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INDIA – A LUCRATVE DESTINATION FOR FDI IN HIGHER EDUCATION

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ABSTRACT

Since the impact of privatization is penetrating all sectors of the Indian economy, it is bound to affect education sector as well. India has the world's largest population in the age group of below 25 years. This is expected to continue for the next decade. This large pool will drive huge demand for higher education.

India has around 14.6 m students enrolled in higher education, making it the country with the third highest number of students behind USA and China. India has approximately 550 universities and around 31,000 colleges. Although annual enrolments in higher education have grown steadily over the last decade but the GER (Gross Enrollment Ratio) of 15 percent is way below the global average of 26%. The Indian government has set a target of achieving a Gross Enrollment Ratio of 30% by 2020 which will give tremendous boost to higher education in all sectors from Engineering to Management including research.

India will require 1,000 more universities and 50,000 more colleges to be built in the next decade to accommodate 50 million college-age students in next few years. Government may not prefer to fund such a huge investment and call upon the private sectors and encourage FDI to upgrade and create infrastructure of world class standard for higher education.

Union Cabinet after several years of deliberations had unanimously approved a Bill that would allow foreign education providers to set up campuses in India and offer degrees. Such institutes will be granted deemed university status under Section 3 of the Universities Grants Commission (UGC) Act, 1956.The Foreign Educational Institutions (Regulation of Entry and Operations, Maintenance of Quality and Prevention of Commercialization) bill will allow foreign universities to invest at least 51 per cent of the total capital expenditure needed to establish the institute in India.

There are several entry options available for FDI in higher education in various disciplines which will benefit both sides. The option may be form collaborative tie up with existing Indian education provider to go alone all the way. The ROI may look attractive if the foreign Universities take a businesslike approach for FDI in galloping education market of India.

KEYWORDS: FDI, Higher Education, Universities, Gross Enrollment Ratio.

INTRODUCTION

Today knowledge explosion is taking place across the world. Knowledge has become the key driving force in economies to become fast moving and rich based on use of knowledge effectively due to availability of knowledge workers and to poor economies that do not have this resource. Knowledge industry is nothing but education and it is becoming a key factor in the process of development of a nation. It is not the raw material nor the labour alone which can drive the economic growth of the nation but the knowledge or education become the most critical input. This turnout has taken place as the world economy slowly but surely is moving towards knowledge based. The Higher education in context with India has become very critical success factor to sustain the economic growth it has experienced in last 20 years which is partly due to knowledge based industries such as IT/ITES. India is moving and will continue to move towards "services industry" led growth and higher education is the most critical input in that domain.

Since the impact of privatization, liberalisation and globalisation is penetrating all sectors of the Indian economy, it is bound to affect education sector as well. Education is no longer need to be viewed only as a charity or social service but should be considered as a necessary input for economic growth. It is an investment for nation building either by state or private players or Foreign Direct Investment. Education is to be treated as human resources development for serving end consumers i.e. industries better than competition does at global level. In this effort towards human resource development, the private sectors including foreign players through FDI has to play a major role since it is a major beneficiary of the knowledge industry.

It is true that the policies followed in India for higher education under the present system and rules which governs education has placed excessive responsibility for the expansion and development of higher education on the governments at state , central level . Corporate sector is no too keen to invest in education. Consequently, the expansion and establishment of education institutions and facilities have been shouldered mainly by the government at state and central level which in my opinion has hampered the industry led growth of education sector where education is in tune with the industry requirements.

