

LIBERALIZATION of India's Private Schools

How might India achieve quality
education for all children?



Vardan Kabra
Anupam Gupta

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FOREWORD by FICCI-ARISE

India's development trajectory is critically linked to the investments in social infrastructure and our march towards attaining Sustainable Development Goals is firmly anchored in investing in human capital and inclusive growth.

Early Childhood Education, K-12 and Higher Education systems as engines of economic growth and social development have taken on new importance in the 'global knowledge society'. The world's leading nations are placing big bets on education investments, wagering that highly educated populations will be needed to perform tomorrow's jobs, drive healthy economies and generate enough tax receipts to support governments. Countries such as Finland, Singapore, USA, China, Japan, South Korea, amongst others, have had the foresight to make huge investments in R&D and innovation in education.

As against any major country across the world where the percentage of students attending unaided independent schools barely reaches the double digit, nearly 50 per cent of Indian children study in private schools. Their rise is an important, and often, unheard story about our education system. Typically perceived as 'elite', the growth in the private sector has actually been powered by a wave of low- and middle-income families seeking better education for their children. Nothing illustrates this better than the fact that of these private school enrolments, 70% of the students study in private schools that charge less than INR 1000 per month, as against Government schools spend of about INR 30,000 per child per annum. While the number and spread of independent schools has grown multifold, regulations that were originally framed to govern government schools continue to regulate independent schools too. This acts as a hindrance for quality players entering the sector.

The National Education Policy (NEP) 2020 appears to be a genuine reformative step in the right direction and conveys a sharp bias for action, however its success is contingent on its implementation. There are countless examples of progressive policies being misinterpreted and distorted at the ground level resulting in an excess of litigation in all realms of education. The fundamental reason for this is a lack of clarity in distinguishing between the government's role in education as being that of a 'policymaker,' 'regulator,' 'funder' or 'operator.' While there is a rightful attempt in the policy to clear the regulatory maze created by several overlapping bodies, more is required.

As per UNDP estimates, the total financial requirement for India to reach SDG 4 by 2030 averages \$173 billion per year, far exceeding the current government budget of \$76.4 billion a year for education. It's obvious that the government won't be able to shore up investments to the required levels and would need significant private participation. With the current regulatory structure and obsession with keeping it ostensibly clean through not for profit mechanisms, we're ensuring our students are deprived of quality education. If we need investments, we need to incentivise investors. How can we expect institutions to invest Rs 100 crore in setting up schools and not expect a return on their capital?

Reforms do not mean a freehand. Education reforms will have to come in with safeguard to ensure quality is maintained and the parents are protected. A case in point is the Visionary Uttar Pradesh Self-Financed Independent Fee Regulation Act (2018). The parent community is protected with fee mechanisms in place and the investors' surpluses have been capped, giving enough room to ensure investment flows in the sector.

There are several regulatory challenges that are restraining the private sector from delivering higher and more accessible quality, similar to how India's economy was delivering inadequate services and products before 1991. Post the 1991 liberalization, most of our sectors have caught up with the world's best, barring a few, such as the private education sector. Despite all the regulations and the philanthropic mandate, private schooling is nearly at a \$100 bn size, having grown at about 15% CAGR over the last decade. Given the size of this market, rationalizing regulations and removing the philanthropic mandate could push the growth up to 25% CAGR, pushing the sector to nearly \$200 bn by 2025.

Transparent structures such as regular body corporates with strictly defined disclosure norms should be allowed for setting up and operating schools as is allowed in the states of Uttar Pradesh and Haryana. At a 20% profitability margin, and a 25% net tax rate, taxes from the sector can amount to a significant sum of \$10 billion, all of which can be ploughed back into education. This shall promote social entrepreneurship, create competition and raise levels of quality and affordability.

Through this report we aim to bring forth some pertinent facts about private sector contribution in improving access and quality in school education and suggest structural reforms that shall pave the way for realising the goals set in the NEP – that offers a number of well-reasoned and bold reformative steps in the right direction for disruptive change to meet the future learning needs.

Failure to innovate, repeating yesterday's educational programs and strategies tomorrow, will only further jeopardize education's reputation as a contributor to development efforts. Private sector is truly aligned with the Government's vision of transforming India as a hub for 'skilled Human Resource'. However, to realise this vision, the government should consider creating an enabling policy environment for the private players, where they are seen as 'meaningful contributor' to the national building. If measures are not taken on time, it may also swiftly shift India's 'Demographic Dividend' to a 'Demographic Disaster'.



Mr Manit Jain
Chairman, FICCI ARISE



Mr Shishir Jaipuria
Co-Chairman, FICCI ARISE



Mr Praveen Raju
Co-Chairman, FICCI ARISE

PREFACE:

A time for urgent, bold reforms

To anyone familiar with the Indian education system, there's no doubt that there's a massive upheaval needed. The new National Education Policy goes far with academic reforms, but stops short of fully harnessing the power of private schools where nearly 50% of the country's children study.

It is necessary to alter our policy attitude towards private schools at two levels - to seriously implement effective standard setting through formalization, and grant autonomy through liberalisation. The analysis and recommendations of this report can be debated and argued against, mostly at an ideological level, but also from other perspectives. However, what's clear is that India's future is at stake. The demographic dividend that India hopes to achieve, or a move towards a high income country is just not possible for India without all its children getting a good education.

At this point of time, the vast majority of our children are not learning anything socially or economically meaningful in the schools that they go to. The COVID-19 pandemic has further exacerbated the learning gap. And the 21st century requires not just literacy but much higher quality education and skills than being able to read, write or add alone. Yet our failure to deliver the basics, points to serious and complex problems in our system. India can't afford to make incremental safe changes and expect radically different outcomes. Radical changes are necessary. Otherwise we will continue to fail our children as we have done so in the last 75 years. Notwithstanding the challenges faced by the education sector, the COVID19 pandemic presents an opportunity to rethink schooling with the lens of leveraging both public and private sectors to achieve better outcomes for our children.

This paper aims to catalyze a paradigm shift in thinking about how education needs to be governed and delivered in India. Those familiar with the Indian education sector will find Chapters 1 and 2 familiar. Those who still believe that public schooling is the only way to ensure quality education for all must go through Chapter 3. Chapters 4-6 is where we lay out our recommendations, both standard as well as some bold ones. We hope that it will start many dialogues that will eventually lead to the vision that this paper starts off with.

Vardan Kabra
Anupam Gupta

About the authors



Vardan Kabra

An engineer from IIT Bombay and an MBA from IIM Ahmedabad, he's the co-founder and the Head of School at Fountainhead School in Surat. He's also supporting the Education Department of Gujarat in their Mission Schools of Excellence.



Anupam Gupta

A Chartered Accountant and has worked in the institutional equities business as an analyst since 1999 with leading brokerages. He is currently a consultant in thematic research.

EXECUTIVE SUMMARY

Overview: Making the case for liberalization of private sector schools



With school enrolment ratios improving steadily post-Independence, culminating at 98% + levels today, India's journey in education has achieved much in the form of access. A more recent feature of this journey is India's private school sector which has surged in size over the past two decades with nearly **12cr of India's 25cr students now studying in private schools**¹.



While access to education seems to have been resolved, quality of learning remains a key concern. The recently approved National Policy on Education (NEP 2020) places emphasis on **"universal access to quality education"** and any improvement in education will necessarily involve the private sector².



The NEP laudably promises that, *"input mandates will be adjusted and loosened leaving suitable flexibility for each school to make its decisions based on local needs and constraints, while ensuring safety, security, and a pleasant and productive working space."* Yet moving towards a simple, actionable, and parent-facing regulatory model will require careful design and impartial implementation³.



While public schools can play a key role in delivering quality education, they are constrained by a myriad reasons ranging from limited state capacity to over-centralization to poor utilization of funds. Moreover, funding the NEP's ambitious targets will be difficult with the pressure on government finances⁴.



The regulatory paradigm/framework for education in India is a key hurdle for better private participation. The focus on inputs (infrastructure, permissions, etc) instead of outputs (learning outcomes) is a key reason that stifles private schools from achieving better learning outcomes. For eg. a recent report finds that opening a private school in Delhi requires 125 documents, and applications move through at least 155 steps within the Directorate of Education⁵.



There is a widespread belief that private schools should be purely philanthropic because they provide a public service. This is a misconception for three reasons.

- Across sectors like higher education and health, the private system has been leveraged, and often funded to provide public goods, and a diversification of options is usually good for quality. Non-philanthropic schools also provide critical public services at low cost.
- The philanthropic requirement is elitist. Running a school is a full-time occupation, and only very few school owners can afford to forgo a wage for their efforts (which they legally must, as trustees in a trust or society, unless they can draw a salary for a specific service offered)
- Philanthropy cannot substitute the scale of the private sector. Estimates find that total spend on philanthropy (on all causes and sectors, including education) is INR 55k cr while household spend on just private schooling is pegged at INR 1.75 lakh cr, three times that amount. While some private schools are indeed run by philanthropists, this suggests that the majority of schools are run by those who see this as a profit opportunity, and there is nothing inherently evil about profit. Profit making entities are entirely capable of serving their community and if we look around, it is easy to see that they do it to a far greater extent than government or philanthropy. In any case, for the most affordable private schools with low fees, scope for 'profiteering' is minimal because competition is intense, not because the law prevents it.



Recognising reality and allowing for-profit entities will therefore not cause mass exploitation, it will instead increase competition, quality and value for money by reducing barriers to entry for the formal sector entrepreneurs and capital.



Unwillingness to recognise schools as micro, small or medium enterprises has had devastating effects for the private school sector in the aftermath of COVID19 in terms of credit availability. Even as schools gasp for financial support, they continue to make concessions for parents who can't pay fees and the demand for private schools is unlikely to reduce in the medium term. School revenues have decreased between 20-50% because of non-payment of fees as well as drop in enrolments. While schools continue to keep students engaged with lessons, extra curriculars, etc., online learning is not ideal for schools and students in low-resource settings. Inputs delivered by schools have not translated to outcomes - as measured by parent perception of online learning. In the long term, learning outcomes, especially among the weaker sections, may be severely impacted. Many affordable private schools have already closed down and may never reopen.

RECOMMENDATIONS



Unleashing the private sector's potential is critical to improving learning outcomes. We propose three steps to begin with:



First, **REFORMING** private sector schools by:

- Rationalizing Right to Education Act (RTE) input-based norms

- Compulsory registration of schools and accreditation that meets a set of disclosure norms and safety standards (replacing input based norms as part of the RTE and other acts)

- Education vouchers for individual students instead of RTE 12(1)(c)

- Increasing information available to parents by
 - standardized testing at atleast the key grades till Grade 8
 - Publishing the scores for schools

- Restructure regulatory bodies that oversee the education sector to eliminate conflict of interest.



Second, **LIBERALIZING** private schools with the following measures:

- Allow schools to operate for profit

- Allow complete autonomy to schools subject to the formalizing norms required above

- Change of regulations to allow for various funding models of schools and raising capital



Third, **PUBLIC FUNDING** for private provision:

- We estimate that the Government spends around Rs 30,000/annum per child on education, whereas low-fee private schools spend around Rs 18,000/per annum per child and produce slightly better learning outcomes⁷. Thus, if the Government switches to a voucher or a direct benefit transfer (Andhra Pradesh is already experimenting with a model), we believe the private sector can respond with better results.

- Therefore stop government funding of public schools and switch to funding individual students through vouchers, direct benefit transfers or other means.



The NEP suggests that 6% of GDP should be spent on education. Liberalizing the private school sector may be part of the way to finance this. We estimate the total schooling market in India at US\$100bn (nearly INR 7.5 Lakh Cr) with the private sector pegged at US\$32bn in FY 2017-18. We provide three scenarios⁸.

- With no reforms, the private sector can grow to US\$100bn by 2025 at a growth rate of 15% CAGR
- With the liberalization and formalization measures suggested in this paper, we see a 25% CAGR and a size of US\$200bn by 2025
- At 20% profitability margin, and a 25% net tax rate, taxes from the sector can amount to a significant sum of \$10 billion, or Rs. 74,000 Crores, all of which can be ploughed back into education.



VISION 2035:

QUALITY EDUCATION FOR ALL



4 key principles

can help outline a transformative education system for 2035.



1

Outcomes

Every Indian child from the age of 3 is learning at a school that delivers necessary literacy and numeracy skills. Student-centric pedagogy is used by teachers to ensure quality teaching and learning. Large scale technology-assisted scientifically-designed assessments are conducted regularly to check for each student's learning status. Where necessary, interventions are suggested to schools to meet gaps in learning outcomes, whether for individuals or for the school as a group. All schools focus on all areas of a child's growth - cognitive, psycho-emotional, social and physical through various activities that are given as much importance as numeracy and literacy.



2

Innovation

Many schools go beyond academics by teaching 21st Century skills such as critical thinking, scientific temper, communication, research and career-specific technical skills and attitudes such as confidence, grit, empathy, leadership, teamwork, and citizenship. These skills and attitudes allow Indian children to not just survive but also excel where technologies such as artificial Intelligence, automation and beyond have a significant presence in the world of work. Such schools offer a range of educational offerings in sports, arts and hobbies. Some schools also specialize in areas such as industrial technology, arts, design, artificial intelligence / machine learning, agricultural techniques based on the needs and aspirations of the students in their region.

Boards of education too are aligned to ensure that students have the skills and attitudes to survive and succeed in the 21st Century. In the formative years, they focus on the essential numeracy and literacy skills that every child needs. As the child grows, the board focuses on the application of learning, the ability to create, understanding of concepts, while allowing for students to both explore and later specialize in subject areas that are mapped to real world requirements. Students will be able to make choices based on both their interests and aptitudes. Examinations focus on measuring these application skills rather than content memorized and exams go beyond pen and paper or even technology based question and answer format. Boards innovate in pedagogical and assessment practices with the aim of making sure that the education is relevant to the economic and social needs of the time. Students are required to give a single entrance exam for college admissions, which is conducted by agencies appointed by the education regulator. Other than this entrance exam, colleges may ask for non-examination requirements such as projects, essays, letters of recommendation but may not conduct their own exams.



3

Choice

Parents have access to a range of public and private schools. They have reliable data at a school level, outcomes and processes to make their choices. The government funds parents who can then choose to add their disposable income and choose a school accordingly. Private schools compete fiercely with each other as well as with public schools to get student admissions. There are many outstanding public schools that are leaders in educational innovations which they share freely with all the stakeholders to improve the quality of education as a nation. Private schools consist of all categories of schools - large chains that offer huge value for money, boutique ones that have niche offerings, or small independent schools run by passionate educationists. By using economies of scale and innovating with delivery models and technology, schools are able to provide an educational offering whereby all their students achieve age appropriate learning outcomes, and most students have the opportunity to go well beyond that.



4

Autonomy with accountability

Significant autonomy is given to schools to manage their school structure and finance, teacher recruitment, salaries, training and performance management, as well as the ability to choose pedagogy and content. This autonomy and the inherent satisfaction of teaching attracts some of the best talent in the country as teachers and principals. Teachers have the ability and the scope to act as researchers and innovators by tweaking their lessons based on the unique needs of their students as well as being able to respond to the needs of the real world (such as giving more exposure to coding if that's a top job).

All schools work on the basis of compulsory disclosure of their complete fee structure including fee increment, admission policy, educational philosophy, infrastructure, teacher qualifications, safety and duty of care arrangements. Independent auditors are appointed by the education regulator that will verify all such information posted by the schools and rate the school on a standard set of parameters. Specialized agencies conduct standardized assessment of learning outcomes across all schools. The school disclosures, the independent auditor's ratings, learning outcomes assessments information is made public through a portal. Stakeholders can access this information through multiple means (app, web site, print). The regulator also acts as an ombudsman to address any complaints by parents or other stakeholders.

As these children enter the workforce they won't just survive but thrive in the workplaces of the future as they will have the ability to relearn and upskill themselves, thereby unlocking the demographic dividend and putting India into the next trajectory of economic growth and prosperity.

How far are we from this goal?

At present, this vision is merely a pipe-dream by all accounts. Public education has a challenging and politically complex path to reform, and has lost credibility, with even the poorest parents moving kids away from public schools to private schools in the hope of a better education. Private schooling is stifled, over-regulated in most aspects, judged by the state and parents mainly on inputs rather than on output.

However, bold well thought reforms can make Vision 2035 a reality. How might that be? That's what this paper sets out to address, starting with whether the National Education Policy 2020 can make this vision come true.

Can the National Education Policy 2020 meet vision 2035?

On 29th July 2020, the Government unveiled the New Education Policy (NEP¹), the third such policy after the first policy in 1968 and second policy in 1986. The policy provides an overarching philosophy and comprehensive framework with the goal of transforming India's education system by 2040. NEP 2020 has proposed both academic and administrative reforms such as moving to a 5+3+3+4 system for school education from India's current 10+2 system and a separate regulator for schools.

With more than 100 action points² in the policy, implementation will be rolled out in phases. More importantly, NEP2020 aims for an increase in Government expenditure on education to 6%, a goal that was proposed in the past and has still not been achieved. The key academic reforms proposed are:



Early Childhood Education:

Recognizing that Early Childhood Education (ECE) is essential to maximize students' brain development and foundational learning, it mandates the government to provide age appropriate ECE to all Indian students above the age of 3. At present, most of the ECE is provided by private players, and that too in the urban settings.



Foundational learning and compulsory testing in Grades 3, 5 & 8:

Recognizing that many Indian students lack the foundational numeracy and literacy necessary for any learning, the policy requires states/UTs to prepare an urgent implementation plan to achieve universal foundational literacy and numeracy in primary and middle schools by 2025. All students will have to take State School examinations in Grades 3, 5, and 8 (other than Grades 10 & 12). These examinations would test the achievement of learning outcomes through assessment of core concepts and knowledge from the national and local curricula, along with relevant higher-order skills and application of knowledge in real-life situations, rather than rote memorisation. The Grade 3 examination, in particular, would test basic literacy, numeracy, and other foundational skills.



21st Century skills and attitudes:

The National Education Policy lays particular emphasis on the development of the creative potential of each individual, in all its richness and complexity. It is based on the principle that education must develop not only cognitive skills - both 'foundational skills' of literacy and numeracy and 'higher-order' cognitive skills such as critical thinking and problem solving - but also social and emotional skills - also referred to as 'soft skills' - including cultural awareness and empathy, perseverance and grit, teamwork, leadership, communication, among others.



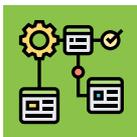
Flexible streams and vocational courses:

Instead of narrow streams such as science, commerce and arts, students will be encouraged to take subjects of their interest across streams. Vocational courses, which are not much respected at present, will be made available from middle school onwards to ensure that students build real world workplace skills.



Rationalization of content in the curriculum:

Recognizing that the current boards of education have excessive content, the NEP proposes a focus on the key concepts and reduction of unnecessary content that burdens students across grade levels.



Change in exam structure:

High stake board examinations of Grade 10 and 12 are to be spread over 4 years from Grades 9-12, with students having the option to appear for each subject at least twice during the year. Board exams will also be made easier focusing on the core capacities rather than the memorization of content and coaching preparing students to take exams.



A single entrance exam for college admission:

The National Testing Agency (NTA) is required to develop a single entrance examination, where students can choose subjects of their interest and all Indian colleges can access the scores. The examination will test conceptual understanding and abilities so that the burden of memorization and coaching is reduced significantly.

These academic reforms are both necessary and progressive, and if implemented properly, can propel Indian education into the 21st century. Much will depend on the National Council of Educational Research and Training (NCERT) and the State Councils of Educational Research and Training (SCERTs) on whether the implementation happens as expected by the NEP.

Proposed administrative reforms good but not sufficient to ensure transformation

However, curricular changes and related policy making is only as useful as it's execution in schools and that depends on the capacity of the education system to deliver. The NEP recognizes significant administrative issues at present and it proposes these administrative reforms:



Consolidation of schools, school complexes:

Public schools with small numbers are required to be consolidated wherever possible without reducing access to the students. Further, some school complexes consisting of primary, middle and secondary schools are supposed to utilize economies of scale.



An independent regulator of schools:

A government run State Schools Standards Authority (SSSA) is proposed which will be independent of the Directorate of School Education that runs public schools. The SSSAs along with the SCERTs will establish a minimal set of standards based on basic parameters (namely, safety, security, basic infrastructure, number of teachers across subjects and grades, probity, and sound processes of governance). Both public and private schools will be required to follow the same standards. Schools will be tracked through both an accreditation process as well as self-audit and all such information will be posted publicly on the SSSA websites.



Change of recognition norms for schools from the input-based:

The RTE 2009 Act has a one-size fits all model for recognition of schools with an overemphasis on inputs based norms such as land areas, room size, playground size. The NEP proposes that, *“these mandates will be adjusted and loosened, leaving suitable flexibility for each school to make its own decisions based on local needs and constraints, but without in any way compromising on the requirements of safety, security, and a pleasant and productive learning space. Educational outcomes will be given due importance and will be added adequately in the assessment of schools.”*



Outcome transparency

At the school level based on performance on standardised assessments as well as school accreditation - with this information available to all the stakeholders, including parents.

These administrative reforms are welcome but fall short of addressing two core issues that currently plague the Indian Education system:



Doesn't address the weak state capacity to deliver quality education in public schools:

NEP recognizes a *“severe learning crisis”* but other than the administrative reforms, it suggests recruiting more public school teachers to improve the pupil to teacher ratio. None of these address the lack of accountability and many other administrative issues that don't allow public schools to deliver. By asking the states/UT to make an urgent implementation plan to ensure foundational literacy and numeracy, the NEP falls short of ideas that will change the status quo of the *“severe learning crisis”*. Chapter 3 will explore the issues with the status quo in greater detail.



Doesn't liberate the private schools from the philanthropic mandate:

The NEP states multiple times that education in India can't be run for profit, and proposes multiple steps to curb commercialization of schools (and colleges). The policy completely ignores the reality that the vast majority of the 4 Lakh+ private schools in India are run for profit in some way or the other, while not 'profiteering'. Nearly 50% of Indian children now study in private schools, with more than 70% studying in schools that charge less than Rs. 1000/month³. However, the quality of education at many of these affordable private schools is not as good as it could be. Despite the NEP proposed academic and administrative reforms, without a massive influx of high quality people and large capital, private schooling won't be able to deliver quality education at a large scale. The NEP refuses to recognize that a change in status quo won't happen without liberalization of the private schooling sector. Chapters 4-6 will explore the issues with private schooling and solutions in greater detail.

Conclusion

While the NEP proposes some excellent academic reforms, the administrative reforms are not likely to change the status quo for either public or private schools in terms of improving the quality of education. This paper will understand the issues with the status quo in greater detail and recommend what needs to be done to achieve Vision 2035.



CHAPTER 1



In this chapter we analyze the shift in India from government schools to private schools, both in terms of student enrollment and ownership of schools. We analyze the reasons behind the rise of private schools and why parents prefer to send their children to private schools. We also look at the trends in learning outcomes at schools and how learning outcomes at private schools compare with government schools.

The Indian Private Education Sector - an overview

KEY TAKEAWAYS

- ① Post-Independence, India's progress in education has focused primarily on equity and access to school education; this has resulted in a rise in gross enrolment ratios.
- ② Underneath the impressive strides in enrollment is a huge shift towards private schools. Thus, while India has the second largest schooling system, almost half of its 12 crore children go to private schools.
- ③ Two key factors have driven the shift towards private schools:
 - a) parent's demand for a better quality of education for their children
 - b) rising aspirations from India's economic growth
- ④ India's private school sector is heterogeneous and unorganized, with a bulk of these schools catering to the lower income families.
- ⑤ Learning outcomes in affordable private schools have significant room for improvement but the current regulatory regime - that focuses on inputs instead of outputs - is a key hurdle.



1.1 INTRODUCTION:

India's journey in education

Post independence, India has focused on providing access and equity (Draft NEP 2019) in education to children.

18% to 73%

India has made significant progress in this area as seen in improvement in enrolment ratio from 18% in 1951 to 73% in 2011 (U-DISE¹).

32% to 92%

Similarly, gross enrolment ratio (GER) across various levels (primary to secondary) has improved; for example, GER for students in elementary level (6-13 years) improved from 32% in 1951² to 92% in 2019³.

Given this progress, India's schooling system (children from Classes 1 to 12) is the second largest⁴ in the world after China, with more than

15 lakh schools
25 crore students

as shown in the table below.

