THE ROLE AND IMPACT OF FDI IN DEVELOPMENT OF INDIAN EDUCATION SECTOR

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ABSTRACT

In India, education is the key to the task of nation-building. It is also a well-accepted fact that providing the right knowledge and skills to the youth can ensure the overall national progress and economic growth. The Indian education system recognizes the role of education in instilling the values of secularism, egalitarianism, respect for democratic traditions and civil liberties and quest for justice. The ongoing demand to strengthen the Indian education sector has opened up many avenues for people of India as well as non-residents of India (NRI) to invest in education sector.

Mumbai, Nov. 2013: India, which has the third largest higher education system in the world in terms of enrolments, after China and the US, needs more FDI to meet its target of doubling the Gross Enrolment Ratio (GER) by 2020, a global consultancy firm has said in its report. The private sector’s role in the higher education sector has been growing at a rapid pace over the last decade and needs to further expand at an accelerated rate in order to achieve the GER target, Deloitte Touche Tohmatsu India said in a recent report titled ‘Indian Higher Education Sector: Opportunities aplenty, Growth unlimited. It says higher education is the one of the largest opportunity in the Indian education sector and it is important for foreign direct investment (FDI) to flow in this sector in order to transform Indian higher education institutions into the world’s top league. Success in leveraging knowledge and innovation that could contribute to hi-tech manufacturing and high value-added services is only possible with a sound infrastructure of higher education. As per projections, the sector is expected to register a CAGR of 12% from 2008 to reach a size of $31.47 billion, the report says.
With the estimated number of students at 16 millions enrolled in the academic year 2010-11 in the formal system, consisting of regular universities and colleges and excluding the enrollment in open universities and distance learning, the Indian higher education system stands only third in the world after US and China.

India is also believed to have the largest higher education systems in the world in terms of number of institutes. The university and higher education system comprises 610 universities and in addition, there are 33,023 colleges. An estimated $13 billion is spent outside the country.

The government has set an aggressive target of doubling the GER (gross enrollment ratio) in higher education from the existing 15% to 30% by 2020. To meet such a target, huge investment will be required in terms of capital and operating expenditure which the government alone will not be able to provide. Thus the role of private sector in higher education has significantly increased in the last decade. However due to various impediments the amount of FDI attracted by this sector since 2000 is dismally low at just $400 million.

This paper quantifies the impact of FDI in Indian education sector. It aims to gain an insight into current scenario which implies need to have more FDI to achieve GER target. The results hold that increase in FDI will have significant relationship with increase in employment & improvement in infrastructure.

**KEYWORDS:** Education System, FDI, Gross Enrolment Ratio (GER), Compound Annual Growth Rate (CAGR), Egalitarianism.

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**INTRODUCTION**

In India a higher education qualification at degree level takes a minimum of three years to complete, more typically four. It will have a theoretical groundwork, it will be at a level which would qualify someone to work in a professional field and it will usually be trained in an environment which also includes advanced research activity. Shortly, Higher education mainly and generally means university level education. It offers a number of qualifications ranging from Higher National Diplomas and Foundation Degrees to Honors Degrees and as further step, Postgraduate programs such as Masters Degrees and Doctorates. These are recognized throughout the world as representing specialist expertise supported by a wide range of skills that employers find very useful.

**HIGHER EDUCATION SYSTEM IN INDIA**

Three main key determinants of quality in higher education are the adequate availability of quality faculty, optimum and adequate infrastructure and resources and availability of third party quality assurance system. It has been observed that while majority of students in higher education go to universities and colleges which come under the state system, they lack adequate resources in terms of manpower and infrastructure. While state governments are striving to
address these issues, the Central government has decided to significantly support the states through an ambitious centrally sponsored scheme, namely Rashtriya Uchchatar Shiksha Abhiyan (RUSA). This is in sync with the objectives of the Planning Commission as stated in the 12th Five Year Plan—of making the Indian higher education system globally competitive and strong by focusing on state higher education system.

