>Course content</li> <li>Multimedia</li> <li>Test preparations</li> <li>Infrastructure development</li> <li>Janitorial services</li> <li>Books</li> </ul>
<b>Regulatory Control</b>	<ul style="list-style-type: none"> <li>UGC</li> <li>AICTE</li> </ul>	<ul style="list-style-type: none"> <li>AICTE</li> <li>Statutory Authorities (BCI, MCI, NCI, DCI, DGCA etc)</li> </ul>	<ul style="list-style-type: none"> <li>DGET</li> <li>Various ministries/ departments of vocational education</li> </ul>	Not Regulated	Not Regulated
<b>Choice of entity</b>	<ul style="list-style-type: none"> <li>Society</li> <li>Trust</li> <li>Section 25 Co</li> </ul>	<ul style="list-style-type: none"> <li>Society/ Trust (MCI recently allowed Companies)</li> </ul>	<ul style="list-style-type: none"> <li>Typically Society/ Trust if regulated</li> <li>Unregulated in certain trades</li> </ul>	Not Regulated	Not Regulated
<b>Some Additional Conditions</b>	<ul style="list-style-type: none"> <li>Min. infrastructure requirements</li> <li>Fee regulation</li> </ul>	<ul style="list-style-type: none"> <li>Min infrastructure requirements</li> <li>Fee may be regulated for some courses</li> </ul>	<ul style="list-style-type: none"> <li>Minimum infrastructure requirements</li> </ul>	None	None

Highly Regulated  Not Regulated

\*Source: PwC Analysis

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

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

Options for foreign collaborations are limited as the only regulations exist within the framework of technical education. The All India Council for Technical Education's (AICTE). AICTE has recently consolidated all its regulations pertaining to opening of new technical institutions including those in relation to foreign universities/ institutions in its AICTE (Grant of Approvals for Technical Institutions) Regulations 2010. Under these, AICTE permission is required for providing diplomas/ degrees in technical education, as well as in collaboration and twinning efforts.

There are numerous conditions / requirements that are to be fulfilled / adhered to which, inter alia, include:

- establishment of the educational institute by a society or a trust,
- franchises not being permitted,
- accreditation by an authorised agency in the parent country,

- recognition of the degrees/diplomas awarded to the students in India in the parent country
- parity with the corresponding degrees/diplomas awarded by the University/Institution in the home country
- no distinction in the academic curriculum, mode of delivery, pattern of examination, from that provided in the home country
- fee and student intake to be in accordance with the prescription of AICTE
- seeking accreditation by the National Board of Accreditation post passing out of 2 batches

There are additional conditions for Foreign Universities/ Institutions imparting technical education through twinning arrangement in collaboration with an Indian institution. These include:

- students must spend at least one semester in home country of foreign institution
- students failing to secure a visa should be enrolled in a similar programme being conducted by the Indian institution, affiliated to a University recognised by the UGC
- Degree be awarded in parent country by the foreign institution

A final issue with foreign collaborations relates to the FDI policy. As mentioned earlier, the FDI Policy allows 100% FDI in education. However, ambiguity arises because no FDI is permitted in a society or a Trust as only a company registered under the Indian Companies Act can issue shares to a non-resident. Hence funding options for a society or trust are limited to raising funds through contributions / donations from both domestic and foreign donors. However, the stringent conditions imposed by the Foreign Contribution Regulation Act, 1976 make it extremely difficult to raise funds or donations from overseas.

University	College	Technical Institute	Non – Technical Institute
Provision of course content	Provision of course content	Provision of course content	100% owned institute possible
	Provision of Foreign Degree*	Twinning/ Provision of Foreign Degree*	No approvals required

# 04 Opportunities for Private Sector Participation





## Opportunities for Private Sector Participation

The private sector can and is, legitimately participating in the delivery of higher education in the following ways:

1. Directly running universities on a not-for-profit-basis through charitable trusts/ societies as part of a corporate social responsibilities (CSR) mandate. The bulk of traditional private sector participation has been through this route by large diversified industrial houses and we have some outstanding academic and research institutions that have been set up under this model. Given the magnitude of the problem, we believe that such initiatives can at best be symbolic and serve as examples of what can potentially be achieved. In addition, the past decade has seen a spurt in private universities being set up by smaller companies, individuals or family owned businesses. Current regulations have restricted foreign participation in universities to twinning arrangements, sharing faculty and supplying course content. In any case, we cannot expect foreign universities to make a significant impact in achieving our targets of GER or expansion of universities. What they would do is introduce professionalism and set benchmarks.
2. By delivering innovative educational services on a legitimate for-profit basis both to institutions imparting formal education and directly to students. We believe this is a fast growing area and presents a unique opportunity for both the government and the private sector. There are also immense possibilities for foreign collaboration and participation as 100% foreign direct investment (FDI) is permissible in most services. The government can encourage this initiative and leverage entrepreneurial energy and innovativeness to improve the quality of formal education, particularly, in government run institutions. Some of these services, particularly in areas of skill development would also serve the objective of vocational training and improving employability and to a limited extent, also reducing the pressure on formal higher education. This is the key message of our report and we present case studies of some of the success stories of these entrepreneurs and well as suggest ways for further strengthening and replicating these innovations. This is a largely undocumented sector and there is very limited information or data available making it difficult to both size and scope this sector. We have attempted to do so through discussions with industry participants and our internal resources.
3. A public private partnership (PPP) in which there are varying degrees and forms of participation by both the public and private sector to jointly deliver formal higher education. The Government has introduced a PPP model in vocational training with mixed results. While there are no working models in HE, we will discuss some possibilities and present examples from international experience.
4. A model in which the private sector is allowed to run formal educational institutions on a for-profit basis. We will discuss the merits and demerits of this and will also provide examples of what is happening in other countries. We believe that in the long run, it is this option alone that can make a significant contribution to the government's efforts to achieving the targets for higher education.