Figure 1.1

Number of recognized schools:

Academic Year 2018- 2019

Category	Number
Primary	8,26,842
Primary with Upper Primary	2,99,789
Primary with Upper Primary Secondary and Higher Secondary	56,062
Primary, Upper Primary and Secondary Only	68,103
Upper Primary only	1,42,990
Upper Primary and Secondary	47,955
Upper Primary Secondary and Higher Secondary	34,792
Secondary Only	34,430
Secondary with Higher Secondary	23,683
Higher Secondary only/Jr College	15,360
Total	15,50,006

Source: Table 6, UDISE Education Statistics at a Glance 2018

Figure 1.2

Levelwise student enrolment in school:

Academic Year 2018- 2019

Level	Numbers (in '000s)
Primary (I-V)	1,20,041
Upper primary (VI-VIII)	64,160
Secondary (IX-X)	38,252
Senior Secondary (XI-XII)	25,400
Total	2,47,854

Source: UDISE Education Statistics



1.2 INDIA'S SHIFT TOWARDS PRIVATE EDUCATION

India's education system has seen a significant shift towards private education. In this section we look at the shift towards private education across various parameters over the past few decades and then provide possible reasons thereof.



a

Rising number of students enrolled in private schools

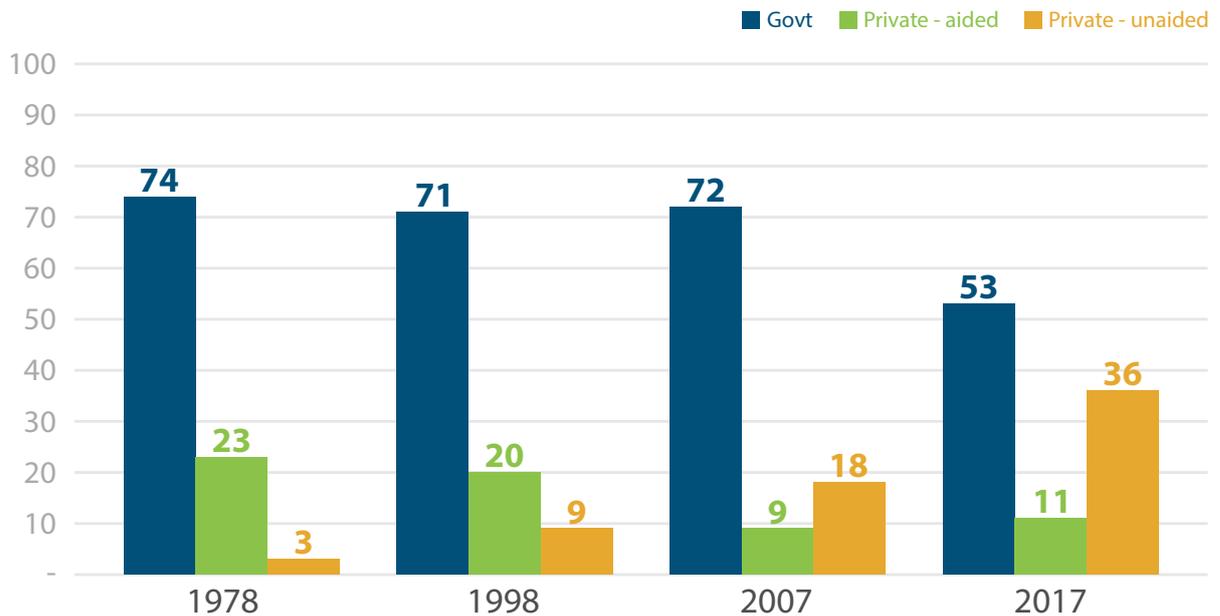
The Government's push to provide access to schools for all children has driven the rise in school enrolments. Over the period 1978 to 2017, school enrolment as per U-DISE has risen from 8 crore students to 25 cr students, a compounded annual growth rate of 3%. But the growth rate for children enrolling in private schools has risen at a much higher 9%, as a result of which, at the end of 2017, there were a total of 11.5 cr students enrolled in private schools versus 13.2 cr in Government schools (which means that nearly 47% of Indian students are in private schools now). Thus, government schools have ceded significant space to the private sector schools over the past four decades, as can be seen in the chart below.

Figure 1.3

The surge in private schools in India

(number of students across different types of schools)

Growth of School Enrolment



Source: U-DISE 2019

b

The rise of privately owned schools and the 'affordable private school' model

Within private schools, it is evident from the chart above that the sharpest rise is in the category of private unaided schools. Private unaided schools are run by private trusts and societies and do not receive any funding from the Government due to which they have some freedom to decide school fees and teacher salaries. They are largely unorganized and can range from schools backed by large corporate groups (such as for example Dhirubhai Ambani International School which is part of the Reliance Foundation⁵) to small and independently run schools owned by individuals. At the end of 2017, there were more than four lakh privately owned schools (of which private unaided schools stood at 3.2lakhs) as compared to nearly 11 lakhs government owned schools.

Thus, when seen from the perspective of schools by ownership or management, private unaided schools now form 23% of all schools in India, compared with just 3% in 1978. By all measures, thus, the private sector has made large inroads into school education in India.

Schools in India are broadly defined on their ownership model and source of funding. Government schools are entirely financed and run by concerned government bodies. For private schools, the Unified District Information System for Education (UDISE) provides the following categories:

Figure 1.4

Categories of private schools in India

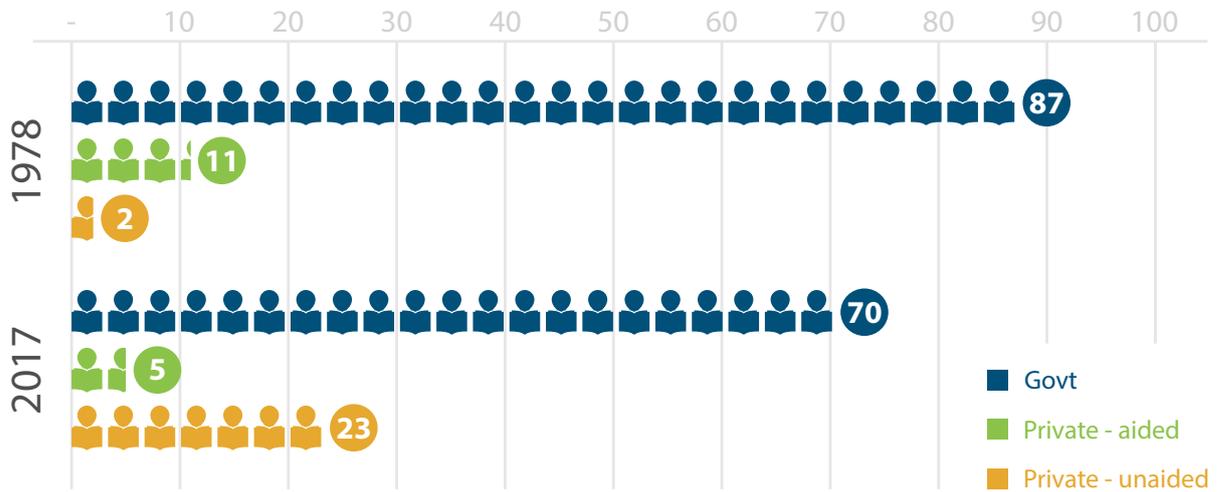
Private - aided	Private – unaided	Unrecognized schools	Madrasas
Owned and run by a trust, society, private individual, etc; receives grants from governments, local bodies, etc. Governments have a say in key decisions like fee structure, teacher recruitments.	Owned and run by a trust, society, private individual, or company registered under Section 8 of the Companies Act, 2013 ⁶ etc; does not receive any financial aid from the Government and has control over key decisions such as fee structure, teacher recruitments.	Not recognised by governmental agencies but runs regular classes. For some, recognition could be in process, or, school can be recognised till a certain grade but have classes beyond this grade.	Set up to teach Islamic religious text among children of the Muslim community and includes Madrassas recognised by state Wakf Boards or are unrecognised.

Source: U-DISE 2017-2018

Figure 1.5

Schools by management type

Schools - by management

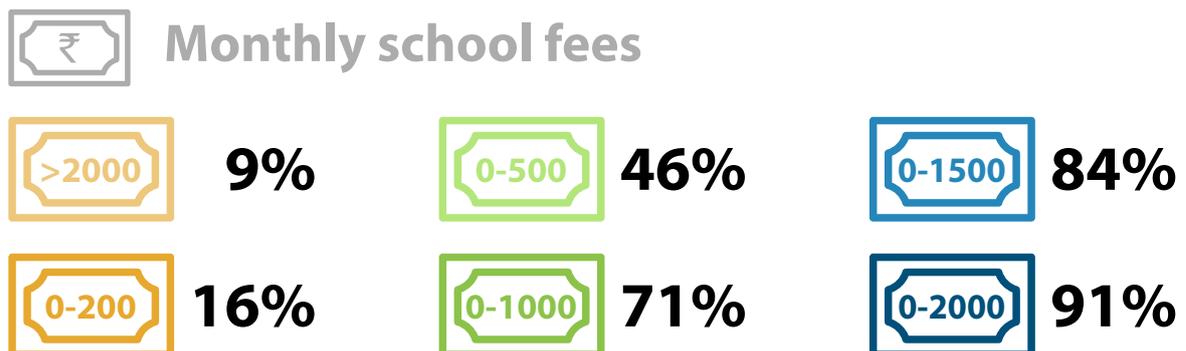


Source: U-DISE 2019. U-DISE data for years between 2002 and 2012 is only available for elementary grades, and hence has been excluded.

Finally, we note the rise in enrollment of students in the affordable segment. Contrary to popular perception that private schools charge high fees, data from National Sample Survey Office (NSSO) 2018 reveals that the monthly median fee in an elementary private unaided school in urban India is Rs. 500 per month in rural India versus Rs. 958 per month in urban India. At an all-India level, schools with monthly fees at the higher end of the scale (i.e. Rs. 2,000) are less than 10% of the overall private schools market. The bulk (46%) of students that study in private schools thus pay less than Rs. 500 per month in school fees. Given that India's per capita income is around Rs. 11,250 per month the average of Rs. 500/- month seems affordable. Hence, the rise of private schools offering affordable education (or Affordable Private Schools - APS) is a key event in India's education sector in the past few decades.

Figure 1.6

A majority of students are enrolled in budget private schools

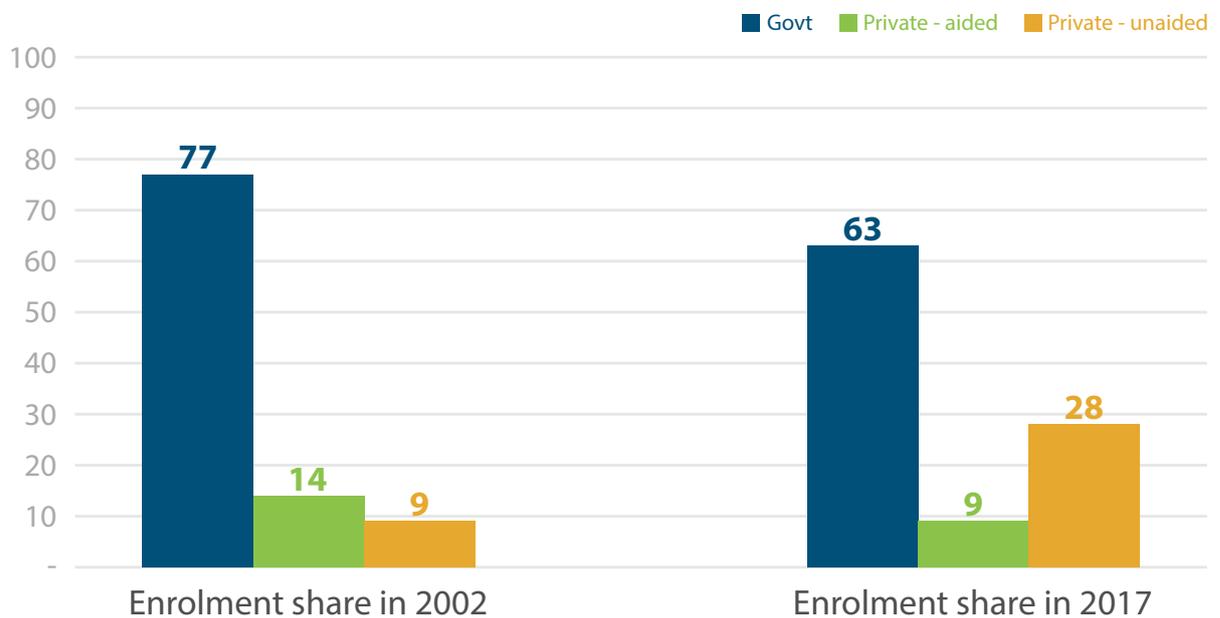


Source: MoSPI 2019

© Shift towards private schools in rural areas

Private unaided schools have usually been associated with urban areas (since urban areas have higher incomes and better infrastructure) but over the past few decades, private unaided schools have spread across the rural areas as well.

Figure 1.7
The increasing share of private schools in rural areas
Enrolments in rural areas



Source: U-DISE 2019
IIO Education vouchers for individual students instead of RTE 12(1)(c)





1.3 WHY DO PARENTS PREFER PRIVATE SCHOOLS?

① Better perception compared to Government schools

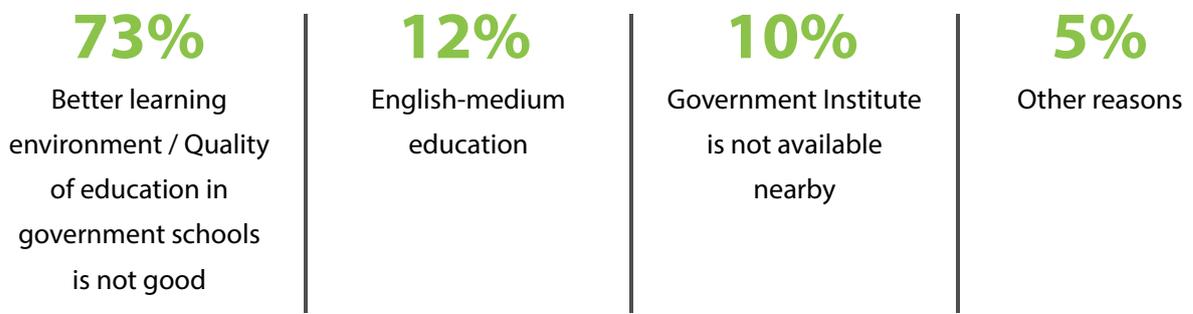
We believe that the single biggest reason for parents choosing private schools over government is the perception that private schools provide both better learning environments and learning outcomes. English, as a medium of instruction, is also an important factor given the perception in India that fluency in English is a competitive advantage in pursuing careers. Government schools, on the other hand, have slipped on both fronts in terms of parents' perceptions. A National Sample Survey Organization (NSSO) survey⁷ results list the main factors for parents choosing private schools:





Figure 1.8 Reasons for choosing private schools

% of total responses
Reasons for private school enrolment



Source: MoSPI 2015. Note: Calculated based on estimated responses for primary, upper primary, secondary and higher secondary in Rural + Urban areas

A 2009 report⁸ by the Centre for Civil Society (CCS) evaluating a voucher project in Delhi had the following findings for parents who put their children in private schools using vouchers. A majority of these parents:

- were happy with the learning progress of their child in the school, their child's teachers and the discipline in their child's school.
- liked the teaching methods in their child's school.
- found no weaknesses in the school where their children were currently enrolled.
- mentioned that their children were happy with the present school.
- felt that in the present school their child has become more regular with school work.
- felt that their child has become more disciplined and studied more in the new school.

② Economic progress and the rise of the private sector

What explains the boom in private education? Seen from a historical perspective, some of the rise can be attributed to the economic liberalization reforms of 1991. As Venkatanarayanan notes (Source: “Economic Liberalization in 1991 and Its Impact on Elementary Education in India):

“As far as India is concerned, after the economic liberalization and its consequent external borrowings from World Bank and other international donors, there is a consistent underhand pressure on the state to constrict its financial expenditures and create a favorable environment for reducing the fiscal deficit. Health and education were not spared from this. The reduced funding for government-aided education automatically leads to deterioration in quality, which indirectly promotes the mushrooming of private schools to satisfy the disgruntled parents.”

The rise of the private sector in education can also be seen through the lens of India’s economic progress over the past two decades. From 2000 to 2019, India’s per capita income went up more than five times from around US\$400 to around US\$2000. This increase in income was accompanied with a huge buildout of infrastructure and services which is well summarized in a March 2019 post by Marcellus Investment Managers:

Over the past ten years, the length of roads in India has increased from 3.9 million km to 5.6 million km (implied CAGR of 4.2%). The number of mobile phone subscribers has increased over the same period from 234 million to 1.2 billion (CAGR of 20%). The number of broadband users has increased from 3 million to 363 million (CAGR of 70%). A decade ago around 50 million Indians were taking flights each year. Now 3x as many Indians are flying each year (CAGR of 12%). 15 years ago only 1 in 3 Indian families had a bank account; now nearly all Indian families have a bank account.

Thus, as more Indians moved up the income ladder and saw visible improvement in their lives, seeking a better quality of education became a natural aspiration. With public education unable to fill the gap, this demand was filled by the private sector.



1.4 HETEROGENEITY OF THE PRIVATE EDUCATION SECTOR

The private education sector in India is heterogeneous and largely unorganized without the presence of any one major school chain or trust dominating the landscape at a national level. Thus, the proliferation of private schools across India has been driven primarily by demand from parents rather than the emergence of large players providing the supply of schools. Past research has shown that private schooling in India is demand-driven with very little statistical relevance of supply side factors.

The heterogeneity in private schools is evident in their proliferation across both rich states for e.g.(Punjab and Haryana) as well as poor states for e.g. (Uttar Pradesh) as seen in the table below that compares net state domestic product per capita and student enrolment ratios across states in India.

Figure 1.9

Private schools have proliferated across India with no discernible pattern amongst rich and poor states (ranked by per capita NSDP)

State	Private school enrolment (%)	Per capita NSDP (Rs)
Goa	84	4,30,081
Sikkim	29	3,80,926
Delhi	44	3,58,430
Chandigarh	37	3,20,300
Haryana	60	2,36,147
Puducherry	68	2,20,461
Karnataka	55	2,12,477
Telangana	56	2,04,488
Kerala	74	2,04,105
Uttarakhand	56	1,98,738
Gujarat	52	1,95,845
Tamil Nadu	61	1,93,964
Maharashtra	74	1,91,736
Himachal Pradesh	37	1,83,108
Punjab	55	1,54,313
Andhra Pradesh*	49	1,51,173

State	Private school enrolment (%)	Per capita NSDP (Rs)
Mizoram	53	1,47,602
Arunachal Pradesh	29	1,39,588
Nagaland	60	1,16,882
Tripura	18	1,12,849
Rajasthan	49	1,10,606
West Bengal	13	1,01,138
Odisha	29	99,196
Chhattisgarh	27	92,413
Jammu & Kashmir	42	92,347
Madhya Pradesh	40	90,165
Meghalaya	57	89,024
Assam	30	82,837
Manipur	69	75,226
Jharkhand	35	73,155
Uttar Pradesh	64	66,512
Bihar	14	40,982

Source: MOSPI (NSDP: Net State Domestic Product at Current Prices, Base Year 2011-12), U-DISE 2019.

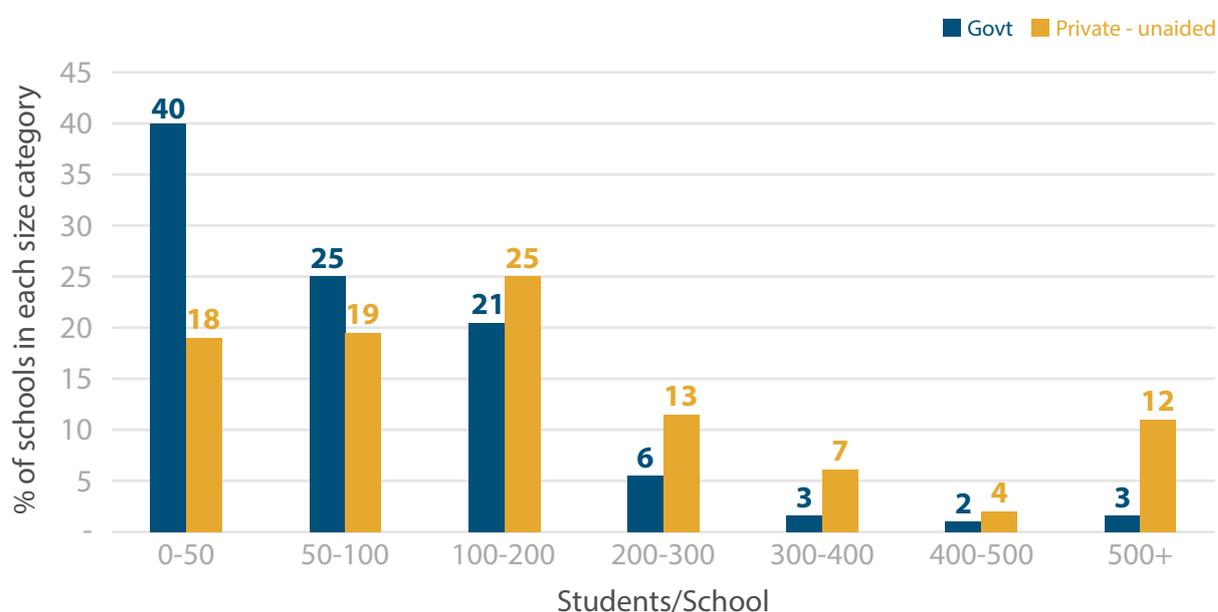
* Andhra Pradesh was bifurcated in 2013. The growth rate of private school enrolment is represented as undivided Andhra Pradesh. The two states have been clubbed as Undivided Andhra Pradesh for trends in enrollment since 2012.

In terms of size, in 2017-18, an average private unaided school had 246 students on their rolls, compared to just 120 for an average government school (UDISE 2019) but even these tend to differ in scale and size as seen in the chart below.

Figure 1.10

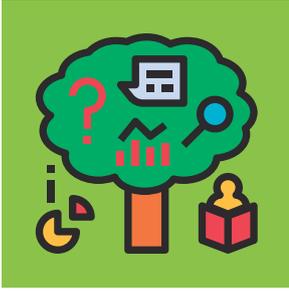
Private schools on average have more students in the higher size category

Growth of School Enrolment



Source: U-DISE 2019

As we show later in the report, when a sector moves from an unorganized format to an organized one, customer demand is better met by larger players with more investment capacity and governments can also benefit by way of higher revenues from taxation. With its large size and largely informal way of functioning, we believe that the private education sector could benefit from formalization.



1.5 Learning outcomes in private schools

Room for improvement

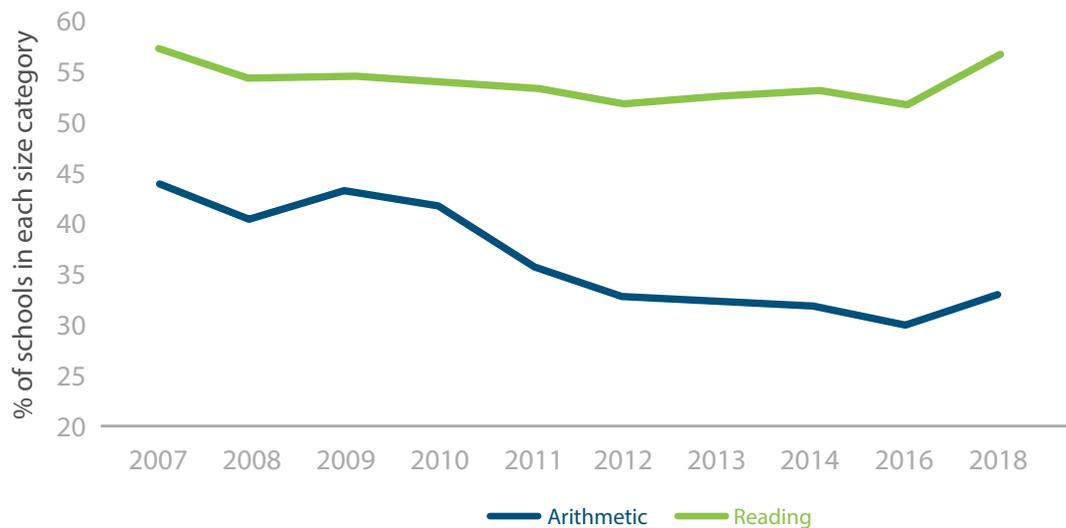
Despite parents increasingly choosing private schools based on a perception of better quality as mentioned above, the quality of learning in affordable private schools is low and hence has significant room for improvement. As can be seen in the charts below, learning outcomes in private schools have remained low over a period of time. Even when compared to Government schools, data indicates that private schools perform only better and that too in later years. However, we also highlight that the affordable private school segment provides education at almost a third of the cost of government education.



Figure 1.11

Arithmetic and reading competency in early years for private school students in the past decade

Trends over time (ages 5-14)



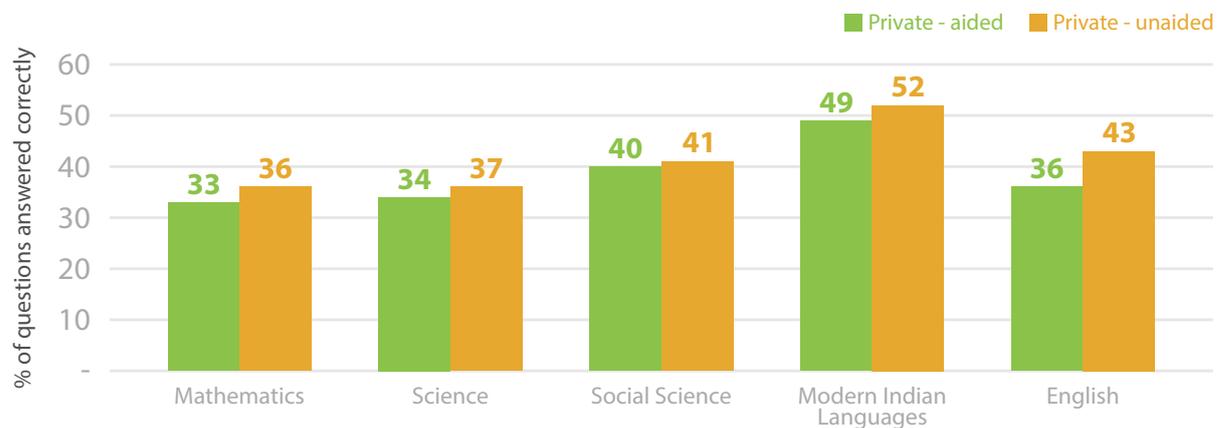
Source: ASER Center 2018.