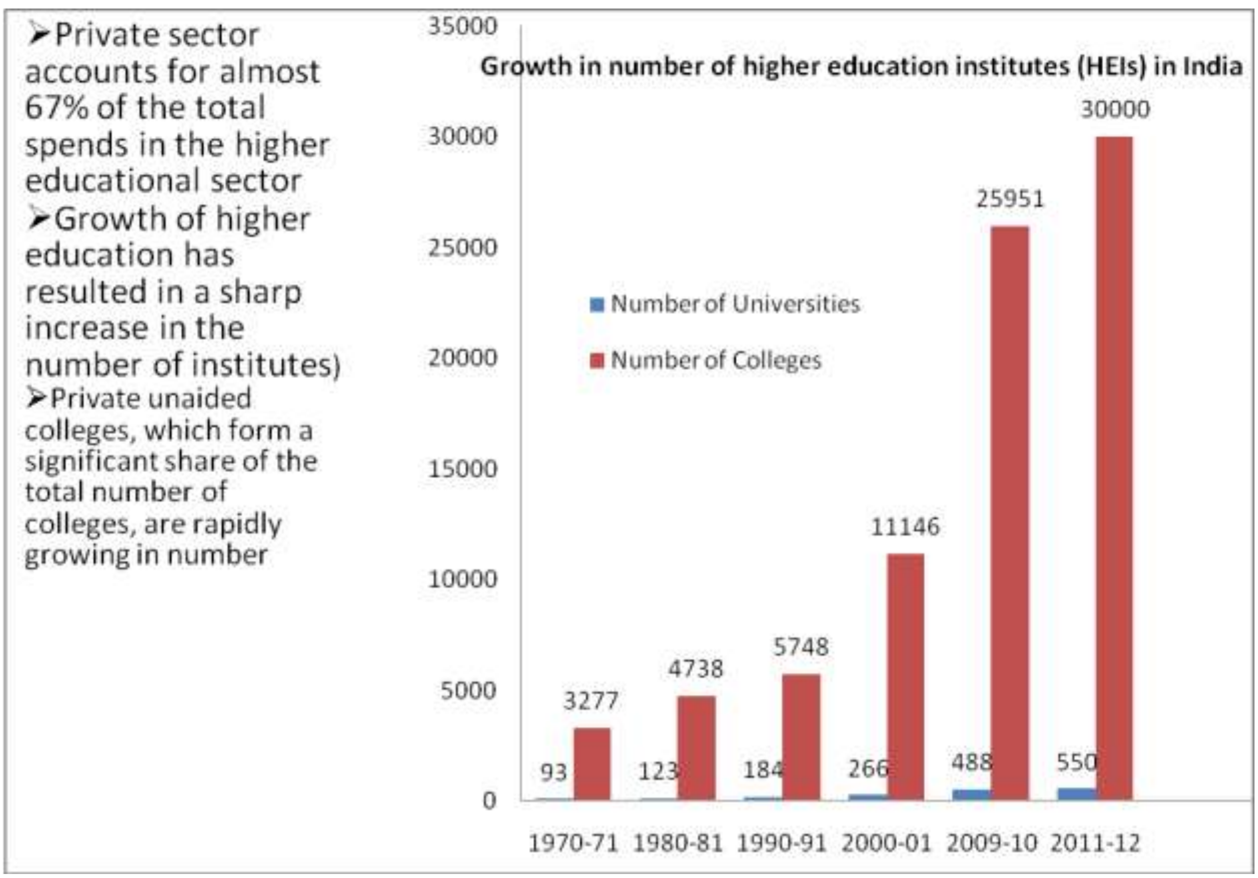
The governments will find it extremely difficult to fund higher education in future due to huge investments required to establish higher education institutes of global standard and the number of such institutions India requires to full fill its needs. The only option left is to deregulate the Higher Education sector and encourage Foreign Direct Investment in this sector ensuring it remains a socio-economic objective and does not become totally commercial.

It must be mentioned here that trust and societies in tandem with government had made tremendous contribution in the growth of higher education and will continue to do so but the task ahead is much more strenuous in terms of financial requirements, technology, infrastructure, updated curriculums, faculties and plenty others that can be taken care of by this group . India needs to think innovative means to meet the requirements.

GROWTH OF HIGHER EDUCATION SECTOR IN INDIA

Then growth of higher education provider's in terms of Universities and Colleges had been spectacular since independence. There were 20 Universities and 500 Colleges at the time of independence. India now has close to 550 universities and around 31,000 colleges, making it one of the largest in terms of capacity. At present India has around 14.6 m students enrolled in higher education, making it the country with the third highest number of students behind USA and China.

	2004	2006	2009	2011(Estimate)
No. of university level institutions	320	367	467	550
No. of Colleges	16885	18064	25951	30,000
No. of students enrolled (in millions)	9.95	11.2	13.6	14.6
Source: UGC				



Source : Edge report 2011 , Ernst & Young and internet

PRESENT SCENERIO OF HIGHER EDUCATION IN INDIA

The Indian education system starts at preschool level and goes on till Post doctoral level. It has core sector which consist of schools and higher education. The noncore sector mainly consists of vocational course such in IT/ITES and in other areas as airhostess training, sales management, and other vocational training etc.