## The Traditional Model

Education has always been held in very high reverence in the Indian value system with parents spending their life's savings on their children's education. Driven by philanthropy and a desire to participate in nation building, a large number of diversified Indian business houses and industry champions set up trusts or funds for creating educational institutions. More recently, high net worth individuals also see this as an opportunity for pay back to society some part of the wealth that they have received from it. Simultaneously, corporations are also realising their obligations to society and are entering the field of education as part of corporate social responsibility (CSR) programmes. And finally, there is a growing class of investors, family businesses and companies who have invested realising the importance and growth potential of this sector. Given below are some examples of philanthropic initiatives of corporations and individuals in the field of education.

### **Tata Institute of Social Sciences (TISS), Mumbai**

One of India's oldest and most prominent business houses, the Tata's have established various pre-eminent educational institutions spread across diverse fields including science, technology, environment and social sciences. TISS is one such institute. Jamsetji Tata and his son, Sir Dorabji Tata, believed that the real purpose of industry was to go beyond the creation of wealth, to the building of a new society through the proper allocation of that wealth. It was from this vision that the Tata Institute of Social Sciences was born. TISS was established in 1936, as the Sir Dorabji Tata Graduate School of Social Work. Its establishment was the result of the decision of the Trustees of the Sir Dorabji Tata Trust to accept Dr. Clifford Manshardt's vision of a postgraduate school of social work of national stature that would engage in a continuous study of Indian social issues and problems, and impart education in social work to meet the emerging need for trained human resources.

Today TISS is one of India's premier educational institutions. It trains professionals in human resources and social work, carries out research on social problems and social sciences, as well as publishes and disseminates this information for the benefit of society.

### **Birla Institute of Technology and Science (BITS), Pilani**

BITS is among the most well known educational initiative of the Birla Group. It is a privately supported, fully residential University run by the Birla Education Trust which was founded in 1940s. The primary objective of the university is "to provide for and otherwise promote education and research in the fields of Technology, Science, Humanities, Industry, Business, Public Administration and to collate and disseminate in such fields effective ideas, methods, techniques and information as are likely to promote the material and industrial welfare of India" and to "train young men and women able and eager to create and put into action such ideas, methods, techniques and information".

Over the years, BITS has established a high reputation across the globe and is amongst the premier institutes in the country. In 2000, BITS set-up a campus in Dubai making it the first Indian university with an overseas campus.

### **Shri Vile Parle Kelavani Mandal (SVKM)**

SVKM is a Public Charitable Trust registered under the Bombay Public Trust Act. SVKM is committed to the cause of providing high quality education at various levels. Since its inception in 1934, when it took over the Rashtriya Shala, a school established in 1921 in the wake of the National Movement, the Mandal today has grown into a big educational complex imparting high-level education to more than 32,000 students.

Over the past 70 years, the Mandal has developed a large educational complex in Vile Parle, Some of the prestigious educational institutions being managed by SVKM are Narsee Monjee Institute of Management Studies (NMIMS), Harkishan Mehta Foundation Institute of Journalism (HMFIJ) and Institute of International Studies (IIS).

### Manipal University

Dr TMA Pai set up the Kasturba Medical College in 1953. In 1957 came the engineering college, the dental college and the pharmacy college. Initially, these institutes were affiliated to different universities.

In 1993, Manipal Academy of Higher Education (MAHE) was accorded a deemed university status under Section 3 of the UGC Act 1956, by the Government of India. The university is promoted by the Manipal University Trust. Today, it has 20 constituent institutions comprising medical, dental, engineering, architecture, nursing, allied health, pharmacy, management, communication, information science, hotel management, biotechnology, regenerative medicine etc. The university offers Bachelors', Masters' and Doctoral degrees to over 17,000 students.

With the passage of the Private University Regulations by the UGC and enabling Acts/ regulations in various states, the last decade has seen a renewed spurt of activity in the private sector in establishing universities and institutes of higher education. There have been many recent examples of such universities including Amity University, Sharda University and LPU.

### Amity University

Amity is a leading not-for-profit education group of India with over 50,000 students and over 2,500 faculty members. The group is sponsored by Ritnand Balved Education Foundation (RBEF) and Ritnand Balved Medical Foundation (RBMF) promoted by the AKC Group of Companies. In 1991, a chain of "AMITY" Institutions were established for imparting Primary and Higher Secondary Education in the areas of Business, Management, Behavioral & Allied Sciences, Law, Engineering, Computer Science, Information Technology, Biotechnology, Insurance & Actuarial Science, Competitive Intelligence & Business Vigilance, Communication, Education, Nursing and Distance Education.

The Amity University has been established by an act of the State Legislature and is recognised by University Grants Commission (UGC) through the Act of State Legislature.

### Examples of Private Universities in India

- Symbiosis International University
- D. Y. Patil University
- XLRI, Jamshedpur
- Amrita Vishwa Vidyapeetham
- NIIT University
- SRM University
- VIT University
- Vedanta University (proposed)
- Lovely Professional University
- Sharda University
- Dr. C.V. Raman University
- Nirma University of Science & Technology
- Manav Bharti University
- Dev Sanskrit Vishwavidyalaya
- Jaypee University of Information Technology
- SRM University

Existing regulations prevent a foreign university from setting up a campus in India. However a number of collaborations have taken place on twinning arrangements. Examples include the International Centre for Applied Sciences (ICAS), a Manipal University institute, that has collaborative arrangements with foreign universities for engineering programmes. The collaborative programme is called the “Twinning Programme.” The students pursue the first two years’ study of a degree programme at Manipal, India and the last two years in USA, U.K. or Australia. The degree is awarded by the foreign university.

Almost all private universities set up as part of the Corporate Social Responsibility (CSR) initiative of some of the largest business houses of the country have been extremely successful. However, such institutions are just a drop in the ocean catering to a very small percentage of the total students. Further, the amount of investment which is required for setting up a single university is substantial and out of range for most companies. Hence, while these may be shining examples of what is possible, they cannot be the main vehicle for achieving GER targets.

While the bulk of these private initiatives have been driven by philanthropy, there have been instances of universities / institutions indulging in rent seeking and other unscrupulous means for earning profits. The recent controversies in the award of deemed university status and recognition by the AICTE and MCI are stark evidence of the crisis confronting the existing regulatory regime.