Note: Arithmetic competency is measured as the ability to divide a three-digit number by a single digit. Reading competency is defined as being able to read a longer Standard II level paragraph.

Figure 1.12

Learning in later years as measured by the percentage of questions answered correctly

Average performance for Class X (2017)



Source: NCERT - National Achievement Survey Dashboard 2017. Query: (Year-wise) Arithmetic/Reading - 2018 - type of school- All India.

Figure 1.13

Government schools versus private schools -

Percentage of children (5-16yrs) at various stages⁹ of arithmetic

Type of school management	Nothing	Number recognition 1-9	Number recognition 11-99	Subtraction	Division
Government	9.8	19.8	28.8	17.9	23.7
Private	4.0	11.7	29.9	21.4	33

Source: ASER 2018

(Taken from data query: <http://www.asercentre.org/education/data/india/statistics/level/p/66.html>; (Year-wise) Arithmetic - 2018 - type of school- All India)

Figure 1.14

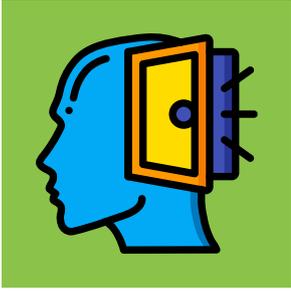
Government schools versus private school -

Percentage of children (5-16yrs) at various levels¹⁰ of reading

Type of school	Nothing	Letter	Word	Std1 Para	Std 2 Story
Government	13.3	16	12.6	13.9	44.3
Private	5.7	12.4	11.8	13.4	56.7

Source: ASER 2018

(Taken from data query: <http://www.asercentre.org/education/data/india/statistics/level/p/66.html>; Year-wise - Reading- 2018 - type of school - All India)



1.6 CAN LEARNING OUTCOMES BE BETTER IN PRIVATE SCHOOLS?

As seen in the above charts, private schools have not managed to deliver outstanding learning outcomes. Why aren't private schools doing much better than the government schools, considering that parents are increasingly willing to pay for private school education instead of sending their children for free education in public schools? We provide the following explanations as factors specific to private schools.

a **Insufficient information with parents**

Parents do not have adequate and reliable information to help them choose the right school. The quality of a school is usually measured by its performance in the board exams which are only held in Class X and Class XII. Prior to these results, there is no standardized and independent information that can help parents choose between various schools. In fact, as per U-DISE 2019 data 60% of private unaided schools end before board exam testing¹¹. Thus, there is no meaningful way for a parent to compare schools that have achieved minimum learning outcomes before Class X. Without such information, parents usually make their decisions based on factors such as the medium of education, infrastructure of the school, word of mouth etc. With the lack of standardised reportable output norms, schools also differentiate themselves on the medium of education and infrastructure, instead of improving quality of learning.

b Income background of parents

Students from lower income backgrounds have poorer learning outcomes than students from higher income backgrounds. In the case of private schools, students come largely from the middle and lower income class, given that 46% study in private schools and thus pay less than Rs. 500 per month¹². Poverty is the strongest indicator of low learning levels (Alcott and Rose 2017). To some extent this is to be expected, as Wilima Wadha writes¹³,

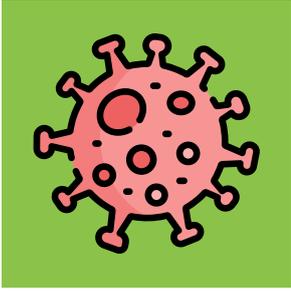
“Richer households tend to be smaller, allowing parents to devote more attention to their children; they are likely to have mothers who don’t have to go to work and can therefore spend more time with their children; they can afford to pay for supplemental learning aids for their children; etc.”

According to Geeta Gandhi Kingdon¹⁴, “This literature indicates that children’s learning levels in private schools are no worse than, and in many studies better than, those in government schools, after controlling rigorously for the differing home backgrounds of the children in these two types of school.”

Therefore, even after adjusting for students' socio-economic background, learning outcomes in APS are similar to those in government schools.

c Other factors

There are two other factors that require more academic research and study for deriving conclusions. First: English as a medium of instruction could have an impact on outcomes since English is not the predominant home (or native) language in India. Switching languages (from native language at home to English in school) has an impact on learning outcomes (Abadzi 2008, Muralidharan 2019). Second, teacher salaries tend to vary in private schools depending on the budget of the school. Thus, schools with higher budgets tend to pay higher salaries to teachers showing a better performance versus schools with smaller budgets who pay lower salaries to their teachers. However, teacher attention is typically higher in private schools which is a predictor of better learning outcomes (Singh 2013, Kremer and Muralidharan 2008).

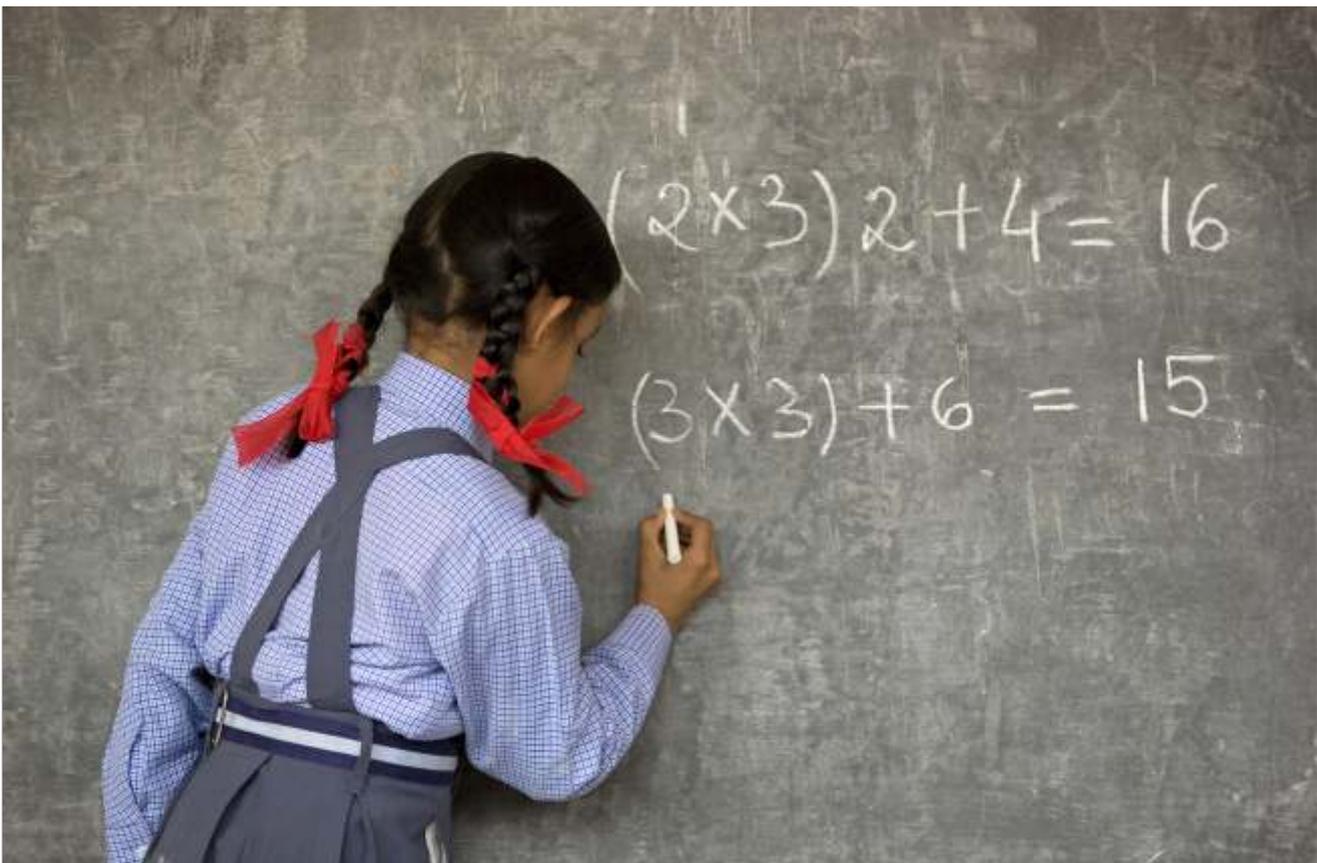


1.7 IMPACT OF COVID 19

From March 2020, India has been grappling with the Covid-19 pandemic and schools have mostly remained shut since the first announcement of a nationwide lockdown. The pandemic and the lockdown have had a serious negative impact on private sector schools, with many of them struggling to stay afloat. While online classes have emerged as an option, attendance remains poor especially in APS where families don't have easy access to digital devices and/or the internet. While there are no studies as yet, anecdotal evidence suggests that the learning outcomes are not comparable to physical attendance.

Moreover, poorer sections that have been severely impacted by the lockdown are finding it difficult to pay fees. For the schools, collection of fees remains a key issue with schools in the National Independent School Alliance (NISA) receiving 30-50% of their fees due to non-payment from the parents as well as a drop in enrolments. Multiple states have also enforced reduction in fees (of 15-50%) through executive orders, some of which have also been challenged in the court. Such schools are struggling to pay teachers and non-teaching staff, and even to stay afloat. Only the state of Telangana announced a cash transfer to private school teachers, with most other governments doing very little or nothing to support a very large workforce. In fact, the state of Maharashtra has gone the other way by cutting the reimbursement of the funds owed to private schools under RTE Section 12(i)(c) by more than 50%¹⁵. It's expected that a significant proportion of APS will not be able to reopen even after the pandemic with the owners not having the wherewithal to survive economically.¹⁶

The situation around Covid-19 is still evolving and news reports suggest that the Central Government is planning a phased reopening in coming months. However, this situation shows both the vulnerability of the APS as well as students studying in these schools to difficult situations, where the majority of the private school students study. In addition to tax rebates or even cash transfers towards purchase and usage of digital devices, a possibility to minimize the impact on such schools would be to fund students through education vouchers, which are redeemable only at schools (detailed in later chapters). With most schools, teachers, students and parents now used to online learning in some form or the other, hybrid learning models combining the best of physical and virtual learning may emerge allowing for improvement of both student engagement as well as learning outcomes.



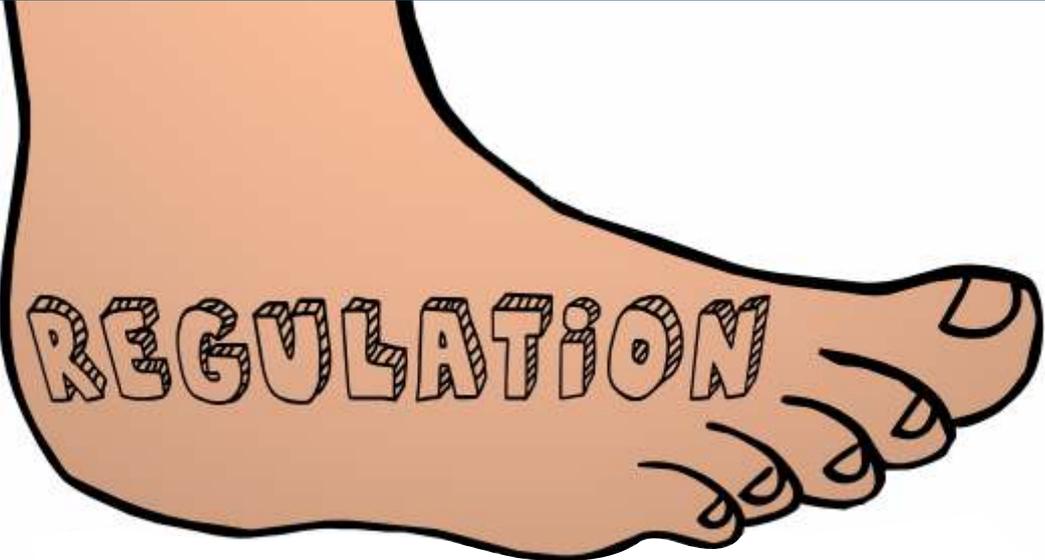


1.8 CONCLUSION

The rise of the private sector in education has been a huge shift in India's education system. With 47% of all students in India (the second largest student base in the world) attending a private school, private sector education is too large to ignore. However, poor learning outcomes are a clear indicator that the quality of education leaves much to be desired. What can improve outcomes? We believe that regulation can play a key role here. For one, it can plug the information gap between schools and parents by focusing on outputs (learning outcomes) instead of inputs. As we show in the next chapter, overbearing regulation has stifled functioning of private schools by placing onerous regulations around critical aspects such as school ownership, minimum infrastructure, and school fees. Heavy regulation also negatively impacts the ability of schools to innovate. Given its importance, education and schools should be regulated. As we show later, reforms and liberalization of the private education sector is the way forward to unleash the true potential of the sector.



CHAPTER 2



REGULATION

PRIVATE SCHOOLS

Why
regulation
is stifling
private
schools

Can regulations play a role in improving learning outcomes? In this chapter we show how multiple sources of regulations incentivize private schools to focus on inputs (permissions, approvals, school infrastructure, etc) rather than outputs (learning outcomes). The ideological imperative of education as a non-profit service is a key feature of these regulations. Thanks to this plethora of regulations, running a private school in India is a tough and tedious job, made intolerable by the fact that the regulations do not serve their intended purpose.

KEY TAKEAWAYS

- 1 India's education sector regulation has historically focused on inputs (such as governance and infrastructure) over outputs (learning outcomes).
- 2 There are multiple sources of regulation for private schools to contend with, ranging from Central and State Governments to education board norms. India's legal system adds another layer through court verdicts.
- 3 Education in India remains a non-profit activity and private schools thus mainly operate as charitable trusts or non-profit companies. The recently released NEP2020 has made no changes on this front and instead calls for philanthropic private participation.
- 4 Multiple sources of regulation, coupled with the non-profit imperative, makes running a private school a complex and tedious job, drives lack of transparency, results in adverse selection and stunts investment into the sector.



2.1 INTRODUCTION

The complex web of regulation

While the final NEP 2020 was launched in July 2020, a 2019 draft version¹ described India’s regulatory and governance culture as “sclerotic and disempowering” and called for a revolution to “make regulation a true engine for educational attainment and improvement”. Investors that we met for this white paper frequently cited regulation as a key hurdle for them to invest.

Imran Jafar, Managing Partner at Gaja Capital, an Indian investment firm with a strong portfolio in education told us that,

“The focus often shifts to managing regulatory risk instead of improving efficiency and quality to K12 education”.

India’s regulation of schools is focused more on controlling the inputs (governance, infrastructure, finances, etc.) of building a school and less on the outputs (learning outcomes). As a result, while there are a plethora of rules on setting up a school, there is comparatively little to ensure minimum standards of learning for the students that graduate from these schools. In this section, we outline the various sources of regulation that govern the setting up and running of schools.



a Central Legislation

The Right of Children to Compulsory and Free Education Act, 2009 or the Right to Education Act (RTE) is the central document that governs school education (and hence private schools) in India. The RTE Act outlines specific rules regarding minimum thresholds for key aspects such as infrastructure (classrooms, playgrounds, library, etc), student-teacher ratios, and teacher qualifications.

Talking about unreasonable regulations Shruti Ambast, Akriti Gaur and Ajey Sangai say² that “The RTE Act provides for minimum academic qualifications and an eligibility exam as essential conditions for appointing a teacher. However, States impose some additional requirements. For instance, the recruitment of teachers is regulated by the presence of a government official in the selection panel in Haryana, and staff appointment patterns are prescribed by the government in Karnataka. Haryana and Karnataka also regulate the minimum salary that private schools must pay their teachers, unlike other States in the survey. Considering the resource crisis in which most low-fee private schools operate, such regulations may force them into non-compliance.”

The RTE Act also mandates reservation of 25% of entry-level seats and free education till Class 8 for underprivileged children in all schools (except Minority Educational Institutions). It is important to note that the government, private aided schools, and private schools run by religious and linguistic minorities are exempted³ from the RTE Act.

However, as Kingdon [notes](#),

“The Act is completely silent on the things that really matter: teacher effort, teacher accountability and student learning outcomes”.

Baladevan Rangaraju, director of the India Institute, a Delhi-based think tank says that *“After the RTE came, unrecognised schools across India were given a three-year holiday. In 2013, the Delhi government came out with a public advertisement asking such schools to adhere to the state norms for recognition and obtain the essentiality certificate.”* He said the problem is most BPS schools can never fulfil the criteria. Consequently, some schools shut on their own, while many continue to run “discreetly”. In case of those who got recognised, the fee structure had to be revised. But that defeated the whole purpose of educating the underprivileged. After the 2013 advertisement, as estimated 3,000 BPS schools in Delhi have become extinct”⁴

b State Legislation

Education is a subject in the concurrent list of the Constitution of India and the RTE empowers States to enact relevant legislation specific to them. Thus, the ambit of State-level regulation on schools can differ from State to State but usually includes aspects such as scope of the management of schools and infrastructure. School fee regulation is also a part of State legislation and has been a thorny issue between the State, the school, and the parents. To add to this, private schools also contend with

- a) the laws of the municipality of the area where they function
- b) local government notifications and orders

T K Mathew, chief executive of Deepalaya explains, *“Under the Delhi School Education Act (DSEA) 1973, it is not a ‘recognised’ school since every school has to own the land it is built on, and Deepalaya School stands on land owned by the Slum Board. According to Section 18 of RTE, ‘unrecognised’ schools are illegal, and can’t be allowed to function. RTE is causing several low-cost private schools like Deepalaya to shut down, unwittingly depriving poor children of quality education”*⁵

Shruti Ambast et al share another such example of complex regulation: “Private schools are regulated by a mix of RTE Rules, State Acts, executive orders, notifications and circulars. It is seen that these different instruments are often in dissonance with each other. In Haryana, for instance, there are two separate provisions which require private schools to reserve seats for children from economically weaker sections, with both provisions specifying a different proportion of seats to be reserved. One is Section 12(1)© of the RTE Act, and the other is Rule 134-A of the Haryana School Education Rules, 2003. The existence of these dual requirements has not found favour with private schools in the State. Moreover, the multiplicity of instruments and the varying times at which they have been enacted means that there are no coherent policy objectives driving the regulation of private schools.”⁶

c Court rulings

Outside of the multitude of laws at the central and state level, rulings from various courts of law have played a key role in shaping the private unaided schools. Some of the key judgements in this regard are summarized in the table below.

Figure 2.1

Select cases and judicial decisions impacting private schools in India

Year	Case	Brief description
1985	The Proprietary High School Trust, Ahmedabad v. State of Gujarat	Held that schools must cater to the needs of people, particularly the weaker section and promote educational excellence, as part of obligation to provide education
1992	Mohini Jain v. State of Karnataka	Banned charging of capitation fees
1998	K. Krishnamacharyulu v. Sri Venkateswara Hindu College of Engineering	Emphasized state's duty to invest in improving educational facilities
2003	T.M.A Pai Foundation v. State of Karnataka	Held that while private schools had autonomy to fix policy structure and fees, they were disallowed from profiteering and could only make a 'reasonable surplus'
2004	Modern School v. Union of India	Censured commercialization of education

Source: Vidhi Centre for Legal Policy

d Boards of education

Schools in India can be associated with various boards of education. These boards control the curriculum of schools affiliated with them and also have their own infrastructure and qualification standards. Most importantly, the boards certify students at key levels of examinations (generally Class 10th and Class 12th) and are hence responsible for ensuring standards of education and qualification that are provided by the school. Thus, any school that is seeking affiliation with these boards has to comply with their rules.

Figure 2.2

Boards of education in India

Board	Description
Central Board of Secondary Education (CBSE)	Functions under Department of Education which is part of the Central Government's Ministry of HRD, hence an all-India board
Council for the Indian School Certificate Examinations (CISCE)	Private, non-governmental board that conducts the ICSE and ISC exams across India
State level boards (eg: Maharashtra State Board of Secondary and Higher Secondary Education)	Formed under state-specific education laws and follows respective state governments
International Baccalaureate (IB)	Affiliated with the International Baccalaureate Organization (IBO), Switzerland
Cambridge Assessment International Education (CIE)	Owned by the University of Cambridge, UK
Other International Boards	Boards from England, US and Canada, etc.

Source: Nishith Desai Associates, Investment in Education Sector, Jan 2018, EY-FICCI Report titled 'Private sector's contribution to K-12 education in India', March 2014, Cambridge International website.

Talking about the complex web of regulations in their report, *"Regulation of Private Schools in India"*, Shruti Ambast, Akriti Gaur and Ajey Sangai say⁷: *It can be argued that the rationale for these regulations is to ensure that schools are viable and functional educational units. Yet some of these regulations may prove to be prohibitive in practice. Certain regulations, in particular, do not suggest a clear relation with the regulatory interests of the state, and must be reconsidered. For example, in Uttar Pradesh, all private schools are required to have their buildings painted white (and re-painted every two years). In Haryana, all private schools are required to have a veranda in every classroom. Further, the changes in demography and density of urban land spaces in India, and the need for more schools for universalisation of elementary education require regulations to be more flexible and accommodative.*

Similarly, Dr. Archana Mehendale notes that "Although all states require schools to be open for inspection at all times, different states have different provisions with regards to this important regulatory function. Although literature shows that no State fixes the minimum number of inspections or minimum period within which an inspection must be conducted for a school, it uses a punitive approach, where poor performance on inspection invokes penalties. It is important for accountability mechanisms to be facilitative and not merely punitive."⁸



2.2 THE IDEOLOGICAL IMPERATIVE OF NON-PROFIT

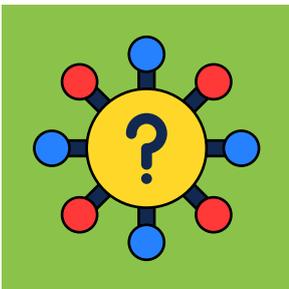
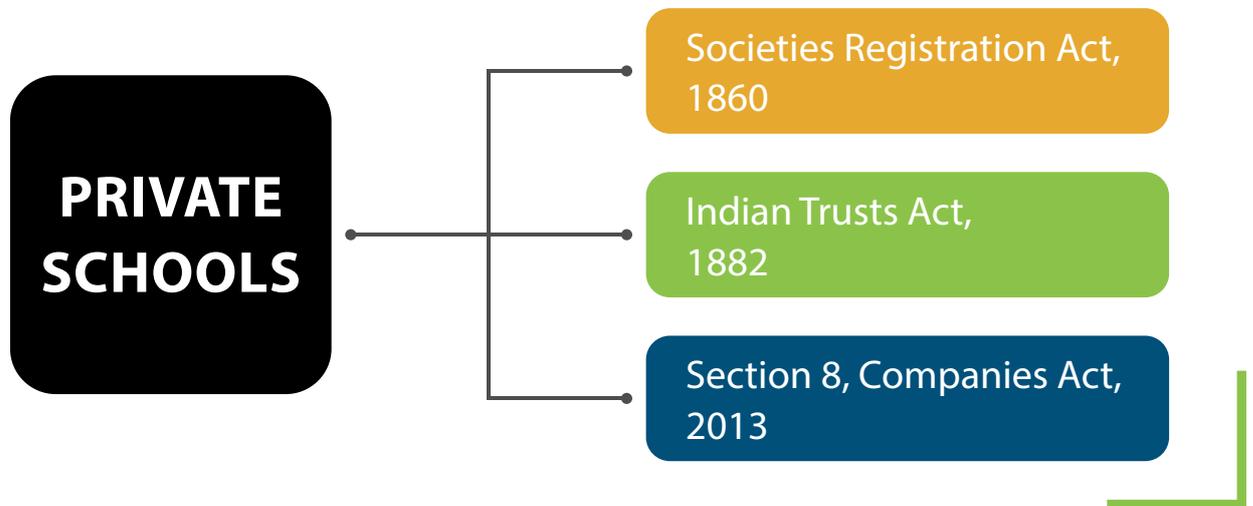
As specified in laws (Central and State RTE), board affiliation norms, and - most importantly - court judgments, education in India cannot be run for profit. At the Central level, the Model Rules under The RTE Act require schools to be non-profit in order to be recognized under the Act. State level legislation restricts recognition of schools to those run by trusts and societies (see chart below). However, a few states in India like Haryana and Maharashtra have amended their respective education laws. Haryana permits a company (which could be either for-profit or non-profit) incorporated under The Companies Act to open schools. Maharashtra has allowed for entities registered under Section 8 of The Companies Act 2013, to open schools.

Outside of legislation and rules, the non-profit motive has been widely established in courts of law in India which have heard high profile cases⁹ pertaining to high fees charged by school fees. The most prominent case in this regard is the T.M.A. Pai case (2003) where fee charged by private unaided schools was considered keeping in mind the provisions of the Constitution of India. In the landmark judgement on this case, the court held that while private schools were entitled to a 'reasonable surplus' while fixing their fees, 'profiteering' was specifically disallowed. In addition to this, in Unnikrishnan v. State of Andhra Pradesh, 1993 the Court established education as a symbol of charity and disallowed educational institutions from engaging in 'profiteering'.