India's annual enrolments in higher education have grown since independence but the GER (Gross Enrollment Ratio) of 15 % as estimated for 2011 is far below the global average of 26%.

The gross enrolment ratio (GER) signifies the health of higher education in the country and indicator of the level of participation in higher education. The chart below shows that India is the lowest in GER among the countries s surveyed. We therefore need a multifold approach to increase GER

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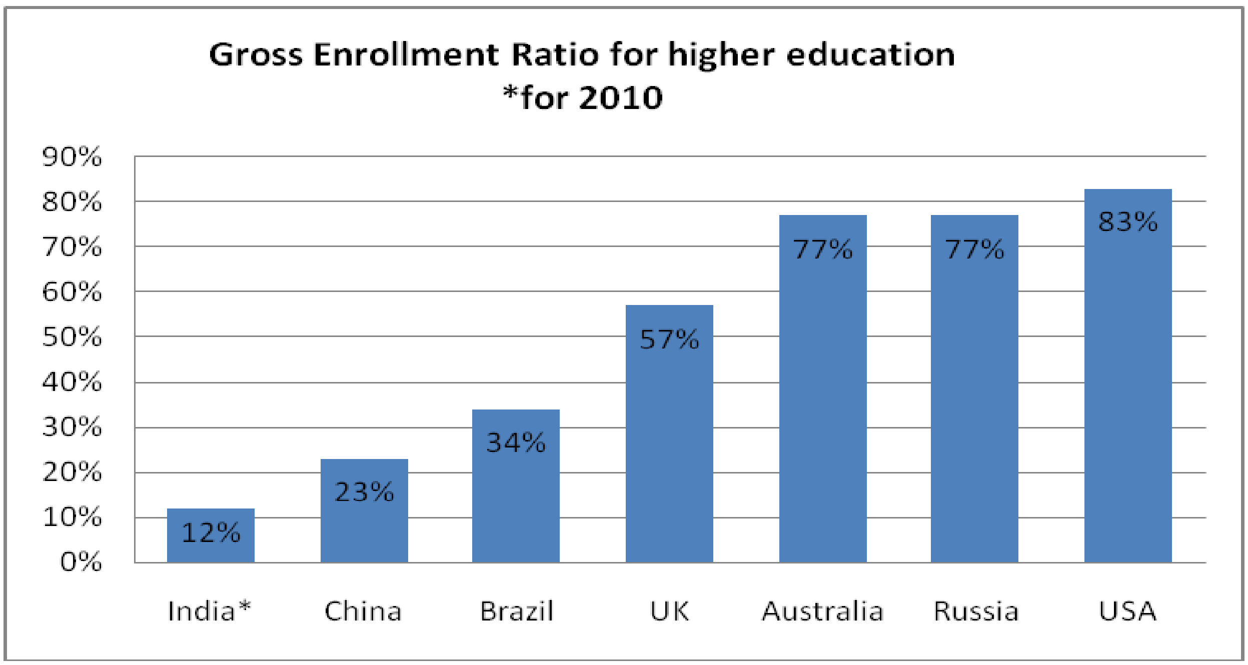
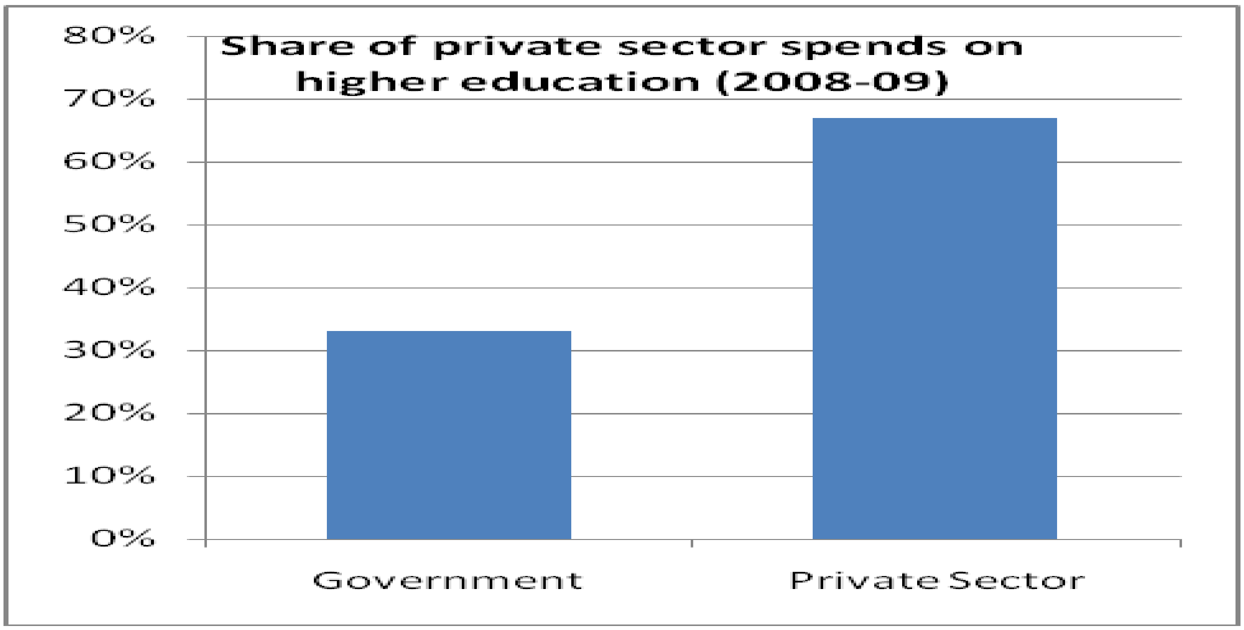


