

UNLEASHING THE POTENTIAL OF INDIA'S FORMAL EDUCATION SECTOR FOR ACHIEVING COUNTRY'S SOCIAL AND ECONOMIC VISION

A low hanging fruit

Specific note for school education sector

The background

Over the years the state has done very well in providing access for K-12 schooling in the country. This has resulted in achieving near cent percent GER at the primary level. There however exist serious gaps in the quality of learning outcomes. Percentage of students dropping out of school system at secondary level continues to remain high. India continues to rank poorly in large scale assessments such as ASER and PISA.

Alongside the state, the private sector has been equally active in creating capacity in K-12 schooling in the country. Over the years a section of these unaided private schools have also earned a reputation for offering good quality schooling to the students. However, unlike in other social sectors such as healthcare, the corporate sector has remained nearly absent in brick-and-mortar K-12 school sector. Moreover most of the reputed unaided private schools have refrained from expanding.

In terms of physical schools, about 25% of K-12 schools in the country are private schools. The CAGR of private schools in the country between 2013-14 to 2017-18 is at least 25%. Over these years the enrolment in government schools declined from 71% to 53% (between 1998 and 2017) whereas the enrolment in private schools (aided+ unaided) increased from 29% to 47% in the same period¹. The trend is universal across urban and rural geographies.

Building Social Capital of the Nation

- Develop a K-12 schooling eco-system that thrives on Excellence and competes on Quality
- An eco-system that challenges all existing state as well as private schools alike
- Reward and celebrate quality defined by objective parameters
- Ensure complete transparency of the system
- Protect parental interests in terms of quality, child safety and arbitrary increase in school fee
- Empower parents with choice

Market and Economic Opportunity of Education Sector in India

The Economist² estimates Indian consumer spend on private education at \$68bn in 2018. Another report³ estimates the education sector to grow to the tune of \$200 bn by 2025, thereby propelling economic growth.

Sector	Year	Size (USD bn)	Estimated Size by 2025 (USD bn)	CAGR (%)	Source
Entire Education Sector including higher Ed	2020	117	225	14%	Statista

¹ "Liberalization of India's Private Schools" by FICCI-ARISE (2021)

² The Economist, April 13th, 2019

³ Liberalization of India's Private Schools" by FICCI-ARISE (2021)

Private spend on KG-PG	2018	68	-	-	The Economist
K-12 Sector	2018	32.4	116	20%	FICCI-ARISE report
Coaching and Tuitions	2021	11	23	16%	KPMG Report
EdTech Sector (including higher Ed)	2021	2.8	10.4	30%	Statista India Briefing
EdTech Sector (only K-12)	2019	0.75	4-5	40-45%	Blume Report RedSeer Report

Additionally, investments into the EdTech sector are estimated at US\$ 1.43 bn in 2020 and between US\$ 4 to 4.7 bn in 2021. Recent experience has revealed that investments in Ed-Tech sector has also been an opportunistic play due to the Pandemic. Lately concerns about their sustainability have arisen. More and more Ed-Tech companies are opening physical centers.

As can be seen in the table above, the K12 schools' sector is much larger than EdTech and Coaching in size. While EdTech may have a much higher growth of 30-40% CAGR, but with reforms K-12 Schools can expect at least 15% CAGR over a multiple large base. If private schools are liberalized, 25-30% CAGR is very much possible, leading to a market size of US\$ 120-150 bn by 2025.

A market of such a size can expect significant investments – from within India and through the FDI automatic investment route for education. For the K-12 Schooling sector to grow from about US\$35 bn to 120+, a funding of at least US\$50 bn will be required over the coming years.

Global Norms

1. India is the only country, amongst the top 10 nations in the world by GDP, that does not allow for profit schools⁴.
2. Many countries in Southeast Asia (Singapore, Hong Kong, Thailand, Vietnam), Middle East (Dubai, Qatar and Abu Dhabi) and Africa (South Africa, Nigeria, Egypt, Kenya, Morocco, Uganda) also allow for-profit schools. For profit schools have an equally strong focus on quality and outcomes and many for profit schools are ranked amongst the Top ranked schools in these cities.
3. Large global for profit K12 platforms have been able to attract significant long term institutional capital from pension funds, sovereign funds etc and have proactively invested in creating high quality K12 capacity across both existing and new markets

Current state of affairs

1. Most of the state-run schools and considerable section of unaided private schools leave too much to be desired in terms of quality of learning outcomes.
2. Per capita spend on students in K-12 schools by most states far exceeds the per capita spend in unaided private schools.
3. K – 12 private school sector is currently dominated by 'religious minority' schools in the country. They are often funded by international charities and their number continues to grow.