Due to this ideological imperative of non-profit, private schools in India are formed as non-profit organizations which take the form of private trusts, registered societies, or under Section 8 of the Companies Act as shown in the chart below

Figure 2.3

Ownership laws for private schools in India



2.3 MULTIPLE REGULATIONS, MULTIPLE PROBLEMS

PROBLEM

1

Starting and running a private school is a complex, tedious job

Complying with such legislations and regulations makes the functioning and viability of private schools an onerous task which is even more difficult when the organization is new. Given the room for discretion of government authorities due to multiple regulations, opening a school can take an inordinate amount of time. The Centre for Civil Society [lists at least fifteen clearances](#) and licenses to open a private unaided school in Delhi

Figure 2.4

List of clearances and licenses to open a private unaided school in Delhi

Sr No.	Name of license	Governing Act	Regulating authority
1	Registration Certificate of Society	Societies Recognition Act, 1860	
2	Essentiality Certificate	Delhi Education Act, 1973	DoE
3	Certificate of Recognition	Delhi Education Act, 1973	MCD/ DoE
4	Certificate of Upgradation	Delhi Education Act, 1973	DoE
5	Certificate of Affiliation	Affiliation Bye-Laws	CBSE or other boards of education
6	Certificate of MCD		MCD
7	Affidavit regarding proper purchase of land and no violation of master plan in the land used		MCD/DDA
8	Site Plan of the Building/Sanctioned Building Plan		MCD/DDA approved
9	Building Fitness Certificate		MCD
10	Health Certificate		MCD
11	Water Testing Report		Delhi Jal Board
12	Completion Certificate		DDA
13	Duly approved Scheme of Management		DoE
14	No Loan Certificate against FD issued by the bank		Bank
15	Land Use Permitted Certificate (in case of rented land)		Landlord

Source: CCS, Mayank Wadhwa, Working Paper 1: Licenses to Open a School: It's All About Money

These are a few specific areas where regulation stifles private schools

a Opening a school:

Getting affiliation and approvals for starting a private school is tough. For example, opening a private school in Delhi requires 125 documents, and applications move through at least 155 steps within the Directorate of Education.

b Infrastructure:

Norms for infrastructure which are not required for public schools and which especially discriminate against low-fee private schools (land norms, classroom sizes, toilets etc.) Land requirements can vary from state to state and from cities to rural areas.

Figure 2.5

State-wise norms for land ownership/lease

Karnataka

Schools are required to own or have a 30-year lease on lands in the range of 2,000sqm to 4,000sqm depending on location and grade

Haryana

Land can be owned or have a 20-year lease and land size should be between 350sqm to 2,000sqm subject to conditions

Source: 1. Department of Public Instruction, "Inviting Applications to Start Permanent Unaided Pre-primary/ Primary/High School(Secondary) from Registered and Suitable Organizations, Government of Karnataka, (March 2018), <http://www.schooleducation.kar.nic.in/pdf/files/NewSchRegn1819.pdf>
2. Application for Recognition," (N.D), http://www.schooleducationharyana.gov.in/Uploads/25/Private_School_Form-II.pdf

Figure 2.6

CBSE Norms for minimum land requirement

1,600
square meters

For densely populated cities,
hilly states and islands

4,000
square meters

Other cities

6000
square meters

Large parts of rural India

Source: Anurag Tripathi: Secretary, "Affiliation Bye-Laws," Central Board of Secondary Education, (2018), http://cbseaff.nic.in/cbse_aff/attachment/onlineservices/affiliation-Bye-Laws.pdf

c Teacher salary:

There are issues at both extremes here. While teacher salaries in Government schools are linked to Pay Commission structures, there is no such framework for private schools. With student fees being the primary revenue source and given the low fees that private schools charge, teacher salaries tend to be low in private schools. Hiking teacher salaries to Pay

Commission levels could endanger the existence of private schools. For example, the High Court in Delhi mandated that teachers be paid as per Seventh Pay Commission. However, these salaries were so high that private schools complained that they could not recover these salaries from school fees¹⁰.

d Fee regulation

As we have shown in Chapter 1, parents increasingly prefer private schools over government schools for their children's education. As the demand for private education rises, private school owners tend to increase their fees. As higher fees create hurdles for admission into private schools, parents approach their government to regulate fees. Thus, some States in India (refer Appendix 1 for a full list) have moved to control fee hikes proposed by private schools (CCS, Analysis of School Fee Regulation, Oct 2014).

Large states have fee regulatory committees (FRCs) that decide on eligibility of fee hikes and quantum of fee hikes. These FRCs consist of representatives of schools, of parents and are headed by a divisional commissioner. The form and shape of fee regulations changes from state to state. In Appendix 1, we have given a list of 17 states, including the large ones, and their initiatives to regulate fees in private schools.

The experience of implementation of these regulations ranges from arbitrary to opaque. For example, the Gujarat Fee Regulatory Committee (FRC) rejected the fee hike proposals of 112 schools in November 2019¹¹. In Uttar Pradesh, a CCS note¹² gives the example of an FRC's procedures in Uttar Pradesh to underscore the lack of transparency: "The Uttar Pradesh Self-Financed Independent Schools (Fee Regulation) Act 2018 regulates fees for schools that charge an annual fee of over Rs 20,000. We found that the fee regulation committees only make decision summaries of its decisions available rather than the full minutes". In the same report, CCS research found that Fee Anomaly Committees in Delhi's districts were either defunct or had not been formed.

The contentious issue of fee regulation was aggravated further during the ongoing lockdown of schools, following the outbreak of the Covid-19 pandemic in India. The resultant economic slowdown has put pressure on parents to pay fees and for schools to pay their running expenses. Further, some states (such as Gujarat, West Bengal, Tamil Nadu, Rajasthan) have passed executive orders reducing fees that schools may collect during the COVID period. Siddharth R. Gupta, Advocate, M.P. High Court & SC, says that the knee-jerk response of the State Government to the clamour by the parents of restraining schools from charging tuition fees from their wards, without any premeditation thus makes these orders suspect of being violative of Article 19(1)(g) of the Constitution of India. While such orders have been challenged in court, most states and schools don't really have a choice but to accept the order given their already precarious ability to collect fees from the parents¹³. The burden is especially difficult on budget private schools. What then could be the solution to school fees? Let open markets regulate fees, as Bhuvana Anand and Shubho Roy argue¹⁴:

The price control laws are trying to solve a problem which should not exist in the first place. It would be much better if we tried to identify and dismantle the entry barriers to setting up low-cost private schools in the first place and encourage competition.

PROBLEM 2 Lack of Transparency in Governance

Since private schools are required to be non-profit, they are formed as trusts and societies which are also not subject to the same level of transparency and governance as companies. Since trusts and societies are non-profit, they cannot access capital in the way for-profits raise capital and hence depend on donations and grants for their day-to-day functioning. As per a Planning Commission Report¹⁵, trusts and societies are also subject to regulation under State Charity Commissions. These, due to lack of a Central Act, are typically low on the list of regulatory priorities, with issues like inadequate staff, poor political commitment, delays, and lack of public information plaguing the system.

PROBLEM 3 Adverse Selection and Poor Outcomes

There is a clear misalignment of incentives in the current set of regulations for private schools with a higher focus on inputs (e.g.: infrastructure, fees, teacher salaries, etc.) than on outputs. As a result, a school owner devotes attention to ensuring compliance with these norms instead of ensuring a minimum learning level at every grade. No wonder then, that the only information available to parents while choosing a school is restricted to aspects such as classrooms, playgrounds, libraries, etc., and excludes information on learning outcomes.

Shruti Ambast et al note that *“State regulations also do not specify minimum learning outcomes, nor do they provide for standardised assessments to measure learning. However, schools may be held accountable for student learning in indirect ways. For instance, in Haryana, ‘satisfactory exam results’ are a pre-condition for permanent recognition. However, it is not specified what ‘satisfactory’ means.”*¹⁶

Multiple regulations from multiple sources as described above removes the focus from improving learning outcomes for students. Since schools can’t earn profits, some school owners resort to creative means of earning profits which include:

-
- Legal mechanisms such as putting the minimum number of heads into tuition fees and setting up a number of companies to run transport, uniform, books & stationery, library & other infrastructural facilities which will earn the majority of the fees, and therefore generate profits.

 - Semi-legal mechanisms such as the promoters giving unsecured loans to the school and charging exorbitant interests on it.

 - Outright illegal mechanisms such as donations for admissions, kickbacks from building contractors and other vendors, taking part of the salary back from their teachers in cash.
-

The above methods are enough to deter any honest entrepreneur from establishing schools and leave three broad categories of people / institutions who set up schools:

- Institutions and philanthropists who take up schooling as a noble cause for a large set of stakeholders.

- Religious trusts or societies focusing mainly on their communities

- The crony capitalist nexus of politicians and entrepreneurs (which includes mom-and-pop run outfits with patronage from politicians) which sees the demand of 'private schools' as a business opportunity to exploit the demand-supply gap for quality education.

The first two categories would see non-profit as a necessity whereas the third category would see non-profit as an opportunity. We believe this third category of school owners has likely led the boom in private schools - especially low-fee private schools in the past. As a result, whereas there is enough incentive (in the form of reputation) for middle class and elite schools to compete with each other, there is hardly any incentive to run a low-cost private school in a professional manner. This results in adverse selection of school owners and promoters and poor quality of education for the children.

PROBLEM 4 **Lack of investment**

By disallowing an entrepreneur to make a reasonable profit to cover his costs, regulation is, in effect, cutting off private sector investments into education in India. Vikas Jhunjhunwala, CEO, Sunshine Schools, described the non-profit motive to us as "...the biggest market barrier that is preventing high quality entrepreneurs from entering the market and increasing supply." With the absence of large and well capitalized players, the private unaided school sector is highly fragmented. Consulting firm FSG estimates¹⁷ **a)** most dense, low-income communities have nearly 30-40 affordable private schools (APS) in a 2-km radius **b)** Only 1/3rd of the APSs are part of a chain and **c)** 82% of these chains have less than 5 schools.

While there might be a lack of investment in setting up private schools, there is no dearth of capital in sectors linked to education, such as education technology (edtech). Private sector capital in the form of venture capital and private equity has flowed into edtech in the past few years, indicating the attractiveness of the sector from an investment perspective. From 2014 to 2019 more than US\$1.8 bn was invested into 194 edtech startups in India, as per Inc42¹⁸. Tracxn.com estimates¹⁹ there are more than 5,000 edtech startups in India covering the length and breadth of education in India from supplementary courses for K-12 students to test preparation ('testprep') for competitive entrance exams. While schools might adopt technology in the longer term, entrepreneurs have already established large and well-funded ventures in this space providing an alternative to parents to improve learning skills outside of the schooling system.

Figure 2.7

India's largest edtech companies

US\$16.5bn^a

Byju's

Learning programs for K-12 students and competitive entrance exams

US\$2bn^b

Unacademy

Learning platform for testprep, academic subjects, etc.

US\$600mn^c

Vedantu

Tutoring platform for students of Class 6 and upwards

Source: Tracxn.com

a. https://www.business-standard.com/article/companies/valuing-16-4-bn-byju-s-most-valuable-startup-in-india-11th-in-the-world-121061201069_1.html#:~:text=As%20per%20CB%20Insights%20data,a%20valuation%20of%20%24%202319%20billion.&text=Byju%27s%20investors%20include%20Tencent%20Holdings,Partners%20and%20Sequoia%20Capital%20India

b. <https://www.indiatoday.in/magazine/cover-story/story/20210712-for-the-love-of-learning-1822714-2021-07-02#:~:text=Catering%20to%20students%20across%20%205%20C000,with%20a%20%2024%20billion%20valuation.&text=One%20of%20the%20largest%20learning%20platforms%20in%20India%20with%20over,an%20over%2049%20million%20learners>

c. https://www.business-standard.com/article/companies/vedantu-eyes-200-mn-run-rate-to-hit-profitability-by-june-next-year-121062501413_1.html





2.4 REGULATORY CHANGES PROPOSED IN NEP 2020

The NEP 2020 introduced in July has proposed an overhaul and transformation of India's education system by 2040. We highlight two areas relevant to regulations here:

a Regulation:

NEP 2020 proposes a level playing field for government and private schools in order to improve learning outcomes by standardized accreditation. Thus, an Independent State School Standards Authority (SSSA) to set standards for and accredit public and private schools impartially. We highlight that these are proposals and will be implemented over a period of time.

b Philanthropic participation:

The policy does not change the status quo on the non-profit status of India's private schools. Instead the policy calls for encouraging philanthropic participation. Clause 8.3 on page 30 reads:

The current regulatory regime also has not been able to curb the commercialization and economic exploitation of parents by many for-profit private schools, yet at the same time it has all too often inadvertently discouraged public-spirited private/philanthropic schools. There has been far too much asymmetry between the regulatory approaches to public and private schools, even though the goals of both types of schools should be the same: to provide quality education.

Thus, the Government seems to prefer private investment into the education sector via the philanthropic route to uphold a 'public spirit'. It appears that the pursuit of profit in education is equated with commercialization of education and the economic exploitation of parents. "The NEP 2020 may have missed an opportunity to take a bold stand on this issue (of allowing schools for profit) — one expects a framework policy to focus on the contentious issues that have plagued our system. The failure to address this issue may lead to a perpetuation of the same sub-optimal conditions that we see in higher education and schooling", says Prof. Vijaya Sherry Chand, Chair of the Ravi J Matthai Center for Educational Innovation at IIM Ahmedabad.

Centre of Civil Society comments that "First, commercialisation which implies managing or running an enterprise for financial gain is not an evil in India or in most countries world over. Secondly, legally speaking, all schools are not-for-profit as they have to be registered as societies or charities. If extant regulations prohibiting for-profit schools have failed to prevent economic exploitation, the authors of NEP 2020 (edited) should have examined why, rather than reiterate the same failed solution."²⁰

The NEP 2020 therefore continues with the mindset highlighted above - namely, education is a public good and should not be offered as a profit-making opportunity.



2.5 CONCLUSION

With the passage of The RTE Act, India has guaranteed free education as a constitutional right. In the previous chapter, we have shown how the private sector has boomed in size and demand but has failed to deliver high quality learning outcomes. In this chapter, we have outlined how multiple regulatory structures have stifled private sector education and created a cottage industry of fragmented and unorganized schools. But the sector's attractiveness remains high as can be seen in the large foreign capital poured into startups seeking to address learning gaps. With the private sector failing to deliver, it's necessary to investigate if the public sector can raise its game and achieve better learning outcomes.

CHAPTER 3



Half of Indian children continue to go to public schools. Quality education for all Indians is only possible if both public and private schools can improve much better learning outcomes. In this chapter, we understand how much the government spends on public schools, the learning outcomes as compared to private schools, and the reasons for poor delivery, the funding constraint and why a paradigm shift is needed.

Can India achieve quality education for all through public schools only?

KEY TAKEAWAYS

- ① The government spends more than Rs. 30,000 / annum /child on 16 crore children.
- ② Multiple studies show that the learning outcomes in government schools are not as good as those in private schools.
- ③ Multiple structural issues such as lack of accountability, over-centralization constrain public schools from delivering quality education.
- ④ To expect the government to ramp up investment in a big way in education may not happen as proposed in NEP 2020.
- ⑤ Therefore, quality education for all children requires both public and private schools to perform. A paradigm shift that makes private schools a partner in delivering Vision 2035 is needed.



3.1 INTRODUCTION

The Public Education Status Quo

Expansion of both public and private schooling over the last 2-3 decades has meant that almost all Indian children go to a primary school¹. However, as educational researcher Lant Pritchett points out, universal schooling is not the same thing as universal education² Reaching near universal enrollment in primary education is a major milestone, but it must not detract from the goal of education as defined by the achievement of age appropriate learning outcomes.

The enrollment in government schools has fallen from 74% in 1978 to 53% in 2017³ With nearly half of Indian children in government schools, quality education for all is only possible if government schools deliver on learning outcomes. In fact, some educationists and policymakers believe that quality education for all can only be achieved through the public school route. Let's explore if it's possible for government schools to deliver quality education.



3.2 WHAT DOES THE GOVERNMENT SPEND ON EACH STUDENT?

There are no widely accepted figures for government spending per Indian student. However it can be estimated using the *Analysis Of Budgeted Expenditure On Education (2014-15 to 2016-17)*. The table below represents the total spending by all the states and central government for 2016-17:

Figure 3.1

State and Central Spending on education for FY 2016-17

Sr No.	Sector	Expenditure (Rs crore)			Expenditure (% of GDP)		
		State/UTs	Centre	Total	State/UTs	Centre	Total
1	Elementary Education	2,23,662	54,170	2,77,833	1.47	0.36	1.82
2	Secondary Education	1,42,701	17,118	1,59,819	0.94	0.11	1.05
3	University & Higher Education	65,322	31,710	97,032	0.43	0.21	0.64
4	Adult Education	855	369	1,224	0.01	0	0.01
5	Technical Education	72,020	60,468	1,32,488	0.47	0.4	0.87
	Total (Education)	5,04,561	1,63,835	6,68,395	3.31	1.07	4.38

Statement indicating Public expenditure on Education as percentage of GDP sector-wise⁴. While government schools are largely free, parents still spend on education related expenses such as coaching, extra curricular activities. This is especially true for private-aided schools which are supported by government funding, but not completely. As the total government spending includes the spending on private-aided schools, we need to add the expenditure by parents as well to get a complete picture of expenditure. The table below estimates the government expenditure for 2017-18 using the 2016-17 budgeted expenditure data and then uses the NSS 75th round data to estimate the spending by parents on public schools and private-aided schools.

Figure 3.2

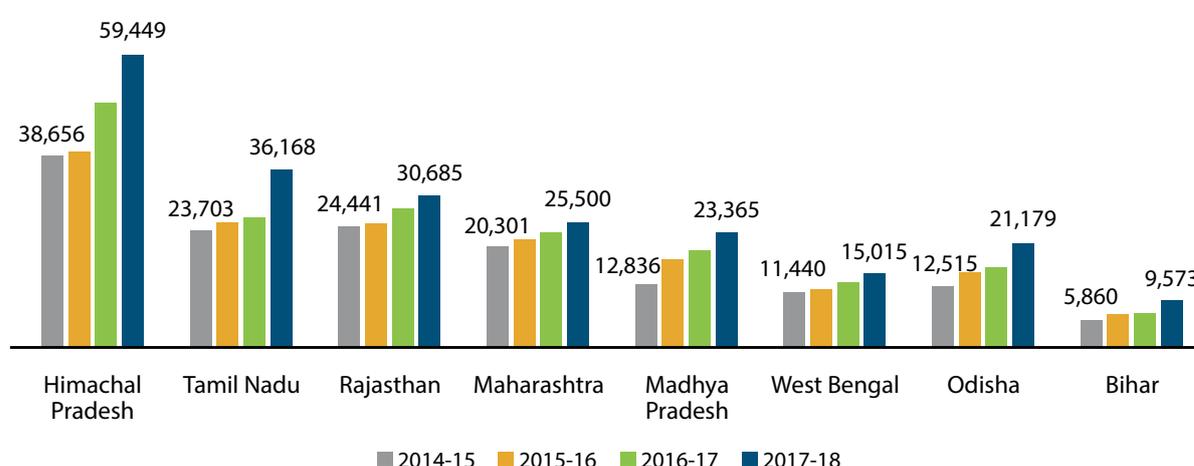
Estimate of Government expenditure on education for FY 2017-18

2016-17	Budgeted Expenditure (Rs. Crores)	% of GDP
Elementary Education	2778,33	1.82
Secondary Education	159819	1.05
TOTAL K-12 Expenditure	437651	2.87
Assume an 7% increment for 2017-18 (actual GDP growth, assuming allocation remains the same)	7%	
Estimated K-12 spending for 2017-18	468287	
Govt. schools expenditure by parents (estimated using NSS & UDISE data)	30628	
Private aided expense by parents (estimated using NSS & UDISE data)	39000	
Total spending on public schools (Rs. Crores)	537915	
In \$ Bn (at Rs. 72)	74.7	
Number of Students in Public & Private aided Schools (UDISE 2017-18) in Crores	15.97	
Approximate Expense / student (in Rs.)	33673	

Now it's important to understand that while the figure above comprises all the spending including that by the states as well, there's still significant variation in the expenditure by each state, as each state contributes a significant part of the total education spending. The state's contribution is a share of the state GDP, which varies significantly from state to state. The graph below shows the variation in spending by the states:

Figure 3.3

Per-student expenditure in Rs. on school education by states⁵



Source:

(1) Expenditure: State Budget documents from FY 2016-17 to FY 2019-20.

(2) Enrolment: Author's calculations based on raw data accessed from U-DISE School Report Cards portal for the academic years 2014-15 to 2017-18, National Institute of Educational Planning and Administration (NIEPA)

As the data above doesn't include the central government spending, the figures are smaller than the national average. However, the key point about the graph above is the variation by each state based on their size and GDP.

Our focus however is to understand the total government spending, which is about Rs. 33,673 per student. A part of this expense includes essential spending on central and state level administration, central boards etc. which is unavoidable. Further, in any model of funding, a part of it also has to go towards independent regulators and other related agencies. Assuming that this total expenditure can't be more than 10% of the total budget of **Rs. 5,37,915 Crores** (nearly 54,000 Crores). Reducing about 10% from the per student expenditure, it gives us a clear Rs. 30,000 / annum per student. Let's try to understand if the government schools are delivering quality commensurate with this spending.



3.3 ARE PUBLIC SCHOOLS DELIVERING QUALITY EDUCATION?

The ASER 2018 report findings tell us that only about 50% of the Class 5 students can read a passage meant for Class 2 children and less than 30% can do this division: $919 / 6$. One out of 4 students leave Class 8th without having learnt to read. These tests are in the mother tongue of the children. The survey also found that over the years while there has been an improvement in infrastructural issues such as lack of drinking water or toilets for girls, the learning outcomes have not improved and more importantly, there's very little value of their education in the real world. For instance, look at the results of assessing students in the age group of 14-16 years on these two arithmetic questions (given below) with clear real life applications: About 37% boys and girls could solve the financial decision making problem and 33% boys could calculate the discounted price correctly while only 25% girls were able to solve it⁶



Figure 3.4

Older children and everyday calculation

Financial decision making

These 5 books are available in two shops in a market. If you have to buy all 5 books, what is the least amount of money you would have to spend?

Shop 1 - Rate list		Shop 2 - Rate list	
Name of book	Price	Name of book	Price
Science	<div style="border: 2px solid black; padding: 5px; display: inline-block;"> Special Offer!! Set of 5 books for ₹ 299 Only </div>	Science	₹80
Math		Math	₹30
Hindi		Hindi	₹70
English		English	₹60
History		History	₹40

Calculating discount



This is the price of this T-shirt and it is available on a discount of 10 percent. If you were to buy this T-shirt, how much money would you need to spend?

The ASER 2018 survey also gives data to compare the achievement of private schools with the government schools in the rural areas⁷ The table below shows a set of basic numeracy and literacy skills on which students were tested. The figures on the right show that for each skill, there are significantly more children in rural areas who have achieved the skills in private schools as compared to a government school⁸.

Figure 3.5

Learning outcomes in basic numeracy and literacy skills

% of Children in	Figures indicate percentage point difference between private and government schools in rural areas in 2018
Class 3 who can at least perform subtraction	22.6
Class 5 who can perform division	17.1
Class 8 who can perform division	14.2
Class 5 who can at least read Class 2 level text	20.9
Class 8 who can at least read Class 2 level text	13.9

What's not visible in the table above, but is part of the ASER report, is that the difference has widened by 15-20% from 2010 to 2018 showing that either the learning outcomes in government schools are worsening or else private schools are doing much better.

The study that shows that APS produces slightly better learning outcomes as compared to government schools at 1/3rd the cost has already been discussed earlier⁹ However, given that the government spending is well above the definition of an APS, at Rs. 30000+ per annum, the comparison of the learning outcomes of public schools should be done with the private schools that charge a similar amount. There isn't sufficient data correlating fees to learning achievements. However, one strong piece of data about private schools performing better than government schools as well as government aided schools comes from the National Achievement Survey conducted by the NCERT. The table shows that private schools do much better in each of the subject areas as compared to both government schools as well as private aided schools:

Figure 3.6

Mean Achievement Scores (250 being average)¹⁰

	English	Mathematics	Science	Social Science
Govt.	236	239	239	238
Govt. Aided	246	248	248	248
Private	277	269	270	271

This is what the NCERT report itself says:

- *There was a significant difference in scores of students from Government, Government aided schools and Private schools.*
- *Privately managed schools performed better than the Government and Government aided schools.*
- *There was a significant difference in scores of Government and Government aided schools. Government aided schools performed better than the Government schools.*

The fact that even government aided schools do better is evidence of the importance of autonomy in improving learning outcomes as private aided schools have much more decision-making authority as compared to government schools. There are a number of known issues with the functioning of public schools that are not allowing these schools to deliver and the likelihood of that changing significantly despite there being multiple efforts is not high.