Source: UNESCO Global Education Digest, 2010

India is home to largest medical education in the world in terms of number of Medical colleges**.** This unprecedented growth has occurred in the past two decades in response to India's huge requirements of doctors and paramedical staff .HEIs in this sector are rising to the needs of the country and had established medical and nursing colleges to surpass other countries in the world in last 20 years. The major challenge for regulatory bodies has been to maintenance of quality standards of the new medical and nursing colleges. India is seen as major destination for health tourism and would need huge number of medical and nursing colleges to cater to the need of India which at present has one of the lowest doctors –patient ration among the developed and fast developing economies. Indian health care professionals are major contributor to the health care system of the USA and UK and will continue to need more and more Indian doctors and paramedical professionals. India has one of the lowest doctors –patient ration among the developed and fast developing economies.

PRIVATE SECTOR CONTRIBUTION IN HIGHER EDUCATION

The Indian private sector contribute for almost 67% spend in HEI and government spend is only 33%. The major driver of HEIs is the private sectors i.e. trust societies and companies under section 25 of the companies act as defined by government,



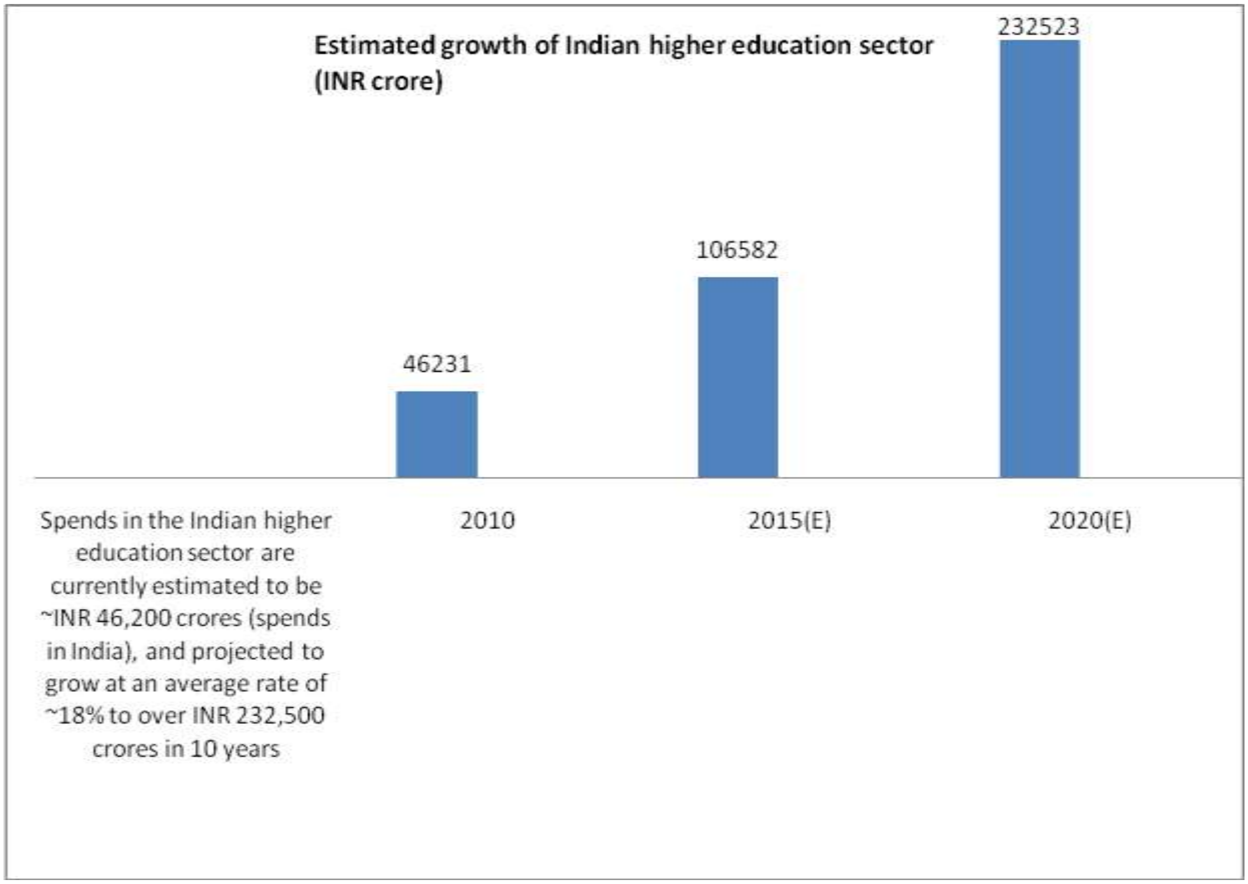
The private sector had been a major contributors of HEI growth in the areas Engineering, Pharmacy, Management and computer application. This can be seen from the graph below.

HIGHER EDUCATION GROWTH PROJECTIONS

The Indian government has set a target of achieving a GER of 30% by 2020. However, even if GER touches the global average of 26%, it would mean doubling of the number of students in higher education and doubling of capacity. In other words, India will need at least 500 more universities and 30, 00 more colleges in the next 8 years at the most conservative estimates.