⁴ EY Parthenon Report
FICCI ARISE Jan' 2023

4. Parliament has acknowledged that educational institutions have high incidence of unaccounted income.⁵
5. Corporate world has remained muted when it comes to setting up K-12 schools. They have done so in the liberalised social sector – Healthcare.
6. While several schools actually run as small or medium businesses, their mandatory not-for-profit structure entitles them to claim tax exemption, which is a loss to the exchequer.
7. If allowed to operate in for-profit structures, the corporate tax will bring in additional tax revenues to the tune of \$6 bn⁶, all of which can be ploughed back to improve learning achievement.
8. Budget proposals to curb unjustified tax exemptions availed by entities structured scrupulously as charities and impact of recent apex court judgement⁷ can only be achieved by liberalising the sector and allowing existing entities to come in formal legal fold.
9. Several legacy institutions have not been able to upgrade and expand due to their inability to embark on new age models such as REIT's, InVits, Capital Markets etc for unlocking their capital.
10. As compared to school fee, same student often spends similar or higher amounts on ed-tech, tuitions or coaching/ test prep. Almost all entities offering these educational services are permitted to operate on for-profit structures.
11. Unaided private schools are one of the biggest employment generating sectors in the country. Entry of corporate sector shall boost employment and enhance the service norms in the sector.
12. Although India has an inherent advantage of English language, renowned international school chains have set up schools in other countries such as Thailand etc.
13. The country has not been able to leverage its inherent strengths to make 'Study in India' a reality.

Liberalization Precedents

1. Over the years DBT scheme has given power to the ultimate beneficiary for procuring quality goods or services of his choice. It has also plugged system leakages and corruption.
2. India has witnessed the benefits of liberalization across multiple sectors including telecom, aviation, emergency services, insurance, defence etc, including even the social sector – healthcare.
3. Private philanthropic hospitals continue to co-exist along with government run hospitals as well as for-profit hospital chains. The Ayushman Bharat scheme primarily leverages these for-profit hospitals enabling access to high quality medical care for the less privileged.
4. Liberalization has increased competition that has led to improvement in quality and affordability, ultimately benefitting the consumer.

Legal and Policy framework as it exists today

1. Right to Education (RTE) Act, 2009 does not restrict that brick-and-mortar K-12 schools should only be structured as not-for-profit.
2. National Education Policy, 2020 makes clear distinction between private, public and philanthropic schools.⁸
3. States such as Haryana⁹ and UP¹⁰ allow companies (not merely section 8 companies) to set up schools in their state.

⁵ 2019 report of Parliamentary Standing Committee on Finance, 'Status of Unaccounted Income/Wealth both Inside and Outside the Country'

⁶ Ibid

⁷ New Noble Education Society (2022) 143 taxmann.com 276 (SC) (supra)

⁸ Para 8.5(c) of NEP 2020

⁹ Rule 3(1)(i) of Haryana School Education Rules, 2003

¹⁰ Section 2(h) of The Uttar Pradesh Self-Financed Independent Schools (Fee Regulation) Act, 2018

4. However, CBSE grants affiliation to only not-for-profit entities in India.¹¹ International Boards such as Cambridge and IB do not have any such restriction.
5. Ironically though, CBSE does grant affiliation to for-profit entities outside India¹².
6. Medical Colleges set up in India post January 2017 are allowed as for-profit companies.¹³
7. Foreign Universities have been allowed to set up in the GIFT city through a liberalized route (2022).
8. No mechanism exists for converting existing Trusts and Societies into Body Corporates.
9. Conversion of not-for-profit entities to for-profit entities comes at a very high cost of tax leakage, especially for age old legacy entities.

Specific recommendations at the Central Government level

Budget 2023 Proposals:

1. Formalise a pathway for conversion of erstwhile Trusts and Societies into body corporates.
2. Provide a limited time window for conversion of ‘not-for-profit’ entities to ‘for-profit’ entities at a reasonable tax cost.

Both the above could be announced for entities operating in various fields, not merely in education

Amendment in CBSE Affiliation Norms:

Section 2.1.8 of CBSE Affiliation Bye-laws 2018 to be amended to:

“Private schools established by such legal entities which are permitted to set up schools in the state.”

Specific recommendations for various State Governments

1. Following the successful precedents in few states, allow all kinds of body corporates (*not merely not-for-profits*) to set up schools in the state.
2. As recommended in the NEP, implement ‘School Quality Assessment and Accreditation Framework’ (SQAACF) in all state schools. Create an eco-system for unaided private schools to also adopt the same – at arms-length from the government. *FICCI ARISE, Ernst & Young Parthenon SQAACF framework is a well-researched wholistic framework that could be referred to.*
3. Review existing legislations and sub-legislations, clear the current maze and roll out a transparent framework for school establishment, recognition and fee regulation. *Time tested framework provided in FICCI ARISE, Shardul Amarchand Mangaldas Model Code could be referred to.*
4. Roll out comprehensive, practical and measurable child safety norms for schools. *FICCI ARISE comprehensive School Safety Manual and Tool Kit could be referred to.*
5. Devise a state school consolidation program by way of creating model schools within a defined kilometre area and provide transport facilities to ferry students from within the zone. *Instead of spreading resources too wide and thin, develop model schools that have good cohort of students, teachers and resources.*
6. Roll out ‘DBT System’ and give parents the power of choice in selection of schools for their wards. *State run schools competing for enrolments will ensure that they embrace quality and deliver value for tax-payer’s money.*
7. Conduct a time bound pilot of ‘publicly funded, privately operated’ schools in lines of the successful Charter School model in the United States, Canada and Australia, and Academy Schools in the UK.

¹¹ 2.1.8 of CBSE Affiliation Bye Laws, 2018

¹² 2.1.9 read with 2.5.1 and 2.5.6 of CBSE Affiliation Bye Laws, 2018

¹³ MCI Notification No. MCI 34 (41)/2016 – Med./162904 dated 17 Jan 2017