## The Opportunity for Growth

### Delivery of services on a for-profit basis

For many students, completing higher education is seen as necessary for improving employment prospects. However, as we have discussed earlier, variable quality of education imparted by many institutions of higher education and lack of relevance to industry requirements, means that a large proportion of graduates require additional training / skill development to make them employable. In addition, there are a number of services that have developed over the years that either increase the efficiency and effectiveness of institutions or improve the employability of students. As discussed earlier, these are outside the purview of education related regulations.

Three specific markets and their size are described below;

### Professional Skills Enhancement:

The Services sector has been the principal engine of India’s economic growth and employment generation. Many of these jobs require specialised skills. A report published by

CII projected that the Services sector would account for over 50% of all jobs created in India between 2007-12. While IT and ITES continue to be a key driver of high-skill jobs requiring an educated workforce, emerging and growing sectors such as Financial Services, Telecom, Media, Hospitality, Education and Organised Retail will also require large numbers of educated employees with specialised training and skills. Private sector players have already begun setting up institutes providing specific the skills and training required by focussed industry sectors. We estimate this market to be between USD 600 million and USD 1 billion in value, with English Language training forming the largest sub-segment. More industry collaboration, to ensure that training standards, and relevant industry or job-related knowledge is provided would be a key success factor going forward.

### Test Preparation:

The largest ancillary service in the Higher Education domain is Test Preparation. Given the large numbers of students appearing for competitive examinations for entry into prestigious education programmes (nearly 300,000 people appear for the CAT exam which governs admission into many MBA institutes including the IIMs) and the paucity of seats (there are less than 1,500 seats across the six IIMs), the level of competition is high and most applicants take special coaching. Several organisations specialise in preparing students for one or more of these entrance tests. We estimate the market for test preparation (covering both graduate and post-graduate entrance tests) to be between USD 900 million and USD 1 billion.

### Textbooks and Content

Publishing of textbooks and supplementary materials for higher education is also a large and growing market, estimated by analysts to be in a range of USD 400-500 million in size. There are several players in this segment and the industry is fragmented. Growth in this segment has been constrained by high usage of second-hand books and there is, therefore, a significant dependency on renewal of curriculum to drive growth in this segment.

With a large number of people being recruited each year, and a low ratio of recruitments to overall applicants, there is also a need for uniform assessment or certification of potential applicants with respect to a particular skill. Industry bodies, such as NASSCOM, are also promoting uniform tests to assess attainment of certain skills or suitability for certain jobs. While this segment is nascent, there is substantial capacity for growth.

Several entrepreneurs have entered the services sector and some have developed highly successful business models. Yet the potential of the market dwarfs its current size. We now present some examples of innovative approaches by the private sector.

**Career Launcher: CampusExpress and Career Development Center**

CampusExpress is a preparatory programme developed by Career Launcher for campus placements that runs in over 100 engineering and other colleges across the country. This programme comprises about 30 hours of training for job interviews, covering business communication and soft skills as well as aptitude-based training.

Career Launcher has also developed the Career Development Centre, which, is an integrated programme running concurrently with the academic programme at a college. At the core of this programme is a lab, comprising 10 – 50 computers, a career-centric library, a certified career advisor and a sophisticated on-demand curriculum for various future career options. The initiative also provides test-preparation assistance for competitive entrance examinations (e.g. CAT, GMAT) for further or professional education and aptitude testing and preparation for campus placements into certain fields or industries.

**Educomp: Tele Education Network:**

Educomp Tele Education Network (ETEN) is a growing national network of learning centres providing a variety of professional training programmes and certifications leveraging satellite and telecommunications technology. The objective is to provide access to experienced faculty and high quality content and teaching methods to a wide audience using technology, thereby improving the employability of the students.

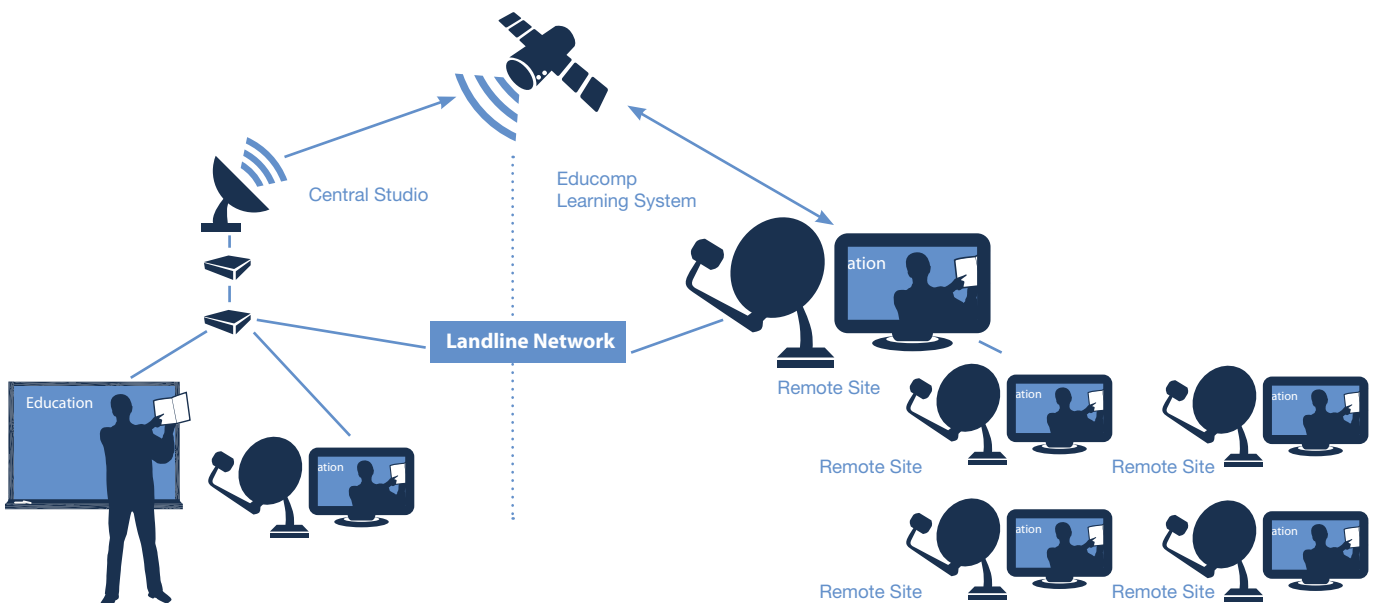
**VETA:**

Founded in 1981 as the Vivekananda Institute, VETA has trained over 2.2 million people in spoken English through a mix of direct classroom training and distance education. Only 6-7% of schools in India use English as a medium of instruction, whereas English language communication skills are often an important requirement for employment in some sectors.