3.4 WHY ARE PUBLIC SCHOOLS UNABLE TO DELIVER?

In his 2013 book, “The Rebirth of Education”, Lant Pritchett talks about two systems of schooling, Spider versus Starfish. Spider systems are centralized decision-making systems where all the information that flows through the system must be processed and used to make decisions by a central authority. On the other hand, Starfish systems are loosely connected to each other but each of its branches have the capacity and the authority to process the information and make decisions as per the local context and capabilities. Through the book, he goes on to show that given the complex nature of interactions, information, decision-making required to ensure high quality education, schooling systems should be organized as Starfish systems, especially in developing countries which have weak state capacity. Unfortunately, Indian public schooling systems at both the centre and the state are organized as Spider systems, largely unsuited to the task of delivering high quality education.

a Lack of accountability:

The lack of accountability to the parents and other stakeholders at the local levels means that there’s little incentive or intent on part of the teachers to deliver quality education. While the School Management Committees have been made with this intention but there’s little evidence that it has succeeded in bringing in the intended accountability. A research study based on the Municipal Schools in Delhi concludes that “*the provision of SMC is not functional in the investigated schools*”¹¹. Most importantly, the head teacher doesn’t have enough say or authority in making administrative decisions including hiring and termination of teachers, teacher’s performance appraisal which is not linked to performance but seniority.

The lack of accountability of the teachers to the head teacher means that the teachers can get away with poor performance including absenteeism and poor teaching and interaction quality with students. A 2014 UNESCO study on Education For All 2014 highlights the accountability issue in government schools by pointing out that out of 3000 government school principals only 1 had dismissed a teacher for repeated absenteeism, whereas 35 principals had done so out of 600 surveyed private schools.¹² A 2004 World Bank study put daily teacher absenteeism at 25%, and of those present, only half were actually teaching¹³. A recent study disputes the World Bank statistics, putting it closer to 19% with only 2.5% of that being unexplained. The rest was attributed to paid or sick leave, administrative work for the school such as data collection of students, mid-day meal related duties, or other governmental work such as census survey, electoral duties, panchayat meetings¹⁴.

b Over-centralization of policies and decision-making:

In a severe indictment of the regulatory system of government schooling structure in India, the draft National Education Policy (dNEP) 2019 prepared by a government appointed committee of educationists says, *“Teachers and principals are often not allowed to take decisions of a local nature that they should be taking, this includes choices of pedagogical approaches and teaching learning material, matters of setting the timetable, and basic financial matters that are important to the daily functioning of the school etc. They are also not trusted as professionals, with the officials adopting an ‘inspectorial’ approach to management of the system. Even this ‘inspectorial’ approach is generally focused more on the appearances and procedural aspects of the school, rather than educational matters. And at a human level, they are often mistreated by officials, without the basic respect due to any human being.”*¹⁵

A study by the Accountability Initiative says this, *“All critical teacher-related decision-making, hiring and salary payment for example, lie with the state administration. Funds for infrastructure development are often channelled to schools; however, key decisions related to implementation—sanctions and procurement are taken by the district administration. While the district (administration) takes implementation decisions, priorities on the nature of infrastructure to be created are set by the state government, often in response to pressures placed on it by the Government of India (GOI).”*¹⁶

The most important decisions for public schools are made at the state or district level, which includes both administrative decisions such as hiring and allocation of teachers, allocation of funds, school wide policies as well as academic decisions such as the school timings, the timetable, subjects to be taught, the curriculum. This leaves very little scope for initiative and ownership on part of the schools. Schools and school leaders don't have the ability to frame policies suited to meet the needs of the school locally. Unfortunately, the final National Education Policy (NEP) 2020 has no recommendations on decentralization of policies and decision-making for schools.

c Excessive non-academic duties for teachers:

In addition to the issues above, teachers also have a lot of administrative duties in the school including distribution of notebooks, uniform, textbooks, getting enrollments, managing the mid-day meal, conducting many events mandated by the government. They also have many duties which are handed to them by the district administration - such as election related duties, conducting census and other surveys. All of this together takes their focus away from teaching. Further, as they are important to the district authorities for these tasks, and they have strong unions, teachers resist reforms that will allow for performance linked pay, or flexibility in hiring and the ability to terminate teachers on the basis of poor performance.

NEP 2020 does recognize this issue distinctly: *“To prevent the large amounts of time spent currently by teachers on non-teaching activities, teachers will not be engaged any longer in work that is not directly related to teaching in particular, teachers will not be involved in electioneering, cooking of mid-day meals, and other strenuous administrative tasks, so that they may fully concentrate on their teaching-learning duties.”*¹⁷ However, it remains to be seen whether political compulsions and inertia allow for this proposal to be translated into desired actions on the ground.

d Salaries are an excessive proportion of the funds:

A study of 8 Indian states shows that in 2017-18, between 71% to 84% of the total education budget for school was spent on the salaries of teachers and administrators¹⁸. A very large proportion of the funds is consumed in salaries (teachers and overheads) at this point of time (proportion varies by state) leaving much less than the desired funds for professional development, infrastructure development, educational resources such as library, games, technology, manipulatives for learning. Despite the need for reallocation of funds, governments are unable to change the allocation of educational funds as most of them go towards salaries. Successive pay commissions have raised teacher salaries well above market standards. Any move to rationalize salaries will invite significant backlash from the teachers and other stakeholders.

e Improving learning outcomes is a challenging dynamic task:

Third party assessments of learning outcomes (ASER) have been happening for public schools for quite some time. However, as seen in earlier chapters, public schools have not improved significantly on delivering learning outcomes. Ensuring that each student

effectively learns requires teachers to use age-appropriate pedagogy, and to monitor, motivate and support students across subject areas. These complex human interactions require a degree of motivation and accountability which is very difficult to build in a public school setup. At a large scale, this is an extremely challenging task. Only one country with a large population, the United States, has a better average than OECD countries in the PISA international ranking test (for Reading, Mathematics and Science)¹⁹. Further all countries in the top 20 PISA rankings have GDP per capita which is about 10 times that of India (other than Vietnam).²⁰ India neither has the capacity to spend that money nor does it have any proven public schooling model that has succeeded in delivering learning outcomes consistently at a very large scale. Kerala is the only state in India that has delivered good literacy across the state schools. However, it is imperative to note here that more than 74% of the schools in Kerala are run as private schools (aided or unaided) and therefore have far more accountability and autonomy as compared with the state schools.²¹



Weak State Capacity:

State capacity can be defined as the capacity to design and implement rules or policies. Prominent education researchers such as Matt Andrews and Lant Pritchett have pointed out the correlation of state capacity to quality of delivery of education. In his book on necessary reforms in the Indian education sectors, Karthik Dinne narrows down the biggest issue in Indian education due to weak state capacity²². Mr. Dinne says that the Indian state's capacity to deliver elections is much stronger because delivering elections is a short-term event with clear rules, of high priority, with immediately visible consequences, very process based independent of individuals or localities, none of which hold true for education. Delivering high quality education is a highly complex service that needs to be delivered consistently at a large scale over a long period of time while meeting the needs of individual students and communities. There are millions more non-rule based transactions that need to happen right for education delivery to happen right as compared to conducting elections. A weak state capacity means that the state is not capable of monitoring or ensuring quality in each of these transactions.

For e.g. a study of the impact of the Continuous Comprehensive Evaluation (CCE) made mandatory by the RTE shows that there was no impact of the implementation of the CCE in two districts of Haryana²³. The factors identified for the lack of success of the CCE implementation were clear indications of weak state capacity. Absence of clear-cut guidelines and textbooks not being amenable to CCE is manifestation of a lack of capability to design rules; the lack of support, training and other observations made by the CABE report are clear manifestations of lack of capacity to implement the designed rules.

Two clear issues emerge with respect to the weak capacity of the Indian state to deliver high quality education:

a

Responsiveness to changing needs is difficult for governments:

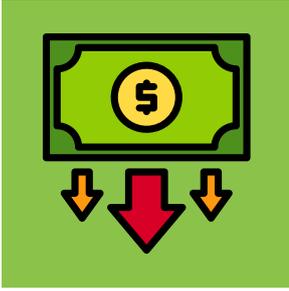
Given the huge technological changes that have changed the way we live & work, educational outcomes should be geared towards making Indian children capable of handling dynamic environments which require skills such as critical thinking,

analytical skills, leadership and other 21st century skills. However, neither the boards of education or public schools have been able to adapt to these changes in the external environment. Given the lack of state capacity to deliver on a complex service such as education, it's folly to believe that state run boards and government schools will be able to adapt. This is further compounded by the scale at which the state machinery works as well as the fact that there's very little scope of agency at a local school level, responsiveness is very difficult for public schools.

b The State-Central Government divide:

Despite education being a concurrent subject in the constitution, there are huge disparities in how states manage their education systems. Change is difficult to bring about centrally as each state will need to bring in significant reforms in their public education. An example of this divide is the highly uneven implementation of RTE Sec 12 (1)(c) enacted in 2009²⁴. The central government brought this provision in as a major step towards providing better access to education to all children. However, an MRHD reply in the Lok Sabha states that 5 Indian states haven't even issued notifications regarding admissions under this section even in 2017-18. Further 20 states/UTs have not notified per-child costs to be reimbursed to private schools. Further, of the 15 states which submitted their reimbursement claims to the Central government, only six were approved. Many of the claims of the States were not provided funds by the Centre, as they had not notified the per-child costs. Given this divide, any policy implementation or reform that requires significant coordination between the states and the central government will face major hurdles. The reforms necessary to bring about meaningful changes at the huge scale at which the government machinery operates, will not really get implemented as necessary or desired.





3.5 THE LACK OF OVERALL FUNDING TOWARDS EDUCATION

The National Education Policy (NEP) 2020 proposes many educational reforms such as improvement of schooling infrastructure, making the mid-day meal more nutritious and adding breakfast, making early childhood care and education compulsory, adding at least 50 hours of teacher training and inclusion funds (for various disadvantaged groups).

These proposals are heavily dependent on the increased spending from the government. The policy expects the government to allocate 6% of the GDP as against the current 4.3% (for school and higher education)²⁵. The overall expenditure in education is required to rise to 20% from the current 10% as a proportion of the total government spending.

In reality there's likely to be a huge shortfall in the money actually allocated for the reforms. This shortfall will be compounded by the leakages which are part and parcel of how public systems work in India, the bureaucratic inefficiencies whereby overheads take away a lion's share of the overall expenditure rather than being available at the grassroot level for teachers or infrastructure development. The variation in expenditure for education by the state governments as a proportion of their overall expenditure adds further complexity to achieving equitable spending across India. With a huge shortfall of public funding, the NEP will probably fall short massively on its ability to achieve the proposed educational reforms.



3.6 QUALITY EDUCATION FOR ALL REQUIRES BOTH PUBLIC AND PRIVATE SCHOOLS TO PERFORM

The list of reforms above is by no means an exhaustive one but an essential one. However, even with essential reforms like these, the likelihood of them taking place or taking place effectively is not high. A lot of discourse has happened over the years on reforms such as these, however there hasn't been much change and neither does the NEP bring about any major reforms that might change public education significantly.

Given all this, it's difficult to imagine that public school will be able to deliver. It would be ideal and utopian if Indian public schooling becomes as good as a developed nation. However, the likelihood of that happening any time soon is not high. There are serious consequences for both individuals and the nation due to the lack of quality education. Given the GDP growth has already slowed down, economic progress for the majority of Indians is not likely to happen. While economic progress depends on many factors, both national and global ones, the lack of education is a major stumbling block as without real world skills individuals are unable to improve their income levels. The very young population will not have access to jobs as they grow up and that will mean that India will lose the demographic dividend that it could earn due to a young population.

It is therefore of great consequence that Indian children get access to quality education at the earliest. The government and all the other stakeholders must do everything to improve the quality of public schooling. However to depend only on that route to improve access to quality education would be a great folly.

The Indian state must recognize that it lacks the capacity of ensuring quality education for all Indian children. Those who can't afford private education flounder in government schools but the majority of students in the private schools are only marginally better off than students going to public schools. 70% of private school going students are in budget private schools (monthly fees less than Rs. 1000) where learning outcomes are not very different from those in government schools albeit at a lower cost.²⁶

Unfortunately, very scant or no positive attention is paid by the government to private school going children. They are almost treated as irrelevant to the education policies and frameworks. On the contrary, there are significant barriers to their operations due to laws as well as local education authorities. However, India's future is as much dependent on students from both public AND private schools. A huge paradigm shift is needed to ensure ALL INDIAN children are getting quality education.

Economists Ajay Shah and Vijay Kelkar agree that given the weak Indian state capacity with respect to education, India needs to start looking at the three pillars of education separately:

funding, regulating and producing²⁷ the government should fund students instead of school, but regulate schools to ensure learning outcomes are met. Production however should be opened up freely to private players, while the government may need to also run schools in under-served areas.

While the government does all it can to improve public schools, it must change the way it views private schools and their role in providing quality education to all. Instead of attempting to educate every Indian child by itself, the government should become an enabler for improving access to quality education whether it's through a public or a private school. As Nirav Khambhati, Partner at Kaizenvest which specializes in investing in the education sector in emerging countries told us, *"Education should be looked at as public and private, not public or private, particularly in developing countries such as India. We are lagging on targets set under Sustainable Development Goals and will find it very difficult to achieve them without public and private sector participation."* Private schools should be seen as partners in achieving the common vision of quality education for all Indian children by 2035.

However, to allow the private sector to do it's best, regulatory changes are necessary. What are these necessary changes and what are their possible impacts, will be tackled in the next chapter.

CHAPTER 4



Rationalizing regulations for private schools is a necessity for the nation

Nearly half of Indian children now study in private school and yet there are no systems in place to track the quality of education in the majority of private schools. This chapter expounds the necessity of reforming private schools to improve quality of education through reforms and incentives. However, are these reforms sufficient to allow private schools to deliver?

KEY TAKEAWAYS

1

Private schools have no checks on learning outcomes except those where the student gives board exams.

2

A recognition system that's based on self audit, accreditation and learning outcomes (rather than input based norms) needs to be put in place which can allow all the stakeholders to compare private (and public) schools.

3

To incentivise schools to get recognition, students should be funded directly which they can then take to any school of their choice.

4

However, these steps alone won't be enough to increase the quantity or quality of private schools as long as the sector remains not for profit.

(Private institutions') grievance is that the necessary and unproductive load on their back in the form of governmental control, by the way of rules and regulations, has thwarted the progress of quality education...

It is no secret that the examination results at all levels of unaided private schools, notwithstanding the stringent regulations of the governmental authorities, are far superior to the results of the government maintained schools."

- **Supreme Court Ruling, Unni Krishnan of India, 31 October 2002**



4.1 WHAT ARE THE KEY REGULATIONS THAT NEED TO BE RATIONALIZED FOR THE PRIVATE SCHOOLS SECTOR?

A Centre for Civil Society report notes that “The plain truth is that for-profit private schools, despite being controlled and constricted, produce far better learning outcomes than the government schools. Therefore, the public interest demands that private schools should not be cabined, cribbed and confined as they are at present. To do so will prove detrimental to the growth and development of the Indian economy in the long run.”¹

Rationalization of regulations is necessary for private schools to ensure their accountability to norms about learning outcomes, duty of care, safety standards, governance, and educational philosophy. The following reforms may be considered as formalization of the private schooling sector:

- Review of the RTE input-based norms
- Compulsory registration of school and accreditation that meets a set of disclosures and safety norms (replacing a wide based input based norms as part of the RTE and other acts)
- Inclusion of compulsory assessment and dissemination of learning outcomes in the RTE
- Education vouchers instead of RTE 12(1)(c) to fix design issues
- Restructuring of regulatory bodies that oversee the education sector



4.2 WHY ARE THESE REFORMS ESSENTIAL?

a) **Enabling School Evaluation for Parents and Regulators**

Through this paper, it's evident that India can't depend on public schools to provide quality education to all Indian children. Close to 50% of Indian students are already studying in private schools, 70% of which can be categorized as Affordable Private Schools (APS), also known as Budget Private Schools².

Parents have no way to understand the quality of learning happening at a school other than the anecdotes that they might hear from other parents. Without any standardized assessments, parents have very little knowledge of quality of learning outcomes. Parents then end up making judgement of the school based on what is visible - uniform, apparent discipline, teachers being present in the class (based on reports from their wards).

A Centre of Civil Society report Budget Private Schools in India says that "Regulatory norms that govern private schools lay significant emphasis on a variety of inputs in education such as school infrastructure, teacher qualifications, and teacher salaries. Collectively, investment in the prescribed inputs adds to the costs of opening and running schools. In this context, school administrators find it difficult, without philanthropic support, to invest in other measures that can drive quality of education."³

There's scant attention paid by the government or the necessary regulators to the quality of education in these APS. All the norms as part of the RTE or state-specific regulations are focused on inputs such as infrastructure, teacher salaries which don't address the educational outcomes or quality of teaching. Similarly, to ensure essential duty of care and safety norms, there's a need for an accreditation and monitoring process.

On the other hand, onerous input based norms and other interference stifle these APS with respect to innovation and finding cost-effective models to deliver good quality education. Therefore, it's important that the private schools are regulated by a framework which

decreases information asymmetry with respect to the learning outcomes and other important information such as fees structure, teacher profiles, infrastructure, safety norms and educational philosophy.

At the same time, the regulation should be such that allows private schools to utilize the private sector's capacity and ability to innovate and use resources efficiently. Furthermore, there needs to be a clear incentive for the APS to get formalized, which can be done if the students are funded directly rather than the schools under the RTE Sec 12(1)(c).

b Formalizing Unrecognized Schools

The estimated Indian population in the age group 6 to 17 is 29.4 Crores⁴. However, the U-DISE data for the same year shows about 24.69 Crores students in schools⁵. Discounting the fact that there may be recognized schools that may have not submitted accurate data to UDISE, it's still likely that around 4cr Indian students out of the UDISE data, many might be studying in schools that are not recognized.

The Centre for Civil Society says that "There are several constraints and challenges that BPS face as institutions including hostile regulation and financial uncertainty. Unrecognised BPS exist in the extra-legal space facing threats of closure from the government, although they derive their legitimacy from parents who choose the schools for their kids."⁶

A 2007 report claims that the number of unrecognized private schools might be as large as recognized schools⁷. While the U-DISE data has been increasingly capturing students from unrecognized schools, even a 2019 report there are 3000 unrecognized schools in the state of Delhi alone serving about 10 lakhs students, when the total U-DISE enrolment for the state is around 42 lakhs.⁸

Two big reasons why schools don't get recognized are the one-size-fits-all input-based norms and that there's no incentive for them to do so. This is especially true for APS which often run as primary schools where they don't need a board certification. Students of such APS don't give any board exams as the school ends before Grade 10. This means that it's difficult for stakeholders to understand the quality of learning using a standard benchmark.





4.3 GETTING THE REFORMS RIGHT

a) Review and modify RTE regulations

i Change from input-based norms to accreditation and active disclosure

Input-based norms related to infrastructure, teacher qualification or salaries, teacher-student ratios have especially stifled APS, leading to many such schools being unrecognized or keeping such schools away from recognition in the first place. With 45% BPS charging fees of less than Rs. 500/student/month⁹, an APS can't afford to maintain classroom sizes or school areas as required by the regulation. For e.g. Mr Vikas Jhunjunwala of Sunshine School, Delhi says he's expected to pay Rs. 40,000 to teachers. But with an average fee of Rs. 700 / month, and with even 30 students per class, even if all fees were paid to teachers, it would only mean Rs. 21,000/month, about half of the expected norm.

Input-based norms have very little impact on the educational outcomes, which are currently not measured. Therefore, removing all input-based norms will allow the private schools to figure out different models of education in terms of cost, teacher salaries, teacher-student ratio, teacher quality, pedagogy and so on. The only input-based norm that needs to be mandated is that related to child care and safety. This is essential to ensure that a minimum standard is met for the safety and care of children. However, even the rules for child care and safety should not be framed as a one-size-fits-all system.

Input-based norms specified for private schools as part of the RTE should be replaced by schools self-rating on all the necessary parameters such as infrastructure, teacher quality, educational methods, safety. Regular audits by 3rd parties should be used to verify these ratings which will then be published.

Measurement and dissemination of learning outcomes using random sampling methods by 3rd parties should be mandated for all private schools.

Removal of one-size-fits-all input-based norms along with the incentive of earning through education vouchers will encourage schools to register themselves. When registering schools can be required to meet these disclosures and norms in a comparable and standardized format:

-
- a. Declaration of fees structure and increment range at the time of admission

 - b. Declaration of admission policy

 - c. Declaration of facilities and resources (human and material)

 - d. Articulate leadership and governance structure

 - e. Duty of care and safety provisions

 - f. Declare educational offering

 - g. Policies for hiring and appraisal of academic staff

 - h. Learning outcome achievement by cohort
(based on assessments conducted by a 3rd party)
-

The NEP proposes a new regulator with a similar role for schools, however one key difference in the recommendation here is for the state regulator to appoint independent 3rd party auditors to manage the accreditation and active disclosure process.



Include Assessment and dissemination of learning outcomes in RTE

Scientific standardized third party tests should be used on a sample basis at each grade across schools on literacy and numeracy till at least Grade 8. The scores should be published for each school and should inform interventions to be taken. This needs to be done across all private and public schools in a manner in which the scores can be compared, thereby decreasing information asymmetry significantly for parents and other stakeholders.

A study of 112 public and private schools in Pakistan showed that for the schools where parents received report cards containing test scores of their children, test scores increased 42% more than in those schools without report cards¹⁰. Further, the best private schools actually lowered their costs. While earlier, they used to indicate their quality by charging high prices as there was no other way to signal their better quality, now they could use these 3rd party report cards to show their better test scores and therefore signal their quality. Reducing prices with better quality would mean becoming accessible to a lot more students which is a win-win for schools (bigger scale and higher revenue) and for parents (lower cost with better quality).

A similar study, conducted in Ajmer with 159 schools, underlines both the efficacy of school report cards as well as the lack of responsiveness from public schools¹¹. The authors conclude that *“We find significant improvement in test scores of private school students by 0.31 standard deviations when information on both absolute and relative school quality is provided to households and schools. **There are no significant improvements in the learning outcomes of public school children in any treatment.** Close examination of the results suggest that private school students chose better quality schools in the new academic year. Public school parents did respond by exercising school choice and lowering student absenteeism but saw no improvements in learning outcomes possibly because of a constrained school choice set. Overall, our results suggest that information on the relative quality of schools can be a cheap and effective tool for improving learning outcomes when households can exercise school choice.”* (emphasis supplied)

The NEP proposes standardized assessments for Grades 3, 5 & 8 across all schools. However, one key difference in the recommendation here is that instead of state boards running these exams, the state regulator should appoint independent 3rd party assessment agencies. These specialized agencies should run the assessment based on standardized benchmarks for literacy and numeracy, which can be set by NCERT. However, as discussed in the previous chapter, public schools have little incentive and lack systems that can allow them to respond favorably to a school report card. So while these assessments should help improve private schools, they are not likely to do much to improve learning outcomes in public schools.



Education vouchers instead of RTE 12(1)(c)

RTE Section 12(1)(c) mandates that private schools must admit 25% students in Grade 1 from disadvantaged backgrounds. However this section impedes the autonomy of schools as it dictates their admission policy. Most states have set the reimbursement rates for RTE students at much lower rates than the actual costs that schools incur thereby creating financial challenges for schools¹². Further, the reimbursement is not timely¹³. Out of Rs. 2339 Crores, 16 states which have applied for reimbursements under RTE got an approval of Rs. 1346 Crores, which is less than 60% of the promised amount¹⁴.

Once the government funds parents directly through education vouchers, there's no need for this section as it allows parents to choose schools of their liking. Including ECE in the ambit of these vouchers will encourage private players to open up ECE centres for everyone. To be able to access this funding, schools must get themselves registered whereby they must undergo the self-rating, audit and measurement of learning outcomes. By funding parents using education vouchers rather than funding schools, a huge incentive can be set up for all schools to get themselves recognized formally, ensuring monitoring of quality.

iv

Market based pricing (fees) with only one caveat

Private schools need autonomy to be able to deliver quality which includes control over their fees as they are completely self-financed. To ensure that schools have genuine autonomy, the government (central and states) must repeal all acts and laws that control fees and replace it by a rule that protects exploitation of existing parents without hurting schools. Removing all fee regulations from school may lead to a few schools (the ones most in demand which are typically <5% of all schools) to increase fees. With reforms, competition may drive down prices in the long run.

However this will take time to kick in as schools need many years to prove their quality. Therefore, the regulator can mandate that schools declare their fees structure (including periodicity, heads, what's optional and what's included, pricing of all the possible accessories that students may need, as well as all the terms and conditions associated) schedule for all existing students. This is reasonable because parents are entering a long-term contract and the cost of moving schools is too high for parents after a few years. The UP government has implemented a regulation that caps the increment at the average increment given to teachers but it can't be more than the consumer inflation rate (CPI) + 5% of the fee realised from the student¹⁵. This rule leaves ambiguity in terms of average increment of the teachers and the only way to verify this would be to ask for complete data of teacher salaries which itself is a violation of the autonomy of schools. It would be better to define the increment cap as CPI + 7% for existing parents, which is a reasonable increment for most schools to use year on year. However, there should be no restriction on the base fees for new students. Market forces should be allowed to set that price rather than regulation.

b

Restructuring regulation of the education sector

i

Separation of roles

Ajay Shah and Vijay Kelkar, prominent economists, mention the three pillars of education as funding, producing and regulating. They recommend a strong separation of these pillars for the following reason: *"There's a natural tension between these pillars. The people who do production of government schools would like to monopolize funding, ask for weak regulation (for government schools) and raise entry barriers for non-governmental schools."*¹⁶ We see this phenomenon very clearly in the RTE, which specifies input based norms for private schools but exempts all public schools from the same norms.

