Low Cost Private Education in India: Challenges and Way Forward

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SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTERS OF BUSINESS ADMINISTRATION
AT THE
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

JUNE 2011

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Submitted to the MIT Sloan School of Management on May 6, 2011
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Abstract

The Low Cost Private School phenomenon has gained momentum and increased visibility in recent years as researchers have begun to map and record the existence of millions of private schools that cater to the education needs of the economically disadvantaged in developing countries. These schools are profit oriented market enterprises, charging fees in the range of US$ 2 to US$ 15 per month while competing with free-of-cost government schools. Yet, they continue to thrive and grow in numbers.

This thesis explores the factors that have led to the existence of a market driven private sector solution in a segment widely dominated by government provision of services and tries to understand the rationale supporting their existence. The thesis also delves into the question of whether low cost private schools are genuinely serving the purpose they are expected to. And whether these poorly financed, ill equipped profit making enterprises are the rights means to educating millions of children.

The thesis also discusses the perspectives, experiences and challenges of different players in the low cost private education ecosystem. It closes with an understanding of the need for private sector involvement in providing education to the lower income segment and suggestions for the way forward for regulators, policy makers and the industry.

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Preface

Purpose

The objective of this thesis is to understand, analyze and critically review the current models for the provision of low cost private sector primary education in developing countries, with a focus on India. The research tries to develop a holistic view of low cost private primary education by including the perspectives of schools owners and education service providers, the regulatory environment, various sources of competition including schools run by the government as well as Not-For-Profits, their customers – the parents; as well as those in think tanks and activists supporting private sector involvement in providing affordable education to economically and socially underprivileged children.

The rapid growth of low cost private schools in urban slums and rural areas across developing countries has long faced the question of why poor parents, who sometimes struggle to make ends meet, are willing to pay for primary education rather than use free services provided by government schools. This study makes a case in favor of low cost private schools based on an analysis of the question above. It also raises another important question, one that requires serious consideration by both policy makers and low cost private school providers. The question is whether the education provided by these low cost private schools with poor infrastructure and under qualified (though highly motivated and trained) teachers, provides the "right" environment for a child's development, and what should be done to enhance their teaching quality.

Methods

My research used a combination of literature, research reports, internet research, telephonic interviews and face-to-face meetings. I started first with reading literature on this subject. After developing an understanding of the industry and sector landscape, I searched the internet for prominent players in the field, both in India and globally. My interviews with people based outside India and with some from India, were through internet telephony and lasted 1 hour on average. I tele-interviewed 10 people, including 5 financiers, 4 school owners/ managers and 1 researcher - the shortest interview was 30 minutes and the longest was 1.5 hours. The discussions were focused around the current state of low cost private primary education and what were the various challenges that the interviewees felt could hinder further development of this space.

In January, I went to India for two weeks, to visit and speak with school owners, investors, activists and government officials based in New Delhi and Hyderabad. I selected Hyderabad as it has one of the densest concentrations of low cost private schools and has been the center for many studies. While in India, I visited 4 low cost private schools and 2 low cost schools run by Not-For-Profits and interviewed 5 school managers, 2 government officials, 3 activists, 2 financiers and 2 philanthropic organizations. The visits lasted 2 hours on average, with the longest being 5 hours and the shortest lasting 1 hour. The discussions provided an in-depth understanding of the dynamics of the low cost private education industry in India.

The internet sources I refer to include Wikipedia, as well as websites of the World Bank and United Nations Educational, Scientific and Cultural Organization (UNESCO). The research data I used is from the Commonwealth Secretariat, the Statistics Division of the UN, The Education For All Report 2010 by UNESCO, Pratham's Annual State of Education Report 2010 for India and the DISE 2010 report managed by the National University of Educational Planning and Administration, India. I also used the internet to find and access previous studies on low cost private education.