India needs 1,000 more universities and 50,000 more colleges to be built in the next decade to accommodate 50 million college-age students, said Mr. Kapil Sibal, Minister for Human Resource Development, at Yale University. This will help increase India's gross enrolment rate from the current 12 per cent to 30 per cent by 2020. “Under the circumstances, effective academic leadership is a serious need,” he said at the India-Yale Higher Education Leadership Program.

Further, according to the report '40 million by 2020: Preparing for a new paradigm in Indian Higher Education' released by Ernst & Young, the higher education sector in India is expected to witness a growth of 18.0 per cent CAGR till 2020. At present, the sector witnesses spend of more than INR 46,200 crore (US$ 10.4 billion), which is estimated to grow at an average rate of more than 18.0 per cent to over INR 232,500 crore (US $47 Billion) in 10 years.



Source : Edge report 2011 , Ernst & Young and internet

SOCIAL DRIVERS FOR HIGHER EDUCATION

India is a young country by age and has the world's largest population in the age group of below 25 years. This is expected to continue for the next decade. This large pool will drive huge demand for higher education. Within a decade India will have a far younger population than other large economies. According to the National Commission on Population, the median age in India will be 29 as compared with 37 years for China and the U.S., 45 years for West Europe and 48 years for Japan

Education in India is seen as status symbol and as a way for securing future. Indian household will spend a huge amount of money on Higher Education of children by borrowing from banks, taking out their savings in PF and other instruments.