VETA has developed a proprietary methodology for imparting English language communication skills and offers a wide variety of programmes tailored to different student needs. Fees are economical so as to address a large section of the market and the franchise has now expanded to over 250 centres across the country.

The initiative began as a network of seven centres providing coaching to students appearing for the Chartered Accountancy (CA) examination; this has grown to over 50 centres and an annual capacity of approximately 20,000 students. In addition to coaching for various levels of the CA examinations, the network also provides training and certification for those aspiring for clerical and junior-level jobs in accounting, and professional skills programmes for practicing chartered accountants.

While the initial focus has been on the accounting profession, the venture is expanding to offer training and certification programmes for the hospitality and retail industries, and courses in English communication. All the courses and teaching content are VSAT and data-enabled and the objective is to provide job-relevant and high-quality training at a low overall cost and convenient location to the student.



#### Meritrac MBA TracSkills and NAC:

Meritrac, a testing and assessments company now majority owned by the Manipal Group, has, over the last two years, begun to focus on developing uniform tests to measure suitability for certain categories of jobs.

Meritrac has developed the NAC and NAC-Tech tests in conjunction with NASSCOM, which assess a candidate's suitability for jobs in the BPO and IT sectors respectively. NASSCOM and industry estimates indicate that between 20% and 40% of engineering graduates are suitable for IT jobs and less than 20% of general graduates are employable in the BPO sector; tests such as these help employers reduce their overall hiring costs by eliminating many of the 'unemployable' candidates. These tests are priced at ₹ 600 each; approximately 20,000 job seekers take these tests each year and they are gaining wide acceptability within industry.

Meritrac has also developed a test called MBA TracSkills which is designed as a uniform test for MBA students to demonstrate the capabilities and skills they have acquired, and would potentially allow employers to compare students from different institutes on common relevant parameters. Over 100,000 students complete MBA and post graduate diploma programmes in management each year, and there is a significant variance in 'quality' of output across various. This test is also gaining acceptability among students as it enables students from lesser known institutes to benchmark themselves against others and to support their candidature for jobs they may not otherwise be able to apply for.

#### Indiaskills:

Indiaskills is a joint venture formed between Manipal Education and City & Guilds, a UK-based certification organisation. Set up in 2009, the venture plans to offer a variety of vocational training programmes aimed at specific job roles, and combining job-

specific training with an industry-recognised certification. The objective is to develop qualifications that focus on measurable outcomes with respect to skills and knowledge that are relevant for specific job positions. The training programme leads to an independent certification which benchmarks the student's capabilities with respect to a particular job or function. The course is developed in consultation with industry and the tests leading to the certification are developed by City & Guilds. Indiaskills currently offers courses leading to certifications in Retail, Hospitality and Spoken English, with plans to introduce new courses going forward.

#### ICICI Manipal Academy:

The ICICI Manipal Academy (IMA) is a joint venture between ICICI Bank, an employer, and Manipal Universal Learning, part of the Manipal group of education ventures. The institute offers a one-year campus programme that is sponsored by ICICI and guarantees employment to those completing it. The structure and content of the course is jointly developed by ICICI and Manipal Education, and admissions are through an entrance test conducted by ICICI. The guarantee of a job with a favoured employer ensures high demand for the course – there are over 75,000 applications for approximately 1,000 seats each year. Those entering the programme are deemed employees of ICICI at entry and paid a monthly stipend, and on completion of the programme, are provided a PG Diploma in Banking and absorbed in the Assistant Manager grade at ICICI. The course comprises nine months of classroom teaching focused on knowledge relevant in the banking industry, communication and job-related skills, and three months of internship at ICICI.

Students pay ₹ 150,000 for the course and are offered a subsidised loan to cover this investment – after completion of a specified number of years work at ICICI, the cost of the fees is reimbursed. If they choose, students can continue their studies through Sikkim Manipal University's distance learning programme and graduate with an MBA with a specialisation in Banking.



## The Untested Waters

### Public Private Partnership in Higher Education

Over the last decade, Public Private Partnership has emerged as one of the most effective models for developing and delivering public services. A range of models have evolved over the years some successful like in roads, ports, airports, power and some still developing in sectors like health, education, rural development etc.

A key reason for the success of PPPs in the infrastructure sector is that projects are designed to be financially viable through varying mixes of cost recovery from users and viability gap funding. However, the same principle may not apply in social sectors like health & education as these services are generally provided for free or way below market value or as per constitutional mandates.

PPPs in the Education Sector are still in a nascent stage. Constitutional provisions limit the scope of PPP arrangements in elementary education. Provisions of “The Right of Children to Free and Compulsory Education Act” make it obligatory for the state to provide free and compulsory education system for the age group six to 14. However, there is greater flexibility in higher education with a wider range of opportunities and, as discussed earlier, the private sector has evolved newer models of delivery of services in the unregulated space and has established innovative solutions which could be adapted for the regulated space of formal education. The chart below represents the type of institutions functioning in the regulated and the unregulated sectors and the possible PPP opportunities existing in each.

Theoretically, there is potential for PPPs in a range of education services to formal higher education like content development, training and infrastructure development. The government should encourage its institutions to outsource provision of these services.

