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Review of FDI in higher education in India

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Abstract
Since the impact of privatization is penetrating all sectors of the Indian economy, it is bound to affect education sector as well. India has the world's largest population in the age group of below 25 years. This is expected to continue for the next decade. This large pool will drive huge demand for higher education. India has around 14.6 m students enrolled in higher education, making it the country with the third highest number of students behind USA and China. India has approximately 550 universities and around 31,000 colleges. Although annual enrolments in higher education have grown steadily over the last decade but the GER (Gross Enrollment Ratio) of 15 percent is way below the global average of 26%. India will require 1,000 more universities and 50,000 more colleges to be built in the next decade to accommodate 50 million college-age students in next few years. Government may not prefer to fund such a huge investment and call upon the private sectors and encourage FDI to upgrade and create infrastructure of world class standard for higher education.

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

The basic aim of this paper is to focus on the following aspects:
1. To study the status of Indian higher education system
2. To study the need of FDI in higher education in India
3. To study the implication of the FDI in Indian higher education
4. To achieve the above-mentioned objectives, the present paper has reviewed the existing literature relating the Indian higher education and the FDI.

Keywords: FDI, higher education, universities, gross enrollment ratio

Introduction
Today knowledge explosion is taking place across the world. Knowledge has become the key driving force in economies to become fast moving and rich based on use of knowledge effectively due to availability of knowledge workers and to poor economies that do not have this resource. Knowledge industry is nothing but education and it is becoming a key factor in the process of development of a nation. It is not the raw material nor the labour alone which can drive the economic growth of the nation but the knowledge or education become the most critical input. This turnout has taken place as the world economy slowly but surely is moving towards knowledge based. The Higher education in context with India has become very critical success factor to sustain the economic growth it has experienced in last 20 years which is partly due to knowledge based industries such as IT/ITES. India is moving and will continue to move towards "services industry" led growth and higher education is the most critical input in that domain. Since the impact of privatization, liberalisation and globalisation is penetrating all sectors of the Indian economy, it is bound to affect education sector as well. Education is no longer need to be viewed only as a charity or social service but should be considered as a necessary input for economic growth. It is an investment for nation building either by state or private players or Foreign Direct Investment. Education is to be treated as human resources development for serving end consumers i.e. industries better than competition does at global level. In this effort towards human resource development, the private sectors including foreign players through FDI has to play a major role since it is a major beneficiary of the knowledge industry. It is true that the policies followed in India for higher education under the present system and rules which governs education has placed excessive responsibility for the expansion and development of higher

education on the governments at state, central level. Corporate sector is no too keen to invest in education. Consequently, the expansion and establishment of education institutions and facilities have been shouldered mainly by the government at state and central level which in my opinion has hampered the industry led growth of education sector where education is in tune with the industry requirements. The governments will find it extremely difficult to fund higher education in future due to huge investments required to establish higher education institutes of global standard and the number of such institutions India requires to full fill its needs. The only option left is to deregulate the Higher Education sector and encourage Foreign Direct Investment in this sector ensuring it remains a socio-economic objective and does not become totally commercial. It must be mentioned here that trust and societies in tandem with government had made tremendous contribution in the growth of higher education and will continue to do so but the task ahead is much more strenuous in terms of financial requirements, technology, infrastructure, updated curriculums, faculties and plenty others that can be taken care of by this group. India needs to think innovative means to meet the requirements.

Literature review on higher education in India

Knowledge is the driving force in the rapidly changing globalized economy and society. Quantity and quality of highly specialized human resources determine their competence in the global market. Emergence of knowledge as driving factor results in both challenges and opportunities. It is now well recognized that the growth of the global economy has increased opportunities for those countries with good levels of education and vice versa. The benefits of globalization accrue to the countries with highly skilled human capital and it is a curse for the countries without such specialized human capital. India is no exception to this global phenomenon. As part of globalization, the economic reform packages were introduced in India in the beginning of 1991. These reform packages have imposed a heavy compression on the public budgets on education sector, more specifically so on higher education. Following the introduction of structural adjustment policies, that include macro-economic stabilization and adjustment, a fiscal squeeze is experienced in all social sector investments in many developing countries, including India. This has down to public expenditure on education in general and higher education in particular.

Higher education reform in India: prospects and challenges

The system of higher education now existing in India was originally implanted by the British rulers in the mid-19th century to serve the colonial economic, political and administrative interests, and in particular, to consolidate and maintain their dominance in the country. It was inherited by the state managers after independence (in 1947) as a colonial legacy, and has been expanded phenomenally during the last five decades. The massive system of higher education in India consists of 214 (198 state and 16 central) universities, 38 institutions 'deemed-to-be universities,' 11 institutes of national importance, 9,703 colleges, and 887 polytechnics. The system now employs 321,000 teachers and caters to 6,755,000 students.