A sound higher education sector plays an important role in economic growth and development of a nation. Higher education, in terms of its relevance and importance, enjoys a significant position in the education system as it equips people with appropriate knowledge and skills to be gainfully employed. India has one of the largest systems of higher education in the world offering facility of education and training in almost all aspects of human creativity and intellectual endeavour. In the context of current demographic structure of India where the majority of population is below the age of 25 years, the role of higher education is critical.

NUMBER OF HIGHER EDUCATION INSTITUTIONS

Higher education in India has witnessed an impressive growth over the years. The number of higher educational institutions (HEIs) has increased from about 30 universities and 695 colleges in 1950-51 to about 700 universities (as of 2012-13) and 35,000 colleges (as of 2011-12) as per a recent UGC report. With an annual enrolment of above 25 million (including enrolment under Open and Distance Learning system), India is today ranked as the third largest higher education system in the world after US and China.

![Growth in Enrollment by Type of Institutions](image-url)
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduate (Bachelor's)</td>
<td>17,456</td>
<td>5,576</td>
<td></td>
<td>23,086</td>
<td>7,375</td>
</tr>
<tr>
<td>Graduate (Bachelor's three-year B.A., B.Com., B.Sc.) - Est.</td>
<td>14,547</td>
<td>4,849</td>
<td>3 years</td>
<td>19,238</td>
<td>6,413</td>
</tr>
<tr>
<td>Graduate (Bachelor's Engineering - B.E.) - Est.</td>
<td>2,909</td>
<td>727</td>
<td>4 years</td>
<td>3,848</td>
<td>962</td>
</tr>
<tr>
<td>Post-Graduate (Master's)</td>
<td>2,492</td>
<td>1,246</td>
<td>2 years</td>
<td>3,296</td>
<td>1,648</td>
</tr>
<tr>
<td>Research (Doctoral)</td>
<td>161</td>
<td>40</td>
<td>4 years</td>
<td>213</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,109</strong></td>
<td><strong>6,862</strong></td>
<td></td>
<td><strong>26,594</strong></td>
<td><strong>9,076</strong></td>
</tr>
</tbody>
</table>

Prepared by DrEducation.com

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**Faculty-wise Students Enrolment in Higher Education 2010-11**

[Pie chart showing various fields of study with percentages and enrolment numbers]
GOVERNMENT INITIATIVES TO BOOST INVESTMENTS

The education sector in India is also considered as one of the major areas for investments as the entire education system is going through a process of overhaul, according to a report ‘Emerging Opportunities for Private and Foreign Participants in Higher Education’ by PricewaterhouseCoopers (PwC). Ever since, the Government of India has allowed foreign direct investment (FDI) up to 100 per cent through the automatic route, many people find it convenient and profitable to invest in education sector.

Following steps taken by the Government for the infrastructural development of the sector and to increase the business opportunity in education are

- For the year 2012-13, Rs 25,555 crore (US$ 4.63 billion) have been allotted for RTE-SSA (Right to Education – Sarva Shiksha Abhiyan) which represents an increase of 21.7 per cent over the previous year allotment in 2011-12
- 6,000 schools have been proposed to be set up at block level as model schools in the Twelfth Five Year Plan (2012-17)
- Rs 3,124 crore (US$ 566.69 million) have been provided for the RMSA (Rashtriya MadhyamikShiksha Abhiyan), which is an increase of 29 per cent over 2011-12
- India and Republic of Korea have signed a memorandum of understanding (MOU) for cooperation in the field of education
• Prime Minister’s fellowship scheme for doctoral research has been launched in New Delhi by Mr S. Jaipal Reddy, Union Minister for Science and Technology, according to Confederation of Indian Industry (CII).

• The Ministry of Human Resource Development (MHRD) plans to set up ten community colleges in collaboration with the Government of Canada in 2012. The Government of India has decided to set up hundred community colleges this year.

• The Government of India plans to set up an Indian Institute of Agricultural Biotechnology at Ranchi with an investment of Rs 287.50 crore (US$ 52.15 million). The Institute will be a deemed university and will have different schools to import knowledge in genomics, bioinformatics, genetic engineering, nano biotechnology, diagnostics and prophylactics and basic and social sciences and commercialization.