Regulated (Formal Education)	Un-Regulated (Non-Formal or Semi-Formal Education)
<ul style="list-style-type: none"> <li>Central &amp; State Universities</li> <li>Private Universities</li> <li>Technical Colleges</li> <li>Private Colleges</li> <li>Professional Colleges</li> <li>Research Institutions</li> </ul>	<ul style="list-style-type: none"> <li>Professional Development</li> <li>Vocational Training</li> <li>Finishing Schools</li> <li>Tuitions &amp; Coaching Classes</li> <li>NGO led initiatives</li> </ul>
<p>PPP in</p> <ul style="list-style-type: none"> <li>Content &amp; Curriculum Development</li> <li>Training &amp; Capacity Development</li> <li>Monitoring &amp; Evaluation</li> <li>Usage of ICT</li> <li>Infrastructure Development</li> <li>Financing</li> </ul>	<p>Leveraging Private Sector strength in</p> <ul style="list-style-type: none"> <li>International Expertise</li> <li>Technological advancements</li> <li>Efficient Delivery</li> <li>Innovative Pedagogy</li> <li>Enthusiasm</li> </ul>

## PPP Transactions in Education

International and Indian experience in infrastructure have established robust models of executing PPP transactions. Various parameters like concession period, title ownership, profitability, governance structures, monitoring & evaluation frameworks, risk and mitigation strategies have been developed and executed successfully in other sectors. The challenge will be to replicate them in higher education, given the low fee structures.

According to a press report (Business Standard, May 21, 2009), the Planning Commission has identified four PPP models for higher education, which are still under discussion –

1. **Basic Infrastructure Model** – Private Sector will invest in infrastructure, while government would run the institution, particularly academic functions and make annualised payments to the private player.
2. **Outsourcing Model** - private players should invest in infrastructure and also run the academic institution and management while government would pay for specific services.
3. **The Hybrid Model** – The private player and the government would share investment in infrastructure while the former would run the institution, including the academic functions.
4. **Reverse Outsourcing** - the government should invest in infrastructure and private players should run the institution.

The government is yet to come out with a PPP policy in the Higher Education sector. For PPP to succeed in a not-for-profit environment the government will have to provide the viability gap funding.

## The Last Frontier

### The “For Profit” vs “Non-Profit” Entity Regime

The primary sources of funds for Higher Education Institutions: are tuition fees from students, donations and investments (if allowed) from the private sector and Government funding. There is a much smaller fourth source - fees earned from research, and consultancy, but this is a very small proportion. Fee income has been steadily declining in Government institutions and while private institutions charge significantly higher fees, there will be limits to raising additional resources from tuition fees and students with various States’ appointing committees that fix fees for technical education. As we have seen, Government funding is never likely to be enough to meet the requirements and hence, we will have to allow entry to the private sector to augment resources for expanding access. However, for this to happen at a meaningful scale, private investors need to be able to legitimately make a return on their investments.

In the Indian context, the fundamental problem with the not-for-profit mindset is the presumption that prospective promoters already have surplus capital to invest in the capital expenditure required to set up a new institution and are interested in investing such surplus in the Education System. It ignores the reality that the number of such promoters is limited, particularly when we consider the magnitude of the investment required in India. The regulations require that the not-for-profit entity sponsoring a University or technical institution must own the land and building. This is the major component of the initial investment. There is no such requirement for setting up a school under the CBSE guidelines for recognition and if the government could allow a long term lease of the land and building in lieu of ownership, it would make it much easier to set up universities even on a not-for-profit basis since it is almost impossible to get market funding for a not-for-profit entity that is not allowed to distribute profits. Thus this policy ab initio excludes any entrepreneurial entry into formal higher education.

### International Experience

#### Germany: Vocational Education Partnership

- Vocational schools run by government
- Industry decides the curriculum & certification processes
- On-the-job training by the Industry
- Trainees released from work to attend vocational school
- Cost of training borne by Industry
- Trainees are paid by Industry

#### Switzerland

- Students have option for vocational education or universities after completing school education
- Curriculum is based on business enterprises & vocational schools
- Apprenticeship is the corner-stone of this system

#### Ireland: Skillnets

- Training Network Programme funded by the government
- Funds training networks sector-wise or geography wise
- Focussed in funding training of people for employment
- Has funded over 300 training networks which has supported about 43,000 companies meeting their training needs

₹ Crore

Annual Spend in Private Colleges / Universities 27,200

Annual Spend – assuming 80% are for-profit 21,800

#### Assuming 10% margin

Taxable Income 2,200

Direct Tax (@33%) 740

#### Assuming 15% margin

Taxable Income 3300

Direct Tax (@33%) 1,110



The insistence on a not-for-profit regime not only creates opportunity for rent seeking/malpractices in the system but also keeps out those genuine investors and educators who wish to provide quality education to individuals with the ability to pay. Capacity constraints in the sector are also forcing an increasing number of parents to spend large sums of money on overseas education. As mentioned earlier, more than 450,000 Indian students reportedly spent about USD 4 billion on overseas education in 2006-07. This, along with the estimated ₹ 4,500 crores (USD 1 billion) or more spent on illegal donations and capitation fees to secure admission at higher education institutions in India, indicates that the market is willing to pay more for higher education – the constraint lies in the supply.

Restricting higher education to the not-for-profit sector has kept the large number of institutions operating out of the tax net. While most operate entirely as not-for-profits, there certainly are many that do extract profits. We estimate that the potential tax loss, to the government, could be in the range of ₹ 740 to 1,110 crores (USD 165 to 244 million) per annum currently.

Assuming that 50% of the new capacity to achieve a 15% GER is built in the private for-profit segment, and that these new institutions operate at a 15% profit margin, an additional ₹ 900 crores (USD 200 million) of tax revenue could potentially accrue to the government each year. A for-profit system brings additional advantages. It would result in greater competition in the education sector which would compel institutions to lower fees, improve teaching quality, and use efficient technology as ways of distinguishing themselves from the competition. It would also give greater power to students and parents – as consumers and schools, as businesses, will have to cater to their needs. Even for employees such as teachers, competition among

educational organisations could spell better payment terms, training facilities and employment benefits. This is because the quality of teachers and education administrators will determine the success or failure of an educational institution. Additionally, it would attract not only better faculty but also better investors and entrepreneurs.