T.V. Mohandas Pai, chairman of Manipal Global Education and former director of Infosys, argues that if the government wants to be a provider of education, it must

meet the “same standards, be as accountable, and adhere to all the norms that a private player has to.” Moreover, he argues, all government servants should be asked to educate their own children in government schools. This, he says, will be the quickest fix. Currently, the playing field is not level and private schools are hamstrung while government schools are barely scrutinized.¹⁷

At the same time, the lion’s share of government spending is on government schools and related machinery. The lack of separation between the regulator and the producer/funder means that although the government should be concerned with the education of all Indian children, in reality it’s funding goes primarily to the children studying in public schools.

The central and state governments need to focus their role as enablers of public schooling and of funding parents rather than taking on all the roles that currently include that of funding, running boards of education, conducting exams, inspections, etc. The government needs to make the laws necessary to put in place all the reforms discussed above and then empower the independent regulator to enforce the broad principles.

ii

The role of independent regulator(s)

Like the experience of other sectors shows, independent regulators such as SEBI or TRAI have ensured the necessary regulation while allowing for growth and access to quality for the consumers. There’s a need to do the same for the education sector whereby an independent regulator (or one for each state) will be responsible for regulation.

With an aim to encourage innovation and efficiency in delivery of education, the regulator should accredit multiple boards of education that will allow for a wider range of educational systems than the limited ones that are available as of now. The regulator will list what schools must disclose and must be inspected for and will lay down the learning outcomes to be assessed by 3rd parties at different ages for each school.

The regulator will appoint agencies that will do evaluation on learning outcomes as well as agencies that will audit schools on all the essential parameters such as duty of care, safety, infrastructure quality. The regulator shall also act as an ombudsman and make a state-wise structure for the same.

The NEP proposes a separation of roles by appointing independent regulators at both the central and the state level. However it requires these regulators to take on the role of licensing of schools, accreditation and management of the self-audit process for all schools (both public and private). Given the weak state capacity of most government agencies, it would be better to appoint truly independent agencies which will manage the licensing, accreditation process under the supervision of the regulator.



4.4 HOW HAVE REFORMS WORKED IN OTHER SECTORS?

As India has grown over the past few decades, some large sectors have moved from an informal and unorganized format to a formal, organized format. Equity brokerage, Motilal Oswal, in a Feb 2017 report titled 'The Big Leap', stated¹⁸:

Unorganized trade accounts for a significant proportion of India's economy. However, with rising per capita income and aspirational buying, the share of unorganized trade is gradually reducing. There is still a long way to go, though – various local and domestic institutions estimate that organized trade still accounts for 20-50% of GDP. Loopholes in the law and cash-based transactions in the informal sector have for long kept many businesses outside of the tax net.

Rising incomes drive aspirations for a higher quality and brand for a broad swathe of consumer goods that can only be provided by formal players with the size to undertake large investments in operations and, more importantly, pay up taxes. The Government also benefits from formalization of sectors with more revenues coming under the tax net.

Indeed, regulatory changes (introduction of Goods and Services Tax, demonetization) point to the Government's intention to bring the unorganized sector under a more formal shape. Formalization of sectors also works to push out inefficient players by raising their cost of capital (tougher access to loans from banks, increase in taxes, stricter compliance) and benefit those that are willing to invest in building large businesses of scale. Two sectors which have seen a big shift towards formalization are jewelry and home materials consisting of goods such as paints, adhesives and electricals.

a Jewelry sector

According to the World Gold Council¹⁹, the share of organised or branded players in the jewelry market rose to 32% in 2019 compared to 5% in 2005 and is expected to keep rising in the future. This shift towards the organized sector is a combination of factors such as changes in consumer preferences in areas such as certification and jewelry designs - two areas that large organized players like Titan could provide better than the stand-alone stores. Titan set up its Tanishq brand of jewelry stores in 1996, making it the first organized player in the industry. Tanishq provided many unique consumer propositions such as the concept of karatmeters and gold purity tests. As per their latest numbers (July 2020²⁰), Titan has more than 160 Tanishq stores across 89 cities in India.

Thus, over the years, as the jewelry sector took on a more formal shape, players like Titan emerged stronger. Consumers across urban metros as well as smaller cities benefited from higher and more credible quality of gold, certification of purity, and contemporary design. The Government also pushed the sector towards formalization with regulations such as GST, demonetisation as well as clamping down on cash purchases of gold and jewelry and increasing compliance requirements on the sector as a whole.

Key Insight for Education:

More reliable measurement led to quality, which in turn led to consolidation.

b Paints, adhesives, and electrical segment

Sectors such as paints, adhesives, and light electricals have also witnessed a large shift towards a more formal shape from the informal and unorganized sector. The paints industry is dominated by large companies such as Asian Paints, Berger Paints, Kansai Nerolac, and AkzoNobel with the organized sector controlling 70% of the industry.²¹ The steady decline in indirect taxes²² (excise duties in the past and GST since 2017) has helped the shift towards formal, organized players and other factors such as improved quality of paints, innovation, etc have helped formalize the sector.

Similarly, the adhesives and sealants sector has seen the emergence of large formal players like Pidilite while the unorganized sector still controls more than half of the overall industry.²³ This shift towards formal and unorganized brands like Pidilite is expected to continue on the back of factors such as rising urbanization and GST implementation (which benefits formal players). Finally, the lights electrical industry has also witnessed a shift with the unorganized market's share falling to 25% in FY16 from 40% in FY10²⁴. Factors aiding this move are again, GST implementation, shifting consumer preferences, urbanization, etc.

Key Insight for Education:

Enabling scale, and chain players, can also lead to greater formalization in a sector.



4.5 RATIONALIZATION OF REGULATIONS IS NECESSARY, BUT IS THAT SUFFICIENT?

Reforms as described above are likely to bring about the following positive changes:

- Accreditation and active disclosures will improve safety and care of students while ensuring that parents are able to make informed decisions when admitting their children
- Independent regulators with progressive rules will both compel and allow private schools including APS to focus on improving quality of education
- Improve the information that parents and other stakeholders get about learning outcomes
- May bring many unrecognized schools and APS into a more formal structure due change in input-based norms as well as the incentive of the education vouchers

However, will this be enough to bring quality education to all Indian children? Let's address this question in the next chapter.



CHAPTER 5



The private school sector is supposed to be not for profit but in reality it's for profit in general. This chapter explores the case for making education for profit explicitly and legally, and it's benefits and addresses the objections that are raised.

Liberalizing private schools is necessary - rationalizing regulations alone won't be enough!

KEY TAKEAWAYS

1

Allowing schools for profit will unleash the private schools sector bringing in high quality people, capital and competition.

2

Given the inefficiency of government spending on public schools, students should be funded, even if they wish to attend private schools. This will lead to a massive expansion of private schooling.

3

Quality of education will improve, while competition will keep a check on prices.

4

There are political, economic and social issues that will have to be addressed to achieve liberalization of the private schooling sector.



5.1 WHY RATIONALIZATION OF REGULATIONS ALONE WON'T BE SUFFICIENT

Reforms of the private schooling sector as stated in the previous chapter won't address these crucial issues:

a) Lack of investment:

Education being not for profit will not attract the massive investment that's necessary to bring quality education access to all Indian students. Many investors that we spoke to for the purpose of this white paper cited non-profit as a hurdle for them to invest directly into the sector. The NEP expects the education spending to go up to 6% of the GDP, thereby doubling the current expenditure of education. However, there's likely to be a huge gap between the investment necessary to open and run the many quality schools needed. Private investment of a massive kind can't be expected unless investors have the possibility to get legal returns on their investment. With the lack of investments, investors and entrepreneurs often called the education sector (in schools), a "cottage industry".

b) Lack of quality entrepreneurs:

Without a profit motive, large investments won't be forthcoming and the quality of entrepreneurs, leaders and even teachers who will be attracted to schooling will not improve significantly. For e.g. an educational entrepreneur or a teacher who's earning significantly more by coaching students for competitive exams will not find it financially attractive to work in the schooling sector.

© Lack of intense competition:

Without new private investment and without quality entrepreneurs and teachers entering private schooling, it would mean that the status quo of the existing private schools won't get challenged. The existing private schools, whether the smaller mom and pop sort of APS, or chains of private schools or independent private schools won't get challenged to improve quality or to lower cost. Without the advantages of the private sector in terms of efficiency and innovation, it's not likely that quality education will become accessible to all Indian children.

In an editorial in the Economic Times, Saumya Bhattacharya, Senior Editor, writes, *"Everyone knows India doesn't have enough good schools. Private sector can meet the demand, if the government lets it. There is no shortage of private capital or entrepreneurial interest. School education, say experts, is a \$100 billion opportunity over the next four years. But what is killing the growth of school education entrepreneurship is absurd regulation. The consensus is that private schools need a few simple, logical rules: 1. They should be allowed to be for-profit. Quality education and a profitable enterprise aren't mutually exclusive. 2. Schools should be able to charge what fees they want, and let the market decide whether they need to revise their prices[...]. The government must accept that entrepreneurship can bring about a revolution in school education, and that no one is holding back India's children more than the government that says it cares for them."*¹

There's a need therefore to go a step beyond reforms to ensure that private schools perform, which can be called as liberalization of the private school sector.

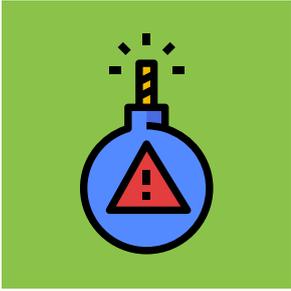




5.2 WHAT DO WE MEAN BY LIBERALIZATION OF THE PRIVATE SCHOOL SECTOR?

The following reforms may be considered as liberalization of the private schooling sector:

- Allowing schools to operate for-profit
- Allowing complete autonomy to schools subject to the formalizing norms
- Change of regulations to allow for various funding and raising capital models of schools



5.3 WHY IS LIBERALIZATION SO CRITICAL?

We have discussed in the previous chapter that while formalization of the private sector is essential, it alone won't be enough to meet the vision of all Indian children getting access to quality education. If formalization creates a floor in terms of standards that schools should meet, liberalization will open up the ceiling of what they can accomplish. It does so by correcting incentives - for investors to buy into high quality education at scale (as they are currently doing with EdTech), and by giving autonomy to entrepreneurs and school leaders to innovate.

The lack of a profit motive would mean that the private school sector won't see much needed investment, consolidation and standardisation, or quality entrepreneurs, administrators and teachers, which in turn would mean a lack of competition around quality education. Without these changes, the quality of education will not change in the existing private schools. 70% of the private school students who go to APS are not likely to get quality education without the innovation in delivery, usage of technology, and efficiency that the private sector can bring in.

Says Manit Jain, co-founder of Heritage school and chairman of FICCI ARISE (FICCI's Alliance For Reimagining School Education): "There is currently no incentive for large corporates with deep pockets to step into this sector." According to Jain, the huge demand for funds for the sector needs a clean structure that allows for profit. This single move can pave the way for credible and trusted names to invest, allow foreign investment to come in, banks to lend and energise the whole sector. It will also allow existing players to expand as they gain more access to capital, he adds.²

India's experience with sectors such as banking, telecom, airlines, automotive and health care shows that private players can achieve better quality at a better cost.³ Dhiray Nayyar, Chief Economist at Vedanta Resources Limited comments that, "The remarkable story of telecom and more recently, data shows that the private sector can provide goods and services at a high quality and affordable prices while making profit. If the long history of pre-1991 India proves anything, it is that the government as a sole provider of goods and services does poorly both in terms of quality and affordability – just think of telecom, aviation and other monopolies pre-1991."⁴

The improvement of quality in the product or service happened only after these sectors were liberalized after the opening-up of the economy in 1991. As the Indian economy grew, multiple players across these sectors ensured sufficient competition to keep prices in check while quality grew simultaneously due to competition and globalization. Parth Shah of Centre of Civil Society says that, "Today the Indian education system is where the Indian economic system was before 1991. The Right to Education Act (2009) and the recent spate of fee control acts are akin to the Monopolies and Restrictive Trade Practices (MRTP) Act and licensing acts of an earlier era. India feared the freedom of consumers and producers in the economic area before 1991. It similarly fears today the freedom of education consumers and providers. All private schools are paying the price of this fear of freedom. The Budget Private Schools (BPS) which serve the poor are the worst hit by this fear psychosis."⁵

However, liberalisation is seen as the "commercialization of education" which needs to be addressed.



5.4 THE TWO NECESSARY COMPONENTS OF LIBERALIZING OF PRIVATE SCHOOLS

a Allow for profit schools by law

It's an open secret that most private schools are not for profit only on-paper. Although there are philanthropic schools as well, the majority of private schools do make profit in some way or the other. Mr. Gurcharan Das, an intellectual who has written extensively on the Indian education sector, argues vociferously that the number one reform that the private school sector needs is to take away the lie that private schools are not for profit; most private schools make a profit to survive⁶.

He goes to say that

"lying is not just bad for karma / character, but it's also less effective. If half of India's children grow up in a world of chupke-chupke, chori-chori, what sort of an example are we setting for the young? The number one goal should be to drop this hypocrisy; declare education is for profit and side by side remove license raj so that more / good schools can open up. This will encourage honest entrepreneurs, educators and idealistic people to start up. If we do this, learning outcomes will improve. By bringing in honest people who are really educators, it will also discourage today's school owners, many of whom are interested primarily in making a profit.

Capital and investment will come in. Schools could be able to raise credit through the Micro, Small, and Medium Enterprises (MSME) route. With investment technology will come in. If it's an honest profit then black money will be curbed. Owners and principals will not be called thieves. They will get some respect.

Finally once this happens, more private schools will come up. Parents will be happier as more schools will come up and there will be greater choice. Supply of good schools will improve. The heartbreaking sight of the long line of parents at the time of admission in elite schools, where most won't succeed will also go down. The low cost ones are doing as good as government schools at 1/3rd the cost. Society will therefore gain as private schools are doing a better job and at a lower cost."

All existing schools should be given a choice to transition to a for profit school structure. Schools that wish to do so should be able to shift all their assets held under informal proprietorships, trusts, societies or section 8 companies into legal entities that are allowed to make a profit - registered LLPs, private or public limited companies. In case, schools have taken benefits of being a non-profit entity such as land at a cheaper rate from the government, or tax breaks, then rules should be set to ensure that the school makes commensurate payments where necessary and tax breaks are removed for the future. Schools which choose to be for profit should also pay taxes like any other private sector enterprise. All these taxes can be plowed back in educational initiatives, especially to fund disadvantaged students.

b Fund students not schools - whether private or public

Education being a social good, it's necessary that the government must take an active part in ensuring quality education for all – but it does not mean that the government must do everything. Liberalizing education will ensure higher quality of education for anyone who can pay for it. For those who can't pay for high quality private education, further policy interventions are needed to ensure that liberalization works for them as well.

We have seen earlier that the education quality is not commensurate with the amount that the government is spending on public schools. To make liberalization work for Indian children, funding students instead of schools will both increase the supply of good quality private schools and give parents significantly more choice, especially the disadvantaged families who are currently forced to go to government schools as they can't afford private schools. Vouchers for education is one such intervention which Sweden and Chile have implemented with a degree of success for many decades now.

i

The experience of Sweden and Chile

In 1992, Sweden liberalized its schooling system by allowing independent (private) schools to be set up as either for profit or not for profit. However, all these independent schools could claim expenses from the Swedish government for each student studying at the school⁷. The share of students studying at these independent schools rose from about 2% in 1992 to more than 25% for all the Upper Secondary students in Sweden in 2014. A similar trend was observed for younger

students (from 2% to close to 15%). More importantly, of all the students studying in independent schools, the share of students studying in for-profit schools is much higher. 64 percent of elementary and lower-secondary independent school students and 85 percent of upper-secondary independent school students attend for-profit schools

Further, for-profit independent schools have more students from lower socioeconomic backgrounds as compared with non-profit independent schools. As of 2014, the ten largest chains of for-profit schools enrolled 36 percent of all the independent school students. Academically as well, the performance of independent school students has been higher than the public schools in international standardized tests. Another study shows that the impact of a 10 percentage point increase in the share of independent-school students has resulted in close to a 2 percentile rank higher educational achievement at the end of compulsory school (age 6 to 15)⁸.

Anders Hultin, head of profit-making school company in Sweden and the former head of Gems school chain in the UK says, *"...if you have profit-making companies in the mix, they provide the drive and impetus for schools to improve and to expand – that's the thrust of what business is all about. The (British) government cannot afford to invest large capital amounts into school building etc. right now, so it needs to bring in investors from outside..."*⁹

Another country, Chile, has a near universal voucher system for schools. While the system has undergone many changes and has faced its share of criticism, as far as academic achievement is concerned, Chile ranks the highest among all Latin America on the PISA test scores¹⁰. Of course, both these countries are much smaller countries.



Can vouchers succeed in India?

Extensively used in Chile, Sweden, in many states in the US and other places in the world, voucher systems haven't been outright successes. However, the systems in these places have been constrained by wrong policies or implementation issues.

The fundamental idea is quite sound economically:
governments should fund students directly instead of funding schools.

The funding may happen through various means - through a voucher, tuition waivers / subsidies, tax-credit scholarships, education savings accounts, or education vouchers that only registered schools can encash or Direct Benefit Transfers (DBTs). The funding can also be in the form of Direct Benefit Transfers (DBTs) that the Indian government is already doing by depositing money into the bank accounts of those living below the poverty line and for other purposes such as LPG and Fertilizer subsidies, MNREGA payments, Old Age Pensions and Scholarships¹¹. There's no reason why DBTs can't be used for education as well.

India too has run many small experiments, and they have generally shown to improve educational standards by improving school choice for parents. One such study led by Karthik Muralidharan, used randomized controlled trials in Andhra Pradesh to show that students who won a lottery to study at private schools got slightly higher learning outcomes compared to their counterparts at public schools at 1/3rd the cost¹².

A voucher-system pilot undertaken by the Centre for Civil Society in Delhi in 2007 found that 63% of the beneficiaries exercised freedom of choices and switched to private schools with 90% of the parents who switched to these schools giving a thumbs up to the schools for the progress their children have made, the teachers and the standards of discipline. These students performed better in English, Mathematics and Hindi than those students studying in government schools showing that a voucher system, if implemented well, has the potential to make huge improvements in access to better quality education for Indian children¹³. State governments in Uttarakhand, Madhya Pradesh and Rajasthan have also tried out voucher systems with some success¹⁴.



Voucher, DBTs, or other models - but fund students / parents directly instead of schools

Geeta Kingdon and Arvind Panagariya ask this question about public schooling: “How many more generations of children must pay for such an ideologically driven defence of public schools? The hard reality is that few among the decision makers at the Centre or in the states send their own children to public schools. Instead, it is low income families that rely disproportionately on these schools. To be fair to the taxpayer whose hard earned money pays for the public education, it is time to consider giving these families vouchers worth a minimum amount that they can take to the school of their choice. If we can give government employees Rs 27,000 per year to defray a part of the cost of their children’s education, why deny at least a fraction of this sum to the low-income families?”¹⁵

In the previous chapter on formalization of education, education vouchers were proposed as a replacement for the poorly designed and implemented RTE Sec 12(1)(c). Here, this recommendation goes a step further to say that all students including those going to public schools should be funded directly rather than the schools being funded (suggestions on how the government can manage this process are given later in this chapter).

True liberalization - an open and competitive marketplace - requires public schools to also compete with private schools for students on their merits rather than getting students because they are free. To make that happen, it’s imperative that public schools also receive funding per student rather than fixed disbursements. This will ensure that only those principals and teachers that can up their game in

terms of learning outcomes will be able to attract students. This will require educational authorities to give far more autonomy to the schools without which schools won't be able to perform. There should be no exception to this - there will be teacher-entrepreneurs even in the remotest places and most under-served areas in India who will spring up wherever government schools don't perform.

Further research is required to figure out an economically sound design for the funding of parents. Each of these funding modes will vary in their design and structure and will therefore have their benefits and disadvantages. Which of these funding systems is best suited for India is a question that economists are better placed to address. However, the core idea is to allow parents a much larger range of choices as compared to the current system of forcing poor parents to attend the nearest government school. Putting the power of choice in the hands of parents will provoke a strong supply side response for APS as well as middle income schools. Parents can choose to supplement the funding from the government using their own funds to put their children in private schools that they find better suited to their needs and aspirations. The next chapter will also take a look at the amount of potential funding that can open up, if all Indian students were directly funded rather than public schools.





5.5 THE BENEFITS OF LIBERALIZATION

Having seen the components of liberalization, let's understand the advantages that the private sector can bring to improve the quality of education:



a Efficiency in terms of costs:

The study in Andhra Pradesh also showed that the APS deliver a slightly better learning achievement levels to public schools at one-third the cost¹⁶. Of course these achievement levels represent only the bare minimum learning levels. But a fairer comparison of efficiency of cost would be that of what the state spends on public education as compared to what similarly priced private schools would achieve. In 2016-17, Telangana spent nearly Rs. 42,000 per student across all their public schools¹⁷. A quick search shows nearly 100 private schools in the 30-50K / annum fee range, all of which would deliver much higher quality of learning as compared to the average or even the best performing public school¹⁸. A simple thought experiment would do it: if a parent was given a voucher of 42K to spend on a school of choice, how many parents across the country would choose a public school over a private school?

The key point is that the private schools are far more efficient¹⁹ in terms of utilization of funds as owners have an incentive to do so. The only public schools that deliver a higher quality are the KVs and JNVs, which are fully sponsored and managed by the central government. KVs spend around 40K per student²⁰ and students pay another 3-5K as fees²¹; whereas JNV spends at least 85K / child, both of which are much higher expenses as compared to APS where 70% of the students pay less than Rs. 12K/annum²². One significant way that the private schools, especially BPS, do so is by paying market-linked salaries to the teachers rather than mandated salaries. Moreover, utilization of funds is much better as compared to public schools where overhead costs, leakages and slow decision making are prevalent.

b Speedy improvements:

Experience in other sectors shows that the private sector can deliver quality products or services much quicker than the public sector. Depending on public schools to be able to deliver much better outcomes as compared to what they have done in the past 70 years is likely to lead to another generation or two, growing up with poor education. Imagine parents paying 40K to private schools - they will expect and in most cases also get much better learning outcomes as compared to the free public schools. Private players on the other hand will improve educational outcomes at a far more rapid speed due to the different incentives as well as flexible management styles that are not possible in public systems.

c Accountability:

Private schools are already far more accountable to the parents who are paying consumers as compared to public schools where parents have no or limited say. Switching schools is costly for parents, but the threat of parents switching to other schools ensures higher accountability of the school to the demands of the parents. The lack of liberalization means although at this point there isn't enough competition especially in the APS without large or small quality players. However with both better information about learning outcomes and many more players in the segment, the power of the parents (as consumers) will increase the accountability of schools manyfold. Funding students rather than schools will also improve the accountability of public schools.

d Access to funds for infrastructure development:

The draft National Education Policy shows that India needs to spend 6% of its GDP on education, as against the 2.7% currently when the GDP has grown to \$5 trillion to improve quality and access to education. However neither of these are likely to happen leaving a big funding gap. Liberalization of the school sector will bring in private investment, which will reduce this gap, especially in improving and adding educational infrastructure which is the largest cost of starting a school.²³ Ways in which private investment can be facilitated is discussed in the next chapter.

e Educational Innovations:

Public school systems due to their systems and built-in inertia don't have the capacity to innovate pedagogy or delivery mechanisms to improve learning outcomes. Private schools especially when they achieve a scale will invest their discretionary surplus into research and development in usage of technology, hiring and training of teachers and other areas to improve educational outcomes while also minimizing costs. While much of the discourse in education is focused on ensuring delivery of the basic literacy and numeracy skills, it must be recognized that this alone doesn't suffice in meeting the needs of the 21st century workplaces which require higher order skills. Public schools that are struggling to meet the basic literacy and numeracy requirements don't even have the 21st century skills in their sights. Middle and especially high income private schools are far better placed to deliver these 21st century skills and for that to extend to the APS, innovation, paradigm shifts and technology needs to be used for which private players are best placed.

f Virtuous selection:

In India, teaching in schools is not a preferred career for talented people. Similarly, education as a sector doesn't really attract high quality people as entrepreneurs, researchers or administrators other than in unregulated educational sectors such as educational technology, private tutoring or coaching centres for competitive exams. The right regulations and incentives can bring high quality people as entrepreneurs, researchers, teachers and administrators into private schooling. Further, by allowing large investments and attracting quality people to the schooling sector will either force current operators (at all income levels - BPS or otherwise) to either improve their quality or will force them to shut shop. Entrepreneurs will also innovate to bring efficiency at a large scale. Parents will switch over from schools that don't offer value for money once liberalization allows many new schools to start which will compete on both quality and costs.

g Allowing market forces to find optimal solutions:

Private players can solve difficult educational problems through economies of scale and innovation. For e.g. competition and the opening of the telecom sector improved access manifold at much lower costs. Today, 1GB data costs Rs 18.5 in India as compared to the global average of around Rs 600²⁴. And this is the case despite many issues with regulations of the Telecom sector. Similarly at this point of time, there's no educational system as yet in the world that delivers high quality at low costs. Liberalization is the only way through which private players may find the right solution to the education problem at competitive prices. A senior level employee at a large venture capital firm told us on the request of anonymity, "Vouchers can be given to parents and this should help the market find its way in terms of quality". The private sector can bring about the broad benefits of agency, intense competition and innovation (in delivery and in curriculum).