Critical appraisals undertaken by the governmental committees and independent academicians have highlighted the crisis confronting the system: over-production of "educated" persons; increasing educated unemployment; weakening of student motivation; increasing unrest and indiscipline on the campuses; frequent collapse of administration; deterioration of standards; and above all, the demoralizing effect of the irrelevance and purposelessness of most of what is being done. After a long period of protected expansion with state patronage until the mid-1980s, a complex turn of events has thrown higher education into a vortex of change. The foremost among such events was the adoption by the Government of India in 1990 of structural adjustment reforms. Influenced by the World Bank-International Monetary Fund combine, structural adjustment has meant the gradual withdrawal of state patronage for higher education and a coterminous privatization of that sphere. However, with the government dithering about the long-term policy to be adopted in this regard, higher education in India is now passing through a period of stunted growth and uncertain future. The conventional university system in India, confronting as it is a systemic crisis, has proved itself to be incapable of introducing any significant educational innovation or effectively implementing any educational reform. The democratization, the trend in the universities is toward reducing everything to the lowest common denominator or leveling down quality rather than raising it. The Indian university system is extraordinarily rigid and pronouncedly resistant to change: The impetus to change does not come from within the system. When experiments or innovations are introduced from outside, they are resisted; if enforced, they are ritualized. The fate of such innovations as the merit promotion scheme, faculty-improvement program, vocationalization of courses, and semesterization of courses, curriculum-development centers, annual self-appraisal report, college-development council, academic-staff College and refresher and orientation courses are too well known. It is indeed ironic that higher education, which is expected to function as an agency of change, should itself be resistant to it. In a polity such as India's, where structured inequalities have been entrenched, privatization is sure to reinforce existing inequalities and to foster in egalitarian tendencies. This requires the social supervision of the private sector and effective measures for offsetting imbalances resulting from unequal economic capacities of the population. Thus, we again confront a dilemma: Theoretically, how do we advance equality without sacrificing quality? Practically, how do we control the private sector without curbing its creativity and initiative? That is the challenge in higher education at the beginning of the new millennium.

Why FDI in higher education

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

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

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

India needs minimum of Rs.325, 000 crores ($ 65 Billions) next 10 years to invest in Higher education to keep pace with the requirement of Higher Education. Government of India have several pressing social requirements which may need investment and Private players such as trust and societies may take longer time to make this kind of investment delaying the growth of HEI and in turn economic growth. It is therefore in the national interest to allow FDI at terms which attracts foreign players to invest. The figure taken for investment for colleges and Universities are at very conservative estimates and investment required may be much higher. Indian Universities does not figure in top 100 universities in the world. It is a known fact that Singapore, Japanese and Korean Universities have made it to top 100. Indian students after completing Bachelors in Indian Universities and doing Masters in USA /UK Universities make it to top league in USA and UK. Does it not have to with the Universities there? There is no real competition among HEIs in real terms and UG/PG qualifications offered are not in tune with the industry requirements. We require foreign players to come and create industry led education systems and make HEIs to compete with themselves and improve their programs to global standards. There is absolutely no research work undertaken by HEIs in India including the best ones whereas in advanced countries, universities contribution is quiet significant in R&D. India needs to move forward in that direction to become research hub through HEI route. Over 4 Lakhs Indian students are pursuing their higher education overseas and incurring an expenditure of billions of dollars every year. It will be in national interest to allow foreign universities to start operations, in India through FDI route. This move will stop the out flow of funds and may encourage foreign students to come to India for studies rather than going to Europe, North America, Australia and New Zealand. Mr. Narayan Murthy of Infosys has said that only 25% of Indian Engineering graduates are employable by the industry. Indian doctors who are in great demand in USA /UK have to go through a very stringent screening process before they are allowed to practice. According to McKinsey (2005), only 25 per cent of engineers, 15 per cent of finance and accounting professionals and 10 per cent of professionals with degrees, in India, are suitable for work in multinational companies. Does it not suggest that we should allow foreign University to come through FDI route and set up Universities and bring Indian students to international standards? Indian higher education is at a threshold of next generation quality improvement just like Indian industry was in early 1990 when government went ahead with liberalization of economy. The results are there for everybody to see. I will strongly recommend that Government and HEI must take a proactive approach and allow FDI just like allowed in corporate sector. This may require new laws and legislation but we will have to do it to sustain the economic growth.

Rules and regulation governing higher education and FDI

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

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

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

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

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

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

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

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

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

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

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

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

Conclusion

Regulation of higher education in India is targeted towards achieving two conflicting objectives – high quality in provision of such education and suppression of the profit motive. The correct approach, however, lies in facilitating the attainment of high quality through interaction of the profit motives of various providers, private domestic as well as foreign. At the same time, such motives should be suitably bridled by setting and enforcing rules of the game, periodic evaluations, and accreditation to remove information asymmetries between providers and recipients of higher education. This will ensure that profit making is not exploitative but channeled to raise the quality of education.

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