Given the resistance to an unfettered for-profit model, a possible via media would be to cap the profits that a for-profit education institution can make. This is being done very successfully in the electricity sector where the Regulator allows a reasonable return on investment while fixing tariffs. This can easily be done through the existing fee fixation committees that have been set up in each State for technical education. This would prevent excessive profiteering while providing private investors an economic incentive to set up higher education institutions. The aim is not to make public spending obsolete – but rather to have it coexist with private investment.- The Government should focus on promoting disciplines and setting up institutions in remote and backward areas that have limited commercial potential and leave it to the private sector to focus on the other areas.

### International Scenario

As of 2005, out of about 9,000 postsecondary institutions in the U.S., nearly half were for profit. Several prominent U.S.-based companies have a global presence in the management of for-profit institutions, by establishing branch campuses in other countries, purchasing existing institutions, or marketing distance education curricula to an international audience. Roughly two-thirds of Brazil's private institutions are now for-profit. In Philippines, out of the 82% private enrollment, 47% students are studying in for-profit institutions including a few large and many small institutions. In Malaysia, 90 odd private higher education institutions are reportedly for-profit. In South Africa, bulk of private higher education is legally for-profit, including more than three-quarters of the registered private institutions. In Ukraine, all privates (with about 16 of the country's total enrollment) are legally for-profit due to general skepticism about private institutions and the corrupt potential of "non-profits". Several Gulf States also support for-profit education.

Source: "The For-Profit Sector: US Patterns and International Echoes in Higher Education". By Kevin Kinser and Daniel C. Levy PROPHE Working Paper #5

# 05 The Way Forward



## Proposed Legislations and their Potential Impact

Achieving India's demographic dividend will depend on our ability to provide a simple regulatory framework in education that eliminates opportunities for rent seeking and low quality. Hence the recent initiative of the Government to reform the regulatory regime is a welcome step. The four Bills presented to Parliament will potentially overhaul the education set up in the country. Their cumulative impact would be the most significant reform of the Indian Higher Education framework in the past 60 years.

While the Bill for permitting foreign universities to establish campuses in India, has garnered significant attention and has been the subject of significant debate (politically and otherwise), the other Bills also have the potential of altering, albeit more significantly the Indian regulatory framework dealing with education because we believe they will lay the foundations for a more transparent, governance focused framework. While these Bills are yet to become law, we will briefly review them.

### The Prohibition of Unfair Practices in Technical Educational Institutions, Medical Educational Institutions and Universities Bill, 2010

This is a truly welcome initiative that will not only improve governance but also go a long way in protecting the interests of children and parents. It seeks to prohibit unfair practices in technical educational institutions, medical educational institutions and universities. Its aim is to introduce greater transparency and governance through mandatory disclosures regarding faculty, fees and infrastructure. It prohibits an institution from a) demanding or accepting capitation fees or other charges in excess of those declared in its prospectus; and b) admitting students without conducting admission tests specified by the appropriate authority. The Bill also prohibits publishing or issuing advertisement based on false or misleading facts for inducing students to take admission. The Bill prescribes penalties for indulging in practices prescribed as unfair in the Act. It is the first time that such legislation has been proposed in the Education sector. It will be an essential component in an education eco-system that is plagued with rent seeking and malpractices. The question for consideration though is the ability and the willingness to implement the provisions of this Bill when it becomes a law.

### The National Accreditation Regulatory Authority for Higher Educational Bill, 2010

This seeks to make accreditation by independent accreditation agencies mandatory for higher educational institutions (HEIs), educational programmes, and educational infrastructure. The Bill also provides for establishing an independent statutory authority for the purpose, the National Accreditation Regulatory Authority ("NARA"), which will inter-alia include registration of accreditation agencies and determining the procedure for accreditation, which is an essential ingredient for ensuring quality in the education sector. The Bill requires that every HEI seek accreditation for every programme conducted by it before it starts the admission process for such programmes. Existing HEIs will have to apply for accreditation of their institution and programmes within three years of the commencement of this Act (five years in case of HEIs engaged in medical education);

### The Education Tribunals Bill, 2010

It seeks to provide for a two-tier system of adjudication of disputes relating to education that involve teachers and employees of higher educational institutions, students, universities, institutions, and statutory regulatory authorities. It provides for the establishment of a National Education Tribunal and State Educational Tribunals, prescribes the composition of the Tribunals, and delineates the powers and functions to be exercised by the Tribunals. If implemented as envisaged, this Bill will expedite the process of resolving intra- and inter-institution disputes.

### National Commission for Higher Education and Research 2010

This Bill is currently in the process of being finalised and is open to feedback from public stakeholders. It has created a significant interest because it envisages the creation of the National Commission for Higher Education and Research (NCHER) which will replace both the UGC, AICTE. This is based on the recommendations of both the Knowledge Commission and the Yash Pal Committee that have reposed their trust in an all powerful commission to 'rejuvenate' the education system and remove multiple regulators.

## The Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010 (FEI Bill)

### Overview of the Bill

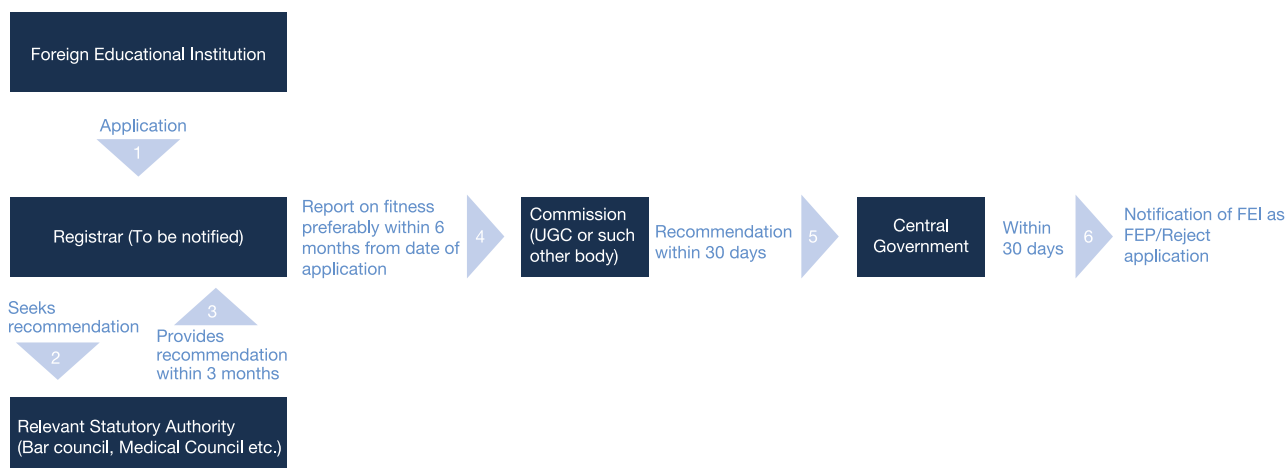
The Bill seeks to include within its ambit all foreign education institutions (FEIs), whether existing and proposed, set up independently or in collaboration with an Indian partner/ education provider, an institution that provides education resulting in degree, diploma or certificate in India. Distance Education has been excluded from the ambit of the Bill.