5.6 DISMANTLING THE OBJECTIONS AGAINST LIBERALIZATION

Given Indian's political, economic and social background and dispensation, it's important to recognize that a proposal to liberalize the school sectors will bring about a lot of objections. It's therefore essential to address these objections, whether they are purely ideological or based on real issues that might happen if the private sector is liberalized.

a The ideological issue of commercialization of a public good:

While indeed education is a public good, however the stark reality is that Indian education is in a mess. Movement from public to private school continues in large numbers, while learning outcomes continue to remain poor. Therefore liberalization is a necessity for educational standards to rise - it's a desperate need for India. This should not become an ideological battle. India's experiences with liberalization with the right regulation has been good in sectors such as telecom, airlines, banking and automotive sector²⁵. Recently, healthcare too has been liberalized. In fact, the government's initiative of ensuring universal medical insurance for low-income families under Ayushman Bharat, has partnered with a number of private hospitals²⁶. A recent report shows that under Ayushman Bharat, 75% of all the total claim amount of Rs. 3,767 Crore were made in private hospitals with only 25% going to government hospitals, clearly showing the preference towards private hospitals for even low-income families when they can afford better private hospitals due to the insurance scheme²⁷. This shows that the government can find innovative ways to use the private sector to provide a public good rather than making it an unnecessary ideological battle.

“As long as someone is providing quality education at a reasonable cost, why should the government care whether it is for-profit or not-for-profit?” asks T.V. Mohandas Pai, chairman of Manipal Global Education and former director of Infosys.²⁸ He also says that once the sector is opened up, competition will come in, there will be less scarcity of quality education, and market forces will take over. Pai feels that the “ideological blinkers” need to be shed and reality must be accepted. He advocates a “voucher” system in school education, one in which the government gives vouchers to parents and they are free to use them to opt for a school of their choice for their children.

b Why only schooling?

Educational technology has become big in the last decade. The coaching class industry which consists of coaching for competitive exams as well as tutoring for school and board exams is huge in India (estimated at \$40 billion)²⁹. Both these are for profit. There’s no logic in allowing coaching classes, and EdTech companies to make profits, while private schools can’t make profit. In fact, this makes the adverse selection issue a much bigger issue as the best people in the education industry gravitate towards coaching classes or EdTech where they can make profits, or get well paying jobs.

c The equity issue:

There’s widespread fear that if private schools are liberalized, private schools will deliver far better quality as compared to public schools, but only to the middle class and beyond thereby exacerbating the current inequity in the system. There are two arguments against this: **a)** Furthermore, we already have a huge equity issue whereby good quality education is out of the reach of most low income families. **b)** If the government funds parents rather than schools, it will allow all parents access to better quality private schools rather than only those who can afford to pay for themselves. Therefore, by getting a strong supply side response from the private sectors for low cost schools will actually improve access to quality education rather than reducing it.

d Not enough money to fund everyone:

If the government were to fund all students (except those in high income families defined by certain objective parameters such as income tax returns), including those going to private schools right now, a natural question that arises is where the government is going to get the extra funding from, when it’s anyway struggling to raise the education budget. A starting point is the consolidation of government schools with small numbers, an exercise which the MHRD has planned for up to 2.6 Lakh schools across India³⁰. Rajasthan has led the exercise by merging almost 17,000 out of its 80,000 schools³¹. Apart from better utilization of infrastructure and people resources, this can allow costs to be reduced.

Ideally, non-performing teachers, especially those with poor attendance should be asked to leave, but that step is often fraught with political risks with teachers unions protesting against such moves. In such a scenario, the least that can be done to reduce costs is to put a freeze on fresh hiring of teachers and existing teachers can be asked to take part in the Voluntary Retirement Scheme (VRS) reducing the government's future costs. Further, if the new education policy makes early childhood education compulsory, the teachers from closed public schools could perhaps be retrained to work with younger children. As schools are closed, the government can also monetize the land and building by either renting or selling the same at market prices thereby raising significant funds.

In the long run, the government will be able to reduce spending on public schools significantly by these measures thereby having sufficient money to fund all students below a certain income level. In the short term, the government can start by funding those students most in need or even start with reduced funding as some states have started. The Andhra Pradesh government has started in 2020, the AmmaVodi scheme to improve the literacy rate in the poorest families in the state. The scheme will transfer Rs. 15,000 into the accounts of around 43 lakh mothers (living below poverty line) for the benefit of 82 lakh children to start off with³².

e Loss of political capital:

Allowing schools for profit as well as funding of parents rather than public schools will lead to huge protest from educationists and especially from teacher unions. However, the government needs to recognize that ensuring much better learning outcomes for children is far more important than protecting employment of government teachers. If liberalization works effectively in better learning outcomes through private schools, students will shift in large numbers to private schools thereby reducing the demand for public schools, thereby reducing the need for teachers. Governments can solve this issue by redeploying existing teachers to Early Childhood education which the government doesn't offer at present. Further, new hiring can be stopped completely. Some of this is already happening due to demographic changes as population growth rate reduces. Finally, education should not be seen as an employment vehicle but rather education for all Indian students should be ensured even if there are some losers.

f Exploitation of teachers:

It's a fact that private schools are able to manage at much lower costs as compared to public schools. Among other things, they do this by hiring teachers at salaries much lower than what public schools teachers get. Critics of private schools call this an exploitation of teachers. In reality, it represents the supply-demand situation of the Indian job market. Teachers who work at these private schools at low salaries do so because this is what they find most suitable. Getting government teaching jobs is very tough, whereas working with private schools which offer better salaries requires skill sets that they may not have. Once

again, if the government funds parents, this will allow BPS to get more money, while increasing competition. The best way to ensure a rise in teacher salaries is through an open market where schools compete to hire good quality teachers.

⑨ The spurious players:

It is conceivable that allowing for profit schools will see a rush of new players, including some whose only intent is to make money without any consideration for quality. Governments typically take the route of increasing barriers to setting up of new schools through licensing requirements and input-based norms. However, this would be the wrong way to weed out spurious players. By making information about school quality and learning outcomes available through both self-disclosure as well as through 3rd party audits, regulators and parents will have a lot more information about schools than they currently have. For-profit schools with minimal input-based norms will allow for many new schools to be setups, as well as allowing parents to see which of the existing schools are doing a good job. This will ensure that poor players are weeded out by parents choosing better alternatives. The list of disclosures listed in chapter 4.3 along with the 3rd party audits will ensure that spurious players are crowded out.



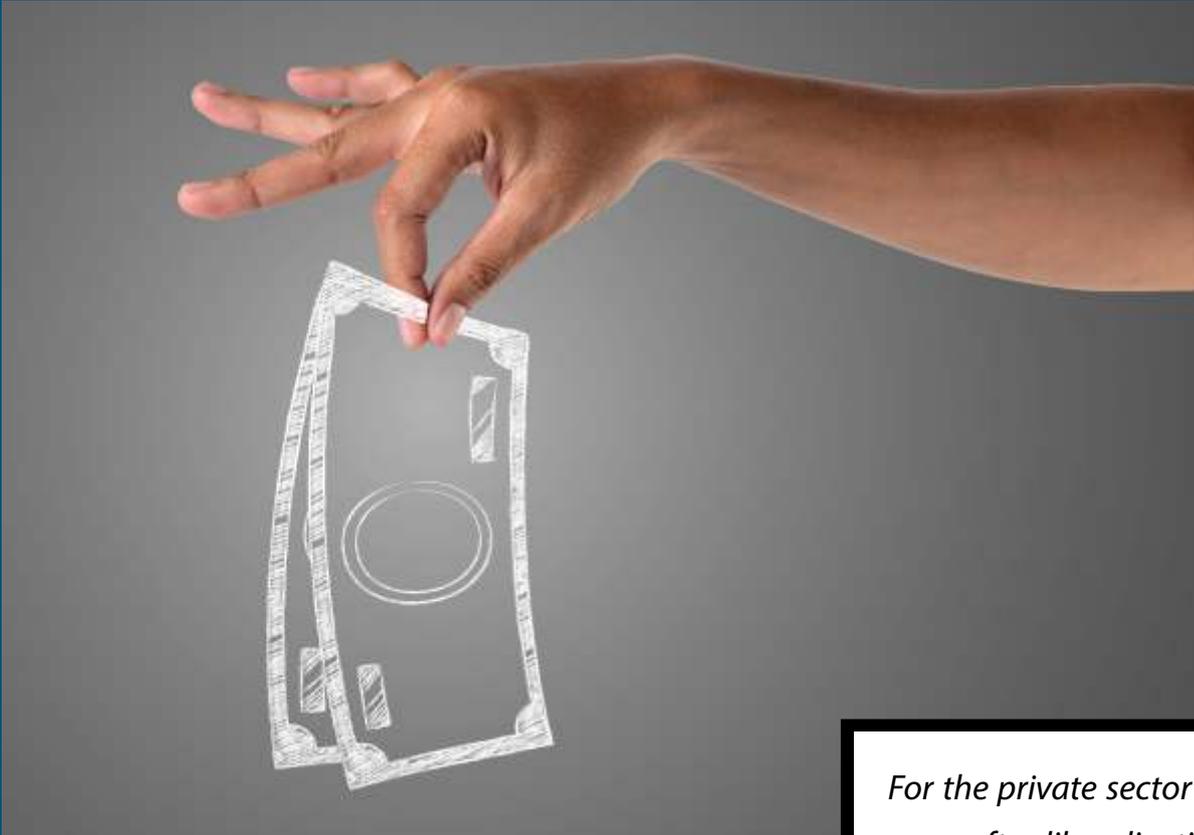


5.7 Conclusion

Fierce critics of liberalization of private schools point out that the best education systems in the world consist of public run and/or non-profit private schools. However, given the state of education in India, if we don't make drastic changes to our education policy, we will lose any chance of using the demographic dividend to our advantage. Liberalizing schools in India is a necessary and desperate step to ensure access to quality education for all as public education has failed to deliver. The last question to address is whether the private school market is attractive enough for private sectors to invest in a big way, either as a whole or specific segments, the focus of the next chapter.



CHAPTER 6



Financing private schools and funding students

For the private sector to invest even after liberalization, there needs to be an attractive market. Given that most of the market is APS, is it attractive enough? Can APS deliver on learning outcomes? Can they innovate? How large is the Indian Education sector and how has the private schooling sector grown? What are the conditions under which capital will flow?

KEY TAKEAWAYS

- 1 APS charging Rs. 1000 and above can both be profitable and can deliver much better learning outcomes compared to public schools.
- 2 Using economies of scale, APS can innovate in delivery models using technology and others means.
- 3 Full or partial funding of students by the government will be a very attractive proposition for private schools.
- 4 The private school sector can grow at 25% CAGR to nearly \$200 billion in 2025.
- 5 New models of credit and capital raise need to be brought in along with long term stability of policy to bring in investment into private schooling.
- 6 Given these conditions, private schools can deliver Vision 2035.

This paper started by setting out a Vision 2035 for Indian education, which at this point is no more than a pipe dream. In the previous chapters, the current issues as well as necessary reforms and conditions have been set out which can enable the private sector to reach towards this vision. This just isn't possible without significant inflow of private investment.

Dhiraj Nayyar, Chief Economist at Vedanta Resources Limited says that, "...permitting "for-profit" schools could change the game. It would allow genuine entrepreneurs to innovate new business models which could bring much higher quality at affordable prices. Remember, poor parents already pay fees for not-for-profit private

schools so there is demand and a market at the lower end of the income pyramid. Of course, because there is demand at the top end of the pyramid, there will emerge some schools which will cater to the elite at exorbitant prices but those should not overshadow what will happen overall. After all, highly profitable private companies supply fast moving consumer goods to the bottom of the pyramid at very reasonable prices while also providing expensive goods for the top end. In education, the government can lend a helping hand, by directly transferring cash/vouchers to parents instead of spending it on dysfunctional government schools.”¹

However, what remains to be understood is whether the education sector is financially viable and attractive for the private sector. This needs to be especially explored in the context of the APS, which consists of almost 70% of all private schools (charging less than Rs. 1000/month).



6.1 INCREASE IN INVESTMENT INFLOW POST LIBERALIZATION

The key question that we need to address is whether the APS segment has sufficient profitability that will attract investors and entrepreneurs. Let's define attractiveness by starting with a gross margin of 20%. Let's look at 3 APS with a fee of less than Rs. 2000 to understand whether these schools are financially viable and therefore attractive to investors.

Central Square Foundation has worked on a Balance Sheet of a budget private school using publicly available data. They estimate that with an average fee of nearly Rs. 900, a typical BPS of 250 students, with 11 teachers would make about Rs. 80,000 as a monthly profit. This is profit before accounting for the cost of a principal, regulatory costs and interest costs. If those were accounted for, the profit margin would be 20-25%.²

The estimation had been done with the following assumptions:

- Buying land for any APS would be prohibitively expensive; therefore the models above assume that the APS will work on rented premises only.
- APS with 3 monthly fees are taken - Rs. 500, 1000 and 1800. A comparison is also added for Rs. 2,500 / month, which represents the average expenditure by the government on public schools students.
- Student to Teacher Ratio (STR) gets better with higher fees, as does average classroom area, quality of infrastructure as represented by the rental rate, salaries of the teachers, administrators as well as other expenses such as maintenance, utilities and office costs.
- As a 20% gross margin is deducted at the top itself, the difference between the income and expenses can be the surplus that can represent the interest costs on the capital that can be invested into classrooms, technology and other facilities.

Figure 6.1

Estimated cost structure for APS in a Metro City for K-5 classes

Cost Calculation for an APS	Tier 1 APS	Tier 2 APS	Tier 3 APS	Public School Avg. Expenditure
Monthly Fees - tuition fees only (Rs.)	500	1000	1800	2500
Number of students	800	800	800	800
Monthly Revenue (Rs.)	400,000	800,000	1,440,000	2,000,000
Gross Margin %	20%	20%	20%	20%
Monthly budget for expenses (Rs.)	320,000	640,000	1,152,000	1,600,000
Cost / student / month (Rs.)	400	800	1440	2000
Student to Teacher Ratio	40	30	25	25
Number of Teachers	20	27	32	32
Avg. Teacher's Salary (Rs.)	8,000	12,000	18,000	22,000
Teachers Monthly Salaries (Rs.)	160,000	320,000	576,000	704,000
Area needed / student (sq. ft) - including all common areas	15	20	25	35
Total Area in sq. ft. (assuming double shifts)	6000	8000	10000	14000

Monthly Rental Rate (Rs / sq. ft.)	15	20	25	30
Monthly Rental Costs (Rs.)	90,000	160,000	250,000	420,000
Salaries for administrators & support staff (Rs.)	50,000	75,000	150,000	250,000
All other monthly expenses (electricity, maintenance, office costs) (Rs.)	20,000	35,000	75,000	100,000
Gross Annual Margin (Rs.)	960,000	1,920,000	3,456,000	4,800,000
Budget - Expenses = Interest Cost (left after the gross margin) (Rs.)	0	50,000	101,000	126,000
Interest Rate (monthly) at 15% per annum	1.25%	1.25%	1.25%	1.25%
CapEx affordable based on interest rate (Rs.)	0	4,000,000	8,080,000	10,080,000
Number of classrooms + other facilities	23	32	42	42
Capex / room (Rs.)	0	126,316	192,381	240,000

What does the estimated cost structure of APS tell us?

- Running a Rs. 500 / month, a Tier 1 APS with a 20% gross margin will leave very little for discretionary spending or to invest into infrastructure or technology for the long term. The quality of teachers (approximated by the salary of Rs. 8,000 / month) as well as the Student-Teacher Ratio in this tier (40:1) is not likely to be enough to deliver quality learning outcomes.
- While a Tier 2 APS (monthly fee of Rs. 1000) has more left for discretionary spending, an average teacher salary of Rs. 12,000 is not likely to get the quality needed to raise the learning outcomes significantly.
- The tier 3 APS (with monthly fees of Rs. 1800) allows for discretionary spending that can be put into infrastructure, technology and ongoing training and development of the teachers while being profitable. With an average monthly salary of Rs. 18,000 for teachers, good quality teachers can be attracted.
- Taking an average expenditure of Rs. 30,000/ annum per students of public schools, shows that even with the 20% returns, the teachers pay can be an average of Rs. 22,000 which would get a good supply side response, while maintaining a good STR of 25, and leaving sufficient surplus for investment into Capital Expenditure, and at a larger scale into research and development and technology (Rs. 3 Lakhs per classroom).
- Considering the higher rental and teacher salaries in a metro city, scale is important for an APS for it to be able to have sufficient margin for discretionary spending. These models are profitable only once the school crosses 400 students for urban areas, but will be profitable at much lesser enrolment numbers in rural areas.

The attractiveness of the APS sector from an investment perspective of the private sector was further confirmed in our meetings with investors and lenders. As a senior employee at a large venture capital firm told us on the request of anonymity, "The sheer numbers make this a compelling investment. 25 crore students at an average of 1,000 students per school means an opportunity for 2.5 lakhs schools which can perform efficiently; each school can potentially be a Rs 2cr/year opportunity if we assume annual fees of Rs 20,000. So, a huge scale is possible".

When we asked him about ensuring learning outcomes, he told us, "Fees can be proportional to minimum learning outcomes that are defined and measured by external parties, with some minimum norms, such as CCTV for security, inspected by external parties". Finally, he gave us the examples of sectors such as telecom and retail which were opened up for investment by the Government, telling us that "deregulation in the education sector can bring in significant investments into the sector".

Entrepreneurs like R. Satya Narayanan, Founder of Career Launcher and Indus World School believes that in time India will achieve a commercially viable scalable model for schooling. It has not been done anywhere in the world, because no one else has India's scale. Plus, in developed countries it is the government which has stepped in to provide education to the masses. Narayanan says that just like in telecom, retail and health care, in education too the government will change regulation and allow profit making because "it is the only way to solve the problems in the sector today". Once that happens, he says it will be entrepreneurs who will create profitable, scalable models serving the masses in the country.³



6.2 INNOVATION IN APS IS VERY MUCH POSSIBLE

The analysis above is based on current models of education. This doesn't account for the innovation that the private sector might bring in. It's conceivable that using efficiency and technology, private schools might be able to deliver better learning outcomes at even Rs. 500 / month at a large scale if the sector was fully liberalized allowing high quality investment and people to get into the sector. There are some examples from developing nations of such initiatives.

An example of an innovation driven APS is evident in the example of over 100,000 students over 500 Bridge International Academies in Kenya, Uganda, Liberia, Nigeria with a few of them also in India⁴. The lesson plans are scripted by an educational research team sitting in Massachusetts, US and are the same across all schools. The teaching plan gives instructions down to the minute, including when kids should stand up, solve problems, cheer for a classmate, and work with others. Teachers, if they are instructing the same grade level, give identical lessons, and their timetables are standardised, too.⁵ Bridge constantly assesses its teachers, starting with training even before the school year begins. Throughout the year, teachers get feedback on how they are motivating students, how well the students behave, and how the kids are mastering the content. Bridge academic officers get reports from field officers who travel around the country and watch lessons, noting

everything⁶.

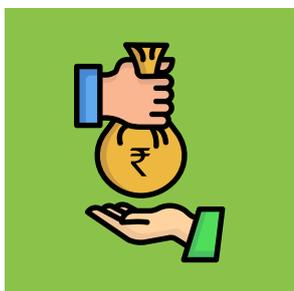
Students from this for-profit chain of schools have shown significant improvement in the test scores on the Kenya Certificate of Primary Education (KCPE) when they finish primary school. Over four years from 2015 to 2018, their pupils significantly outperformed the nationwide average. In 2018, the Bridge pupils scored an average of 12 points higher than pupils nationally, a difference of 0.19 standard deviations, equivalent to almost one full additional year of schooling⁷. Ninety-three percent of Bridge graduates in Uganda completed the Primary Leavers Exam and scored in division one and two out of four, compared to 56% nationally⁸.

The average tuition fees at Bridge is \$7 per month, or about Rs. 500 per month. The typical Bridge school is a corrugated tin roof building in the middle of a busy slum with a dirt playfield. Bridge schools are built for less than \$2,000 per classroom (or about INR 1.4 Lakh).⁹ The Bright chain of schools have also been criticized by commentators for poor quality infrastructure, their tightly scripted teaching model not allowing for any student inquiry and critical thinking or for asking students to stay at home if the tuition fee hasn't been paid. While there's some substance to these criticisms, the positives are far stronger. Parents are willing to pay for this education over free government schools because they see value in it. If they got the same learning environment in public schools then there's no reason why they would pay for a private school.

There are other chains like Omega Schools in Ghana, Innova Schools in Peru and many independent budget private schools that are trying to bring better quality education to low-income parents. In India, the Gowtham Model schools is a proven low cost schooling model with 60 schools and 45,000 students on its rolls¹⁰. Although the Gowtham Model Schools represent the higher end of APS, LEAD school is another Indian innovation model in the APS. While LEAD started by running their own schools, they have evolved into a full fledged service provider for APS (serving the Rs. 1000+ / month range in tier 3 and 4 cities)¹¹. LEAD transforms schools using an integrated system providing everything a school needs - books, workbooks, smart

classes, teacher training, teacher manuals, ERPs or Math/Science kits, mobile apps for parent communication. Through these interventions, LEAD claims to have achieved significantly better learning outcomes for English, Maths, EVS. LEAD works with 800+ APS serving about 3 Lakh+ students across India.

The examples above show that even without enabling conditions APS are a huge phenomenon in India and many other developing countries. The right regulations can unleash the agency and innovation of the private sector.



6.3 The ideal situation:

Government funding students even to attend private schools

The previous chapter argued that complete liberalization and separation of roles would mean that the government stops funding public schools, but rather starts funding individual students through vouchers, direct benefit transfers or other means. The analysis above suggests that not only can APS charging less than Rs. 18,000 deliver learning outcomes but they can also do so profitably.

Given this it's obvious that if the government were to shut down all its schools and fund students directly for an average sum of Rs. 30,000/annum, this would produce a strong supply side response from the private school sector. With nearly 16 Crore students this represents a \$65-70 billion market, a huge market opportunity for the private sector.

However, as discussed in the previous chapter, given political and economic

compulsions, even with the best intentions, it's not likely that the government will be able to transit completely to a system where all schools including public schools are funded only indirectly through students. While the Andhra Pradesh government has already started a direct benefit transfer scheme of Rs. 15,000 / mother / annum to support low-income students to use private schools, this is a new experiment with the results not yet seen¹². But on the basis of the analysis given above it is evident that even APS charging Rs. 12,000 and above can achieve better learning outcomes. With nearly 45% of APS charging less than Rs. 500/month this leaves a gap between what parents can afford and what schools need to be able to deliver quality while earning a reasonable profit. This is where even a limited funding of Rs. 5-15K / student to low-income families would really help in increasing access to better quality private schools.

However, the diversion of funds from public schools to students attending private school is a move fraught with political issues. Therefore, we must address the question of whether the private sector can meet the needs of Indian students without any substantial subsidy from the government. To answer this question, the private sector size needs to be estimated and it's growth charted over the last few years.





6.4 ESTIMATING THE PRIVATE SCHOOLS MARKET SIZE (2017-18)

47% of all Indian students go to private schools, which includes private unaided schools, unrecognized schools, and other minority institutions. The student enrolment numbers are available through the U-DISE 2017-18 data. The expenditure data on education (tuition fees, uniforms, books, transport, private coaching, and extracurricular activities) is available from the National Sample Survey (NSS) 75th round data. Combining the two data sets, here's the summary of the market size in Rs. Crores:

Figure 6.2

Summary of the market size of the private school sector in India (FY 2017-18) (Rs crores)

Location	Management Type	Students in Pre Primary Grades	Students in Primary Grades	Students in Upper Primary Grades	Students in Secondary Grades	Students in Higher Secondary Grades	TOTAL	% of total expenditure
Rural	Private Unaided	5795.1	38565.3	17728.9	15841.5	13086.0	91016.9	39.0%
Urban	Private Unaided	9824.9	56609.7	33126.6	21731.1	21223.6	142515.9	61.0%
GRAND TOTAL							233532.8	
in US\$ bn @Rs 72/\$							32.44	

Figure 6.3

Estimating the expenditure per student in private schools:

14.204

Crores

Number of students in Private School (K-12)

16441

Rupees

Approximate Expense / student

Figure 6.4a

The total size of the schooling market in India

\$74.7 Bn Public Schools

\$32.4 Bn Private School

\$107.1 Bn Total Market Size
(K-12 India)

\$40 Bn Coaching + EdTech

\$147.1 Bn Total Education
Market Size

The Indian K-12 education sector is at least a \$100 bn market. The coaching and edtech sector is estimated to be another \$40 bn¹³, making the education an \$140 bn industry.

Figure 6.4b

Growth of the private sector

Using the same methodology for 2013-14, we can estimate the growth rate of the private school sector (unaided schools only):

Year	Private School Market Size (Rs. Crores)
2013-14	86057
2017-18	233533
CAGR over 4 years	28.35%

The private school market has grown at least a 25% CAGR in the period from 2013-14 to 2016-17. What this means is that even without any assistance from the government, with all the current regulatory barriers in place, the private sector has grown at an astounding rate. This growth has not come as a result of a

shift in government spending, as the government too has continued to spend more on public schooling. This means that the overall size of the school sector has grown rather than only a change in share of private vs. public schooling.