Indian household does not consider expenditure on higher education as an expense but looks this as an investment. India is home to largest population of middle class and this will work as a prime mover along with young population in increasing the higher education market to over $ 52 Billion by 2020. India is lucrative market for FDI due to demographics (young population) and a services focused economy (instead of industrial production like China) which makes education success factor for Indian industry and service sectors like software, generic pharmaceuticals, and other areas that require high level of education

WHY FDI IN HIGHER EDUACTION

India needs another 1000 Universities and 50000 new colleges to be established in next 10 years to reach GER of 30%. This would require an investment of huge proportions by private players or government. The rough investment required is calculated as follows.

50, 000 colleges at an average investment of 5 crore = Rs. 2, 50, 000 crore

1000 universities at an average investment of 75 crore= Rs. 75, 000 crore

India needs minimum of Rs.325, 000 crores ($ 65 Billions) next 10 years to invest in Higher education to keep pace with the requirement of Higher Education. Government of India have several pressing social requirements which may need investment and Private players such as trust and societies may take longer time to make this kind of investment delaying the growth of HEI and in turn economic growth. It is therefore in the national interest to allow FDI at terms which attracts foreign players to invest.

The figure taken for investment for colleges and Universities are at very conservative estimates and investment required may be much higher.

Indian Universities does not figure in top 100 universities in the world. It is a known fact that Singapore, Japanese and Korean Universities have made it to top 100. Indian students after completing Bachelors in Indian Universities and doing Masters in USA /UK Universities make it to top league in USA and UK. Does it not have to with the Universities there?

There is no real competition among HEIs in real terms and UG/PG qualifications offered are not in tune with the industry requirements. We require foreign players to come and create industry led education systems and make HEIs to compete with themselves and improve their programs to global standards.

There is absolutely no research work undertaken by HEIs in India including the best ones whereas in advanced countries, universities contribution is quiet significant in R&D. India needs to move forward in that direction to become research hub through HEI route.

Over 4 Lakhs Indian students are pursuing their higher education overseas and incurring an expenditure of billions of dollars every year. It will be in national interest to allow foreign universities to start operations, in India through FDI route. This move will stop the out flow of funds and may encourage foreign students to come to India for studies rather than going to Europe, North America, Australia and New Zealand.

Mr. Narayan Murthy of Infosys has said that only 25% of Indian Engineering graduates are employable by the industry. Indian doctors who are in great demand in USA /UK have to go through a very stringent screening process before they are allowed to practice. According to McKinsey (2005), only 25 per cent of engineers, 15 per cent of finance and accounting professionals and 10 per cent of professionals with degrees, in India, are suitable for work in multinational companies. Does it not suggest that we should allow foreign University to come through FDI route and set up Universities and bring Indian students to international standards?

Indian higher education is at a threshold of next generation quality improvement just like Indian industry was in early 1990 when government went ahead with liberalization of economy. The results are there for everybody to see. I will strongly recommend that Government and HEI must take a proactive approach and allow FDI just like allowed in corporate sector. This may require new laws and legislation but we will have to do it to sustain the economic growth.

RULES AND REGULATION GOVERNING HIGHER EDUCATION AND FDI

Indian higher education system is overregulated and complex which requires permissions from several central government agencies and state government.

Higher education provider in India will have to be a registered under charitable trust or nonprofit societies, companies incorporated under section 25 of companies act or a central /state government institution .There is no provision for a corporate identity to offer higher education as a corporate entity or what we can call corporatization of education industry.

Section 25(1) (a) and (b) of the Indian Companies Act, 1956, provides for the formation of a company under this section for the promotion of commerce, art, science, religion, charity or any other useful object', [provided the profits, if any, or other income is applied for promoting only the objects of the company] and no dividend is paid to its members.

A trust wanting to start an educational institution will have to register the trust and depending upon the type of education will have to approach different government agencies for approval s such as UGC, AICTE, MCI, DCI, DEC etc

All technical education such as Engineering will have to be approved by state governments, respective Universities and also by AICTE. The same holds good for medical education where in Indian Medical Council will approve instead of AICTE other than state governments and Universities.

All post graduate level education in Management and so called defined as technical education will have to be approved by AICTE other state governments and Universities.

Although 100% FDI is allowed in higher education through automatic route , no rules/ regulations in place for foreign universities to be recognized under UGC .

As there is no separate sectoral policy notified for education sector, FDI up to 100% under the automatic route is allowed for education sector and the same had been confirmed by MHRD. This means that foreign investment is permitted without the approval of FIPB and is only subject to post-investment reporting requirements with Reserve Bank of India. They are not coming because HEIs cannot distribute dividends and the 'reasonable surplus' needs to be ploughed back into the system. This is hampering the FDIs in higher education.