FEIs proposing to award degrees and diplomas are required to mandatorily seek notification from the Central Government as a 'Foreign Education Provider (FEP)', subject to meeting specified eligibility criteria. These requirements are clearly aimed at ensuring that only established and financially sound FEIs qualify. Those providing certificate courses have lighter reporting requirements.

Any FEI proposing to make an application for registration needs to have the application endorsed by the Embassy/ High Commission of the home country where the FEI is registered and situated. Every application must *inter-alia* contain:

- documentation to establish that the applicant has a 20 years track record in the home country
- undertaking to maintain a minimum corpus of ₹ 500 million
- status of accreditation in home country and
- information on the financial soundness of the applicant.

The steps that are followed in the review of an application for notification of an FEI as an FEP are as detailed below:



The Bill prescribes norms for utilising the income received from the corpus fund. It states that only 75% of the income received from the corpus shall be used by the FEP for development purposes and the remaining 25% must be deposited. There are not only caps on the amount that can be utilised, but also restriction on repatriation of surplus outside India, another measure aimed at protecting Indian students from fly-by-night operators.

Quality is ensured by mandating that the quality of programmes offered in India is comparable with those offered by the FEP in its home country. It additionally ensures transparency by requiring FEPs to publish a prospectus 60 days prior to the commencement of admission for purpose of providing information, *inter-alia*, regarding fees, faculty and infrastructure to prospective students and to also provide specified details on its website.

The Bill empowers the Government to exempt an applicant FEI with a reputation or international standing from all provisions of the Bill, except those relating to non-repatriation of surplus generated in India and penalties prescribed for violating provisions of the Act.

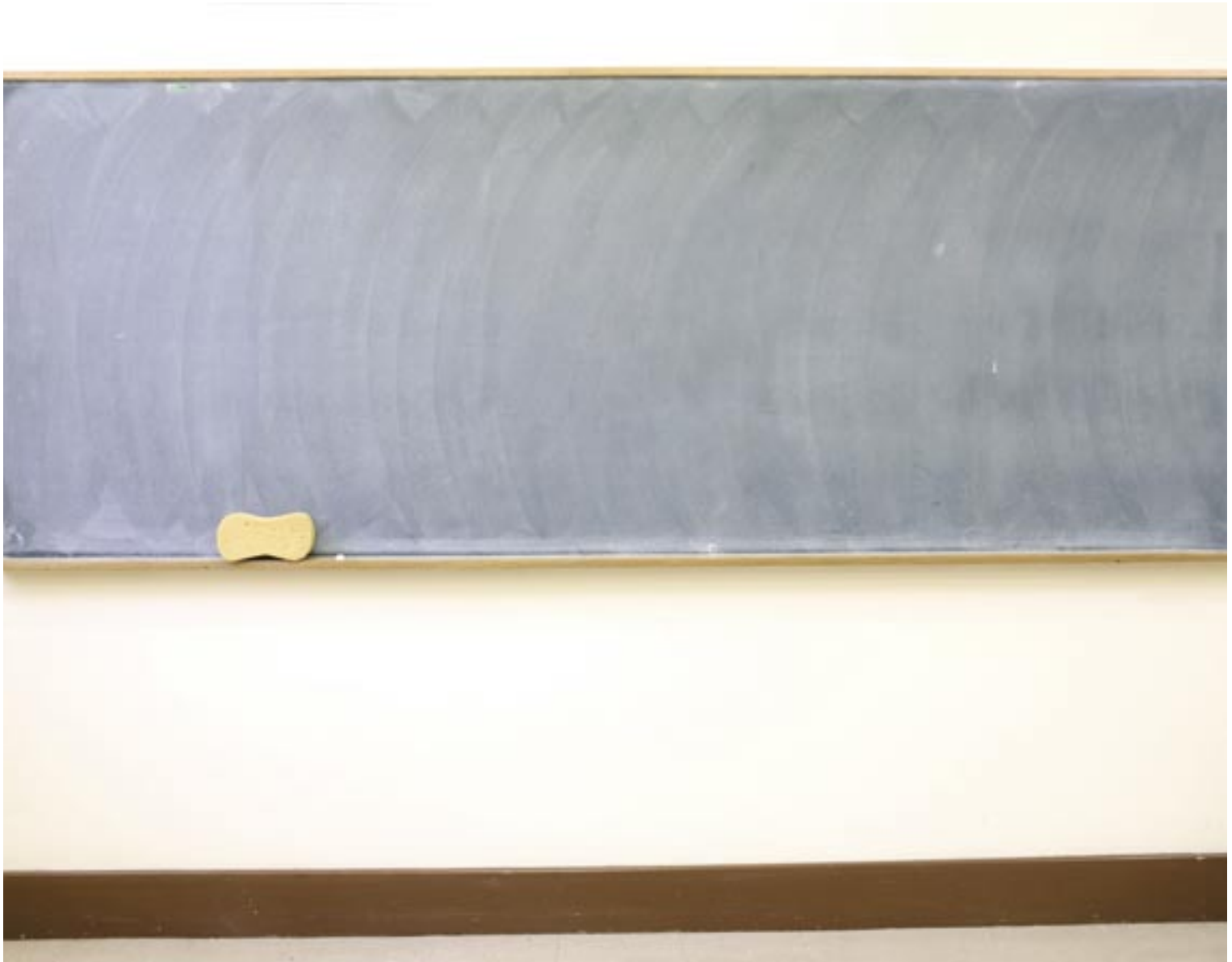
Penalties have been prescribed for any FEI and any person/ Indian education provider for contravening the provisions of the law and can range from ₹ 1 to 5 million.