Growth of Students Enrolment (‘000’) in Higher Education

Education in India is also considered as one of the major areas for investments as the entire education system is going through a process of renovation, according to a report ‘Emerging Opportunities for Private and Foreign Participants in Higher Education’ by Price water house Coopers (PwC).
Under current rules, 100 per cent FDI is allowed in education through the “automatic route”. This means a foreign company can directly invest in an Indian firm without prior approval from the government or the RBI. However, within 30 days of the receipt of the FDI, the Indian company is required to report to the RBI’s regional office.

EDUCATION SECTOR FDI INFLOWS FROM APRIL 2000 TO JANUARY 2012

TABLE. NO – 2.1

Source: http://business.mapsofindia.com/fdi-india/sectors

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>AMOUNT INVESTED THROUGH FDI IN INDIA</th>
<th>% AGE TOTAL FDI INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IN RS CORES</td>
<td>IN US $ MILLION</td>
</tr>
<tr>
<td>EDUCATION</td>
<td>2306.13</td>
<td>491.99</td>
</tr>
<tr>
<td>GRAND TOTAL OF ALL 64 SECTORS</td>
<td>723366.76</td>
<td>160094.5</td>
</tr>
</tbody>
</table>

FIG. NO – 1.6
GOVERNMENT INITIATIVES FOR PROMOTING EDUCATION SECTOR IN INDIA

Some of the initiatives taken by the Government of India for infrastructural development of education sector are as follows:

- The Ministry of Human Resource Development plans to set up ten community colleges in collaboration with the Government of Canada in 2012. The Government of India has decided to set up hundred community colleges this year.

- The Government of Gujarat plans to set up a farming educational institute in collaboration with Israel, offering post-graduation and Ph.D programmes with practical training and degree from Israeli universities.

- The Government of India also plans to set up an Indian Institute of Agricultural Biotechnology at Ranchi with investments of Rs 287.50 crore.

FUTURE OF INDIAN EDUCATION SECTOR

Consulting firm Technopak’s very positive about the growth of the sector and estimates private education sector alone to grow to US$ 70 billion by 2013 and US$ 115 billion by 2018 in its study ‘A Report Card on India’s Education Sector’.

There are clear investment opportunities for private players to enter the Indian education space. The opportunity exists in all three segments – schooling, higher education and vocational training. Some success stories are Manipal University, Amity University and the Indian School of Business. Public-private partnerships (PPP) arrangements, tax concessions for education and encouraging foreign capital to build infrastructure in India would encourage the creation of new capacities by the private sector. India’s education sector is expected to witness huge investments from PE funds over the next couple of years on the back of increased Government spending and expansion plans of private players.
FIG. NO – 1.7

NEED FOR IMPLEMENTATION OF FDI IN HIGHER EDUCATION SECTOR

- Various new tools and techniques will be used in teaching.
- Indian money and talent going abroad will come in check.
- FDI in higher education sector will improve the Infrastructure.
- It might occur that India may develop one of its own world class universities.
- An increase in conveniences, both in terms of physical magnitude and geographical spread, for inculcation of vocational skills backed by an increase in the general excellence of higher education.
- India needs to fill up the technological lag as fast as it can to compete with China.
- The resulting competition with local universities would also encourage us to become internationally competitive through quality improvements brought about by changes in curriculum and other responses to an evolving market.
FDI in education would produce employment.

FDI in education might lead to export of Indian education abroad in which there are great potentials.

There will be enhanced the scope for research as foreign universities have different methodology to run and generate revenues.

India may shift towards practical study based learning rather than rote learning.

Existing institutions need to be rebranded to overcome their poor image.

**OBJECTIVES**

1. To study the position of Indian higher education system.
2. To evaluate the need of FDI in higher education in India.
3. To find out the implications of bringing in FDI in Indian higher education sector.
4. To study the aspects of FDI entry in different countries in higher education.
5. To consider FDI as a determinant for improvement of Education Sector
6. To estimate the impact of establishment of foreign universities in India.
7. To study the aspects of FDI entry at different levels in Indian education system.
8. To map out the barriers for FDI in Indian education.