Government has framed new rules for FDI in construction for education sector. The government had amended the policy governing FDI in real estate in general is no longer binding for education sector. This implies that requirement of $10 Million investment in construction and minimum development of 50,000 sq. ft is no longer binding for education sector.

AICTE regulations allows foreign education provider to set up operations on its own or with Indian institutes subject to following condition.

- The foreign institution should be accredited in its home country
- An undertaking that the degree/ diploma will be recognized in the home country
- The Indian partner has to be an Indian university or an affiliated institution which will be a trust or society or companies under section 25 of companies act.
- Accredited by the National Board of Accreditation of AICTE
- The nomenclature of the degree offered in India has to be the same as that which exists in the parent (home) country.
- The fees charged, and the intake of students, will be prescribed by the AICTE.

The above rules do not encourage foreign education providers to invest in India. The main contention is the fees which will be governed by the AICTE and its nature as trust or society or company under section 25 of companies act.

HIGHER EDUCATION: PROPOSED LEGISLATION FOR FDI

Governments of India has taken several bold initiatives and legislation to allow FDI are being under review and are awaiting approvals from parliament and other statutory bodies. The following higher legislation is in the process of becoming law which will facilitate foreign higher education providers to invest through FDI route.

Legislation	Purpose	Present Status
The Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010	To regulate the entry and operation of foreign educational Institutions in India	Pending with parliamentary standing committee

The Foreign Educational Institutions (Regulation of Entry and Operations bill 2010 will open new vistas for foreign Universities to operate in India with following riders.

Foreign Education Institutes will have to get a deemed university status by UGC. All Foreign education institutes operating before commencement of the Act (once the Bill is passed) will have to get themselves registered and accredited within 6 months. The programs offered in India have to be comparable to that offered in the country of origin of the Foreign Education Institutes. They will have to maintain a minimum corpus fund of INR 100 million and Foreign Education Institutes may not utilize more than 75% of the income derived for the development of their institution in India and balance 25 % as corpus of fund.

INFRASTRUCTURE AND SERVICE PROVIDER ROUTE FOR FDI IN HEI

Indian government is trying to gear up to the requirement of higher education to allow FDIs but there had been discussions at several forums to devise innovative means to attract FDI in higher education in corporate way. I suggest the following structure to attract FDI.

1. Foreign education providers start a company as per companies' act 1956. The company will be an infrastructure provider and education service provider.

2. Foreign education provider ties up with the trust or floats a trust or society or another company under section 25 of company's acts with Indian partners.

Section 25(1) (a) and (b) of the Indian Companies Act, 1956, provides for the formation of a company under this section for the promotion of commerce, art, science, religion, charity or any other useful object', provided the profits, if any, or other income is applied for promoting only the objects of the company and no dividend is paid to its members.

The trust secure permissions from relevant authorities to start higher education institute.

3. The trust fulfills the minimum requirements of infrastructure and facilities as required by the relevant rules and regulations of the statutory bodies.

4. Infrastructure and service provider company then gives out on lease services provided such as Hostels, Sports facilities, Commercial buildings, Labs, additional class rooms, Libraries , student services, placement services, ,transport services etc. The rules and regulations at present in India allow such a scenario but are to be tried and tested yet.

This model will work very successfully for Medical colleges where hospital is a required for practical and infrastructure service provider can set up hospital and lease it. This model will be successful for high end technology courses where highly sophisticated labs are required.

The only risk in such a scenario is authorities in the government may take it as a tactic to mislead them and back door route to commercialization of education.

CONCLUSION

Higher education in today's global environment, in my opinion, is neither charity nor a purely social objective. Higher education is an economic requirement for the country for growth. Corporates need well trained professional to take on global challenges and capture overseas markets.

It is understandable to keep primary and secondary school education as charity or social objectives to enhance literacy rate to 100 % level but higher education has to BE freed from this tag.

Government must consider seriously corporatization of higher education so as to allow corporate houses to enter higher education and deliver education of global standards. This will also facilitate several private universities, research houses, large Corporates to consider foreign direct investment in India's higher education market.

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