This is a long awaited legislation which should open another avenue for capacity creation in the system as well as expose our domestic institutions to foreign competition. The existing policy regime is ambivalent and there are no regulations governing or enabling entry of a foreign education institution into India. It is, therefore, encouraging that the Government has finally acknowledged the need for a legislation that provides this clarity. The provisions of the Bill amply reflect a Government focus on quality, reliability and accountability of FEIs intending to establish in India, thus addressing major concerns which the opening up of an otherwise tightly regulated sector may bring up.

It has already raised extensive debate. The primary criticism of the Bill is that it would create elitist institutions with exorbitant fee structures that will be unaffordable for the Indian masses. There are also apprehensions of domestic institutions being unable to compete. While it is true that these institutions are likely to have higher fees, it is equally true that they shall create new quality benchmarks and introduce a culture of high academic professionalism - thereby raising the bar for delivery of education in India. Access to needy but the deserving students can be enhanced by making them eligible for scholarships and the Government's subsidised student loans.

On the flip side, *prima facie*, the Bill seems to be biased towards research oriented universities (fast track mechanism for reputed institutions). It is important to understand that given the huge demand-supply gap, the bulk of the institutions that are likely to have an interest in India are those whose focus is on teaching and vocational/skill building. In this scenario it would

be unrealistic to expect the top-notch universities like Harvard or Oxford to set up standalone campuses in India and have their autonomy and quality potentially compromised with all our regulatory constraints. Media reports have indicated that Oxford has no plans for setting up in India, Yale has merely accepted to act as mentor to the 14 innovation universities proposed by the Government and Harvard is content with providing executive programmes to Indian corporate executives. In this scenario, it is only the next level of universities that might be interested in India. Many of these have very high standards and quality of education and accommodate the majority of the Indian students studying abroad. But they have no fast track mechanism under the Bill and are potentially subject to all the regulatory rigours and restrictions on autonomy.



# 06 Conclusion



There is much work to be done – on all aspects of higher education. We believe that these Bills will lay the foundation for creating a modern framework to improve quality and check malpractices in the Higher Education space in India. They will create an enabling environment wherein multiple providers of education – domestic and foreign, public and private, not-for-profit and, if the government deems fit, for-profit, can operate and compete to provide access to quality education.

The future of our country will be shaped in our classrooms. India has emerged as a leading global IT services provider and this IT competence must be leveraged to enhance delivery of education. Interestingly, there is extensive use of technology in the private school system, but not as much in higher education. The Government must, therefore, encourage greater usage of services and technology in the institutions it runs. While experts unanimously agree that there is no substitute for direct teacher – student interaction, a quick, cost-effective and interim measure for increasing enrolment and spread would be through the distance education mode, which involves extensive use of technology. IT can help create an education system that brings all-round efficiency – by helping teachers become more effective through access to training and enhanced knowledge database, thus improving the quality of classroom instruction.

We also make two specific suggestions with regards to private participation in setting up Universities/technical institutes: one, as in the CBSE guidelines for school education, the Government

should allow a long term 30 year lease of the land and building as these are the two major components of the initial Capex. Such an amendment will significantly ease private participation, even on a not-for-profit basis. Second, as is being done in other regulated sectors like electricity, the Government can cap profits by allowing a reasonable rate of return to for-profit universities. This can easily be done through the existing fee fixation committees that have been set up in each State for technical education. This would prevent excessive profiteering while providing private investors an economic incentive to set up higher education institutions.

These are exciting times for higher education. The Government has made massive increases in budgetary allocations. It has also acknowledged the importance of private participation. There is a wide and growing spectrum of services being offered in this sector. These are almost entirely on a legitimate for-profit basis. We have the potential of becoming a global hub for education. The Government should work with all stake holders and seek to harness the creativity, energy and capability of the private sector and create synergies by working with, rather than in competition with it. The opportunity is real – all stakeholders need to work together to capture it.

# 07 Glossary

AICTE	All India Council of Technical Education	ICRIER	Indian Council of Research in Economic Research
BA	Bachelor of Arts	IIM	Indian Institute of Management
BCG	Boston Consulting Group	IISc	Indian Institute of Science
BSc	Bachelor of Sciences	IISERs	Indian Institutes of Science Education & Research
CAT	Common Admission Test (to the IIMs)	IIT	Indian Institute of Technology
CII	Confederation of Indian Industry	IRR	Internal Rate of Return
CBSE	Central Board for Secondary Education	IT	Information Technology
CSR	Corporate Social Responsibility	ITC	Industrial Training Centre
DCI	Dental Council of India	ITES	IT enabled Services
DEC	Distance Education Council	ITI	Industrial Training Institute
DGET	Directorate General of Employment & Training	MBA	Masters in Business Administration
DGET	Directorate General of Employment & Training	MCI	Medical Council of India
FCRA	Foreign Contribution Regulation Act, 1976	MHRD	Ministry of Human Resource Development
FDI	Foreign Direct Investment	NAAC	National Assessment and Accreditation Council
FEI	Foreign Educational Institutions	NCHER	National Commission for Higher Education & Research
FEP	Foreign Education Provider	NIT	National Institute of Technology
GER	Gross Enrolment Ratio	NKC	National Knowledge Commission
GMAT	Graduate Management Admission Test	PPP	Public Private Partnership
GOI	Government of India	SPAs	School of Planning and Architecture
HE	Higher Education	TISS	Tata Institute of Social Services
HEIs	Higher Education Institutes	UGC	University Grants Commission
ICAR	Indian Council of Agricultural Research	VCI	Veterinary Council of India



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