6.5 FUTURE MARKET SIZE OF THE INDIAN PRIVATE SCHOOLING SECTOR

Scenario 1 No reforms

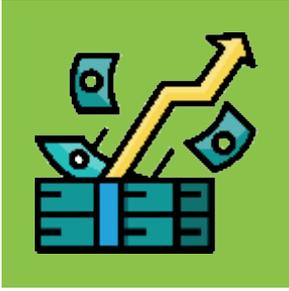
Even without any of the reforms suggested in this paper, and even despite the COVID-19 economic crisis, the growth rate of private schools can be assumed to stay at least 15% from the actual 25% figure. At a CAGR of 15%, the market size of the Private Schools will grow close to \$100 bn by 2025. At this size the K12 private schooling market size will cross the size of the aviation industry which in 2020 is about \$72 bn¹⁴.

Scenario 2 All the reforms suggested in this paper

If schooling is both formalized and liberalized, with the majority of reforms suggested in this paper being implemented without the government subsidizing private schools, we can expect a CAGR of at least 25%. At this CAGR, the private market will get close to a \$200 billion size by 2025. Assuming at 20% profitability margin, and a 15% net tax rate, it amounts to \$6 billion, or Rs. 43,200 Crores, a significant tax collection, all of which can be ploughed back into education.

Given the large size of this market, it would certainly attract investors. It's obvious that with a large and still growing middle class, schools meant for middle income and high income families will be very attractive for investors.

One issue that still needs to be addressed is the right conditions for capital investment.



6.6 CAPITAL AND CREDIT RAISE

Issues and solutions

Middle and high income schools have access to capital in multiple ways. They can take bank loans against owned collateral (land or building) or they can find investors at various stages, from angel investors for new schools to larger investors for mature schools. Two examples of large investments in the K-12 segment in India are:

- A corporate chain of schools globally, Nord Anglia, buying the Oakridge International Schools in a deal estimated to be around Rs. 1500-1600 Crore¹⁵.
- Large private equity investor, KKR, buying the large preschool Eurokids for a similar amount of Rs. 1500-2000 Crores¹⁶.

Access to capital or credit is feasible and much easier for middle and high income schools. However, APS don't have easy access to capital or credit. These are the following reasons for it:

- They typically don't have collateral for bank loans
- Most APS are run by small-time entrepreneurs who banks find difficult to trust. Further their revenue streams are not necessarily steady as their customers are parents from low-income families.
- Loans from the informal sector are available to them but at very high interest rates.

In the last decade however, there are a few non-bank players who have been able to lend successfully to low to middle income schools. Between 2014 and 2019, the top three such lenders, IFSC, Varthana and Shiksha have loaned nearly Rs. 1500 crores to 10,000 APS across the country; what's more is that they have grown at an astounding rate of 80% CAGR during the 5 year period¹⁷. These lenders specialize in lending to education and within that specifically to APS¹⁸. They understand their businesses well and go beyond typical lenders to help schools. During the COVID19 shutdown, Varthana has created a digital learning platform and made it available for free to all its customer schools. Banks or other non-banking lenders typically don't have the expertise or the focus that such players have.

Easing Credit Access

Making schools, especially smaller ones, a priority sector lending is one way to allow better access to credit. Formalization of the private schooling sectors, including recognition and accreditation will also go a long way in giving confidence to lenders. Most importantly, if APS can get access to education vouchers or else the state starts using direct benefit transfer, which will allow for steady cash flows for parents and therefore for the APSs where their children go, this will allow a larger set of lending institutions to enter the APS lending market.

Easing Capital Raise

There's a massive investment gap between what the country needs and what is currently invested by either the government or the private sector in infrastructure and other resources related to schooling. Regulation remains a key hurdle that prevents large investors in making meaningful investments. As a senior partner at a very large investment firm told us, "Investors do not have ethical issues in investing in schools but they need regulatory clarity and stability. The lack of predictability and stability in regulations is a key concern for the venture capital community that is likely holding back investments into the sector". The biggest boost will come from making education a for profit sector. This alone will mobilize huge investments into the education sector.

However, given the long payback period for a school, which is heavy on investment, it's important for the government to allow and in fact encourage models of raising patient capital. Even with easier access to credit, loans will not flow easily to those schools that don't own collateral. Private equity investments typically look for quicker returns than what schools will be able to offer.

Therefore there's a need to look towards alternative routes such as Real Estate Investment Trust (REITs), Infrastructure Investment Trusts (InvITs). Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) are innovative vehicles that allow developers to monetise revenue-generating real estate and infrastructure assets, while enabling investors or unit holders to invest in these assets without actually owning them. Imran Jafar, Managing Partner at Gaja Capital, told us that "Global REITs & Sovereign funds might show interest in making large investments but the demand side hasn't scaled up yet. We need to see a proven model. If liberalization does happen and scalable models develop, we could see a rush of investments into the sector".

Such monetisation benefits developers by allowing them to release capital for funding new infrastructure/real estate projects, and provides liquidity to investors or unit holders as the units of the trust are listed on exchanges. Apart from these, REITs and InvITs enjoy favourable tax treatment, including exemption from dividend distribution tax and relaxation of capital gains tax.¹⁹

Schools are especially suited for REITs and InvITs as they offer a long term annuity type business model (patient capital). However, for investments to come in through InvITs and REITs, investors will need absolute certainty of the regulations as they are investing for the long term. They can't afford a situation whereby the central or the state government change regulations or make changes retrospectively. Therefore acts and policies have to be framed with the long term in mind for REITs and InvITs in education.



6.7 Conclusion

The private sector can deliver Vision 2035, quality education for all children with the following policy reforms:

- Formalizing the sector by appointing independent regulators, an accreditation process that prioritizes outcomes rather than inputs
- Allowing for profit private schools that will bring in good people and capital
- Fund students rather than private or public schools that will use the efficiency of the private sector to deliver better quality of education
- Long term stability of policies that allow for various investments models suited to the school sector which requires patient capital

The market size represents a huge opportunity for the private sector and it's possible to better quality of education than what's available currently in private or public schools efficiently if the above conditions are met. India can't afford to make incremental safe changes and expect radically different outcomes. Radical changes are necessary. Otherwise we will continue to fail our children as we have done so in the last 75 years.

APPENDIX:

Appendix 1

States and their initiatives to regulate fee in private schools

State	Act/Bill/Notifications	Key provisions (Summarized)
Tamil Nadu	Tamil Nadu Schools (Regulation of Collection of Fee) Act, 2009	District committee decides maximum fee that can be charged by a private school affiliated to a state board
Rajasthan	Rajasthan Schools (Regulation of Fee) Act, 2016	School to present fee hikes at least six months in advance to School Level Fee Committee (SLFC)
Maharashtra	Maharashtra Educational Institutions (Regulation of Fee) Act, 2011	Prohibits collection of excess fees, fee hikes to be approved by PTA
Gujarat	Gujarat Self-Financed Schools (Regulation of Fees) Act, 2017	Fixed fee structure and schools who want to charge higher have to submit proposals to FRC
Delhi	The Delhi School Education (Amendment) Bill; and Delhi School (Verification of Accounts and Refund of Excess Fee) Bill	Prohibits capitation fees, laws aim to ensure greater accountability in fees accepted
Uttar Pradesh	UP Self-financed Independent Schools (Regulation of fees) Bill-2017	Private schools of any board charging more than Rs 20,000/year are brought under ambit of proposed law
Karnataka	Karnataka Education (Second Amendment) Bill, 2017	Fines for schools charging more than prescribed fees
Punjab	Punjab Regulation of Fee of Unaided Educational Institutions Bill, 2016 (Punjab Act No. 47 of 2016)	Regulatory Body to be formed for regulating school fees. Fixing and increasing fees subject to specific factors.
Andhra Pradesh	Andhra Pradesh Educational Institutions (Regulation of Admissions and Prohibition of Capitation Fee) Act, 1983 (A.P. Act No.5 of 1983)	District FRC to regulate fees
Uttarakhand	Fee Regulation Act 2018 (under preparation)	Regulation Committees to be formed at district and state level

Jammu & Kashmir	Draft Bill on fixation of fee structure of private Schools	Government has constituted a School Fee Fixation Committee
Assam	(Possible) Legislation	Legislation proposed
Telangana	A state government-appointed Committee headed by Prof T Thiurpathi Rao, former vice-chancellor of Osmania University, formed	Committee recommended that schools can hike fees by up to 10% every year, DFRCs to decide for more than 10%
Jharkhand	Jharkhand Education Tribunal (First Amendment) Bill of 2017	Parents can complain to district level committee in case of high and inordinate fees
Madhya Pradesh	MP Private School Fees Regulatory Bill, 2017	Limit of 10% fee hike per year on schools
West Bengal	A Self-Regulatory Commission formed	16-member self regulatory commission to cap school fees
Haryana	Haryana School Education (Amendment) Rules, 2014	Fee and Fund Regulatory Committee at Divisional Level

Source: Fee Regulation of Unaided Private Schools, Education Division, National Commission for Protection of Child Rights

Appendix 2

Impact of liberalization on the Aviation Sector

India's civil aviation sector provides a good case study of how the liberalization and formalization of the sector drove significant growth in passengers, kept tariffs at reasonable levels, and created significant revenues for the government. While the private sector operated many airlines in the 1930s, the Indian Government nationalized the airline industry in 1953¹.

The Government then opened the sector to private competition only in 1991 as part of the overall liberalization reforms. Since then, aviation in India is now largely owned and operated by the private sector, which dominates domestic aviation. In terms of incremental increase in passenger trips, the International Air Transport Association (IATA) estimates that the domestic markets of India ranked third (after China and USA), with around 18 million more passenger journeys in 2018². In absolute terms, as per World Bank data, India's air transport (passengers carried) stood at 164m in 2018, up almost 10x since 1998 (16.5m).

Regulatory overview

India's civil aviation sector is controlled and regulated by the Ministry of Civil Aviation that formulates national policies and is responsible for various legislations pertaining to the aviation sector. The Directorate General of

Civil Aviation (DGCA) is the regulatory body responsible for air transport services, enforcement of civil air regulations, air safety, etc. Finally, as mentioned above, airports are regulated directly by the AAI. Admittedly, the Indian civil aviation sector growth story has been far from perfect with most of the initial private airlines folding up or getting acquired. Even Jet Airways faced financial issues with its creditors filing for bankruptcy in June 2019³. Despite these events, the overall air passenger growth story in India remains intact with India maintaining its status as one of the fastest growing countries in passenger air traffic in the world.

Private players drive growth

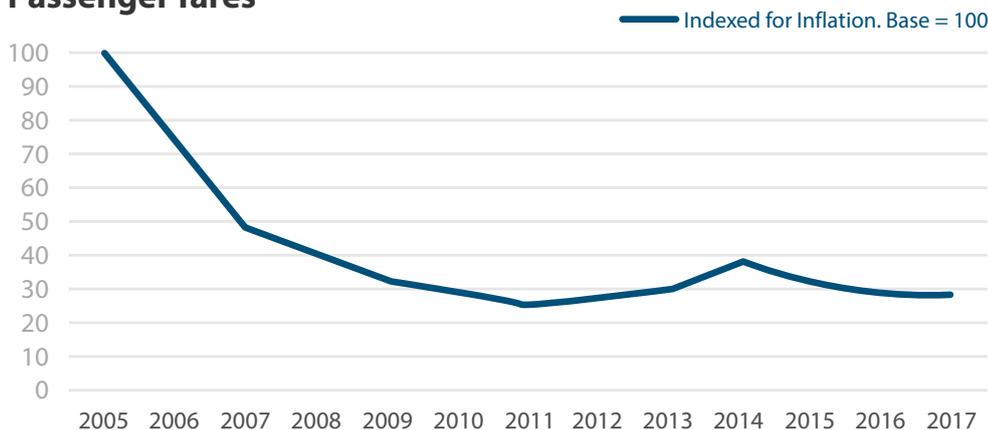
India's domestic civil aviation sector saw the entry of private players in two broad phases. The first phase saw players such as Jet Airways, Air Sahara, Modiluft, Damania Airways, NEPC Airlines, and East West Airlines commence operations in 1994. Of these, only Jet Airways survived till recently. By 1995, India's six private airlines accounted for more than 10% of domestic traffic. The next phase was in the early 2000s which saw the entry of low-cost carriers such as Air Deccan, SpiceJet, and Indigo Airlines. As fares fell, passenger growth surged (see charts below) and India's strong demand outcomes over recent years have been partly due to the stimulus of lower airfares. In real (inflation-adjusted) terms, the average cost of Indian domestic airfare has been trending lower for more than a decade, since the arrival of the low-cost airlines with Air Deccan.

Figure 1: Passenger traffic growth versus air-fares

Passenger Growth for Indian Aviation



Passenger fares



Source: DGCA, IATA.

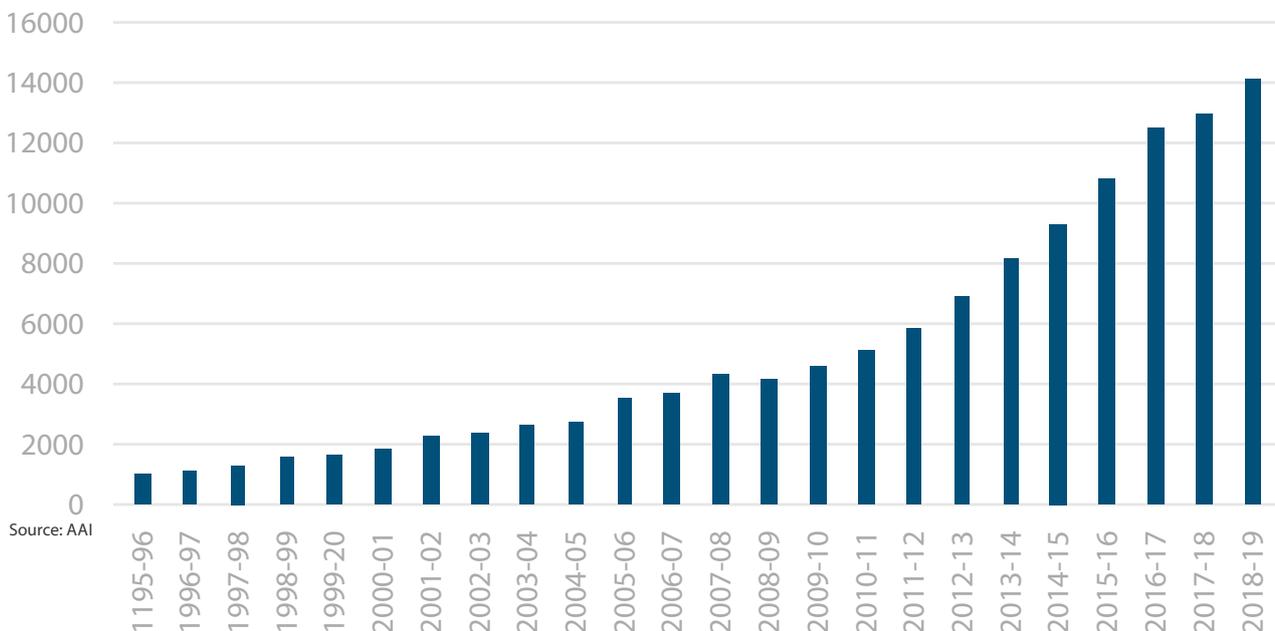
Despite this growth, India’s penetration, in terms of domestic seats per capita, at 0.10 is low relative to other developing markets such as Vietnam, China, Indonesia, Thailand and Malaysia, where penetration rates are between 0.39 and 1.04 annual seats per capita according to CAPA.

Contribution of the aviation sector to India’s economy

Air transport is a critical part of transport infrastructure and plays a key role in stimulating investment. The civil aviation sector makes a substantial contribution to public finances by major sources such as revenue collected through taxes on fuel and equipment, taxes paid by air passengers, corporation tax paid by airline companies, etc. IATA estimates⁴ that aviation in India supports 7.5 million jobs: 390,000 directly, 570,000 in the value chain, and 6.2 million in tourism while aviation contributes some US\$30 billion annually to India’s GDP. A 2012 report of the Working Group on Civil Aviation Sector quotes⁵ ICAO (International Civil Aviation Organization) statistic that “Globally for every US\$100 of output produced and every 100 jobs generated by air transport in the economy trigger additional demand of approximately \$325 worth of output and 610 jobs in other industries”.

An appropriate example of the contribution of aviation sector to government revenues is the Airports Authority of India (AAI), set up in 1995 and is responsible to collect a variety of charges such as aeronautical and landing charges from airlines, passenger service fees from passengers and the government’s share of revenue from leasing out private airports. From revenues of Rs 1,000 Crores in FY 1995-96, AAI’s revenues have grown 14X to Rs 14,133cr in FY 19.

Figure 2 : Trends in revenues of Airports Authority of India
Aai Revenue (INR Cr.)



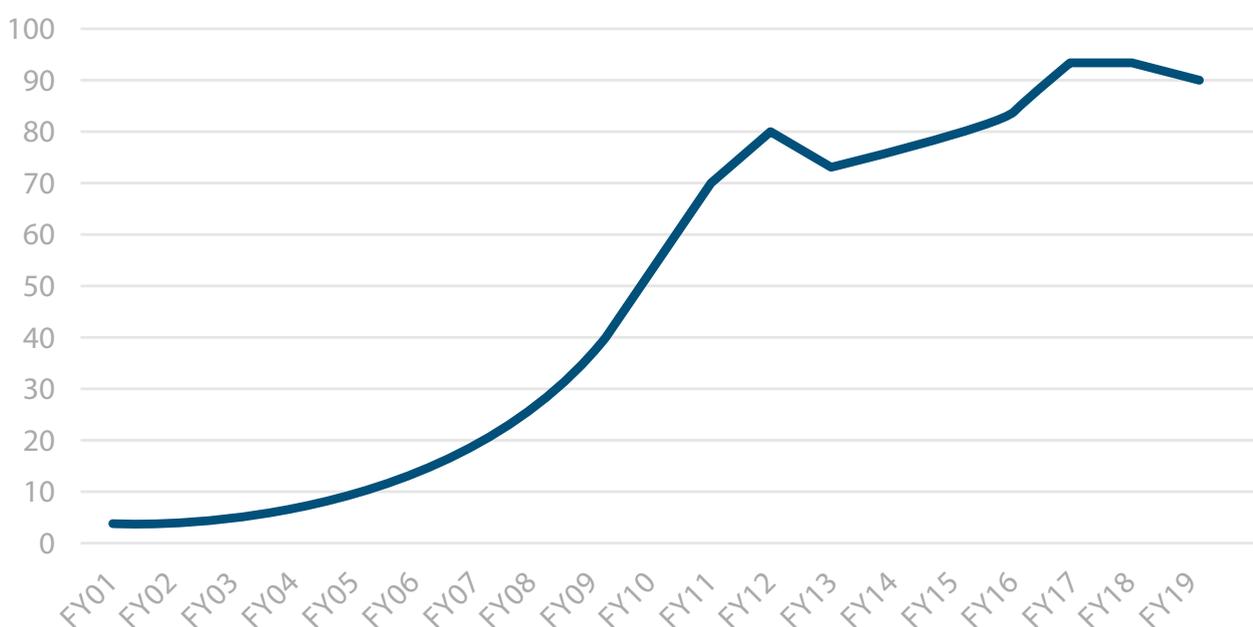
Appendix 3

Impact of liberalization on the Telecom Sector

India's telecom sector is a key case study for the success of liberalization and formalization of the sector, backed by reforms. With its 1.15 billion subscribers (as at 31-Dec-2019) India is the second largest mobile telephony market in the world after China. India's mobile tariffs are amongst the lowest in the world¹. India has repeated the success of mobile telephony in mobile internet. As India's Economic Survey 2020² notes, "India is now the global leader in monthly data consumption, with average consumption per subscriber per month increasing 157 times from 62 MB in 2014 to 9.8 GB in June 2019." India's success was primarily because of India's telecom policies which ensured that the country's tele-density increased from less than 4 in 2001 to 90.1 in March 2019.

Figure 1: Trends in India's teledensity

India's teledensity



Source: Department of Telecommunications (DoT)

A rocky road in the early days

The opening up of the sector began in the 1980s and continued through the 1990s (refer table below). While the National Telecom Policy 1994 began the process of reforms, it fell short of achieving major success, missing some of its major targets, for example only half of over 600,000 villages stood covered by March 1999. Since VAS was already opened for private competition in 1992, several firms had already started acquiring licences. In November 1994, licences for four metros were issued, a month later tenders were floated and in July 1995, the bids were open. In December 1995, mobile telephony services were launched in the four metros. The initial call rates were high Rs 16 per minute for both incoming and outgoing calls. That year ended up with 76,680 subscribers.

Figure 2: India’s telecom sector - 1990s reforms timeline

Year	Event
1984	Private players allowed to manufacture customer premise equipment
1989	Telecom Commission formed
1991	Broader economic liberalization measures
1992	Value added services deregulated
1993	Licensing for paging services issued, private networks allowed in industrial areas
1994	National Telecom Policy issued
1995	Mobile telephony launched
1997	Telecom Regulatory Authority of India formed (TRAI)
1999	New Telecom Policy issued

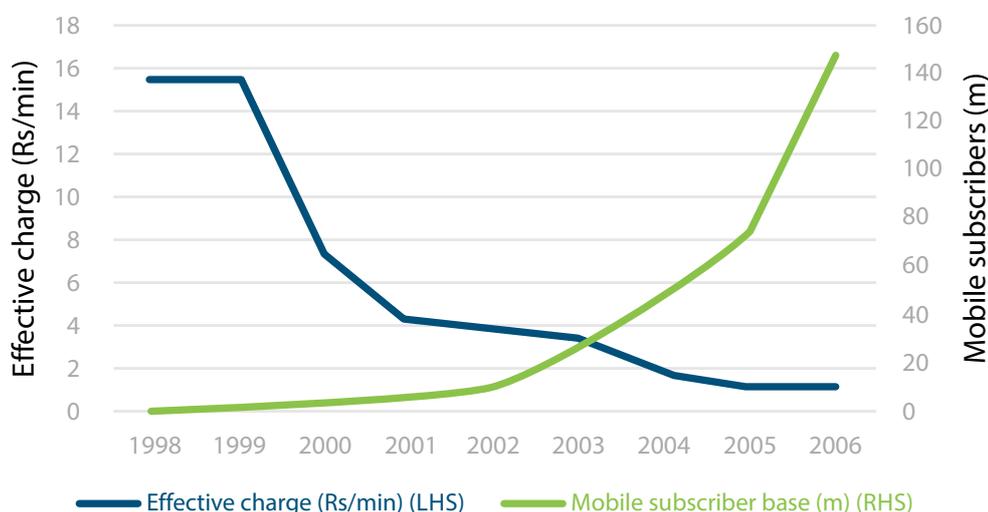
Source: Media outlet websites, TRAI, etc.

Despite the high cost of handsets and call charges, mobile subscriptions increased to more than a million in three years. High license fees made the services unviable for operators. It was the far-reaching measures of National Telecom Policy 1999 that spurred growth in mobile services back in the early 2000s. NTP 1999 switched the regime to annual fees and a percentage of revenues as spectrum usage charges from the previous regime of steep license fees. NTP 1999 was followed by more regulatory change in the form of calling party pays, reduction in interconnect costs, and introduction of more players in each telecom circle.

The private sector responded by launching services at competitive prices. Reliance Infocomm offered very cheap calls at 40 paise a minute, one tenth of competition and launched a very attractive Monsoon Hungama scheme that gave away colour screen handsets for Rs 500. If it took four years for mobile subscribers to go from 1 million to 10 million in 2002, by 2006 there were already 100 million subscribers in the country. In 2008, several companies started offering schemes that guaranteed lifetime validity for sim cards enabling users to receive incoming calls free for life, another trigger for fast growth especially in the rural markets.

Figure 3: India reached 100m mobile subscribers within a decade of opening the sector

India’s mobile telephony growth path



Source: Telecom Circle: Snapshot: India Telecom Market³

A road with many twists

Reforms and policy decisions in India's telecom sector haven't been free of controversy. Unified access services licenses granted in 2008 were cancelled⁴ in 2013 wiping out several thousands of crores of investment for some companies. While the stronger telecom companies survived this and even saw an improvement in mobile revenues (measured in average revenue per unit) from 2012 to 2016, the entry of Reliance Jio with free voice calls and cheap mobile data tariffs disrupted the sector. More recently, in Oct 2019, the Supreme Court upheld⁵ the Government's (Department of Telecommunication) move to recover adjusted gross revenues from telecom companies.

Contribution to the overall economy

Various studies have linked rising mobile penetration with the country's economic growth. As Rajesh Shukla of NCAER notes⁶, "Findings reveal that every 10% increase in mobile penetration rate leads to a 1.2% increase in GDP." A study in 2012 by the GSMA and Deloitte noted⁷ that "A doubling of mobile data use leads to an increase in the GDP per capita growth rate of 0.5 percentage points." In terms of contribution to the overall economy, the Department of Telecom estimates the telecom sector's share in India's gross value added is around 1%. The Indian government's Economic Survey 2018-19 has estimated that the telecom industry's contribution to GDP to reach 8.2% by 2020 as it expects 5G to ring in a fully networked, knowledge and services economy.



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Contact us

 education@ficci.com

 www.ficciarise.org | www.ficci.in

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