**METHODOLOGY OF THE STUDY**

The study is based on secondary sources of data. The main source of data is various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy. Economic and Social Survey of Asia and the Pacific, Country Reports on Economic Policy and Trade Practice- Bureau of Economic and Business Affairs and from websites of World Bank, IMF, WTO, RBI and etc.

**CHALLENGES FACED BY THE EDUCATION SECTOR IN INDIA**

1. **ACCESSIBILITY:** Because of more political inference, it’s difficult to have better accessibility.

2. **DROP-OUT RATE:** It is nearly about 40 per cent drop out at the primary stage.

3. **SOCIAL BARRIERS:** Social barriers had also brought about the problem for FDI in education sector.
4. **RELEVANCE:** more skill-oriented – both in terms of life-skills as well as livelihood skills.

5. **MANAGEMENT:** There is a great need to build in greater decentralization, accountability, and professionalism.

6. Approval procedures are cumbersome and tedious. It is on “Not-for-profit” basis.

7. **QUALITY AND RELEVANCE OF EDUCATION:** Infrastructure, curriculum, industry involvement and Employability of graduates due to lack of effective training.

8. **TECHNOLOGY:** There is low technology penetration which acts as obstacle.

**FINDINGS**

- Alternate education should be encouraged.
- Be rated by independent rating agencies like CRISIL, ICRA or CARE and publicly announce their rating.
- If international educational institutions come to India, then students would be able to get foreign education in India, cheaper.
- The seats are limited in the Indian educational institutions and so foreign direct investment in the educational sector would result in more opportunities for the Indian students.
- Availability of world class research facilities.
- It motivated the top universities across the world to set up their branches in the country.
- It helps Indian students to come in touch with the best professors from across the world.
- The Indian students will get libraries and labs that are of world class standards.
- FDI in education will also direct to high number of Indian students receiving jobs in internationally established companies.
- FDI in education help the country to become an important destination education sector.

**SUGGESTIONS**

- Provide public funding only for those higher education activities such as R&D that have public goods characteristics and which would not be privately funded to the socially optimal degree.
- Ensure equality of opportunity and access to higher education in reply to expressed needs and demands of the population.
A competitive market-liberal system must be allowed to operate instead of central planning.

Should monitor the quality of the programmes

Verify the experience of the investor-institutions

Revenue generated by foreign institutions should be invested in primary education so that the base will also get stronger

The Government formed apex body should not delay in their decision-making process

Incentives for indigenous research

Publish an annual report with details of the infrastructure available, the staff, the fees charged, the number of students, the results of the examinations, the amount of funds available to the institution and the sources of funding, affiliation to any foreign bodies with details of those bodies etc.

Programmes offered are in accordance with the priorities in this country and the national Policy in terms of equity, affordability and access.

To suggest the elimination of various barriers for FDI in Indian education system

**CONCLUSION**

In terms of development, there is a general agreement of the potential benefits of Foreign Direct Investment. The relationship between GDP Growth and the increase of the relationship between FDI and GDP can be clearly established. Foreign Direct Investment, therefore, becomes an important financial source for capital projects, vital for Emerging Country’s development. The flow of financial capital in the economies of the countries has become vital, shaping in occasions the policies and political decisions of governments to attract Foreign Direct Investment (FDI). Studies on role of FDI in education sector shows that general institutional framework, effectiveness of public sector administration and the availability of infrastructural facilities enhance FDI inflows to these nations. Education industry in India remains among the fastest growing industries of the present Indian economy, industry has benefited a lot from the Indian rapid economic growth coupled by the rising earnings levels in India. FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study attempts to analyze the important dimensions of FDI in India. The study works out the trends and patterns, main determinants and investment flows to India. The study also examines the role of FDI on economic growth in India. FDI is considered as the most suitable form of external finance. And it is increase in competition for FDI inflows particularly among the developing nations. The assumption that FDI was the only cause for development of Indian economy in the post liberalized period is debatable. No proper methods were available to segregate the effect of FDI to support the validity of this assumption. As far as providing quality education is
concerned, the foreign universities may achieve this set objective for Indian students, but there are lots of concerns as to whether Indian strata would be able to afford this education facility.

It is found that FDI as a strategic component of investment is needed by India for its sustained economic growth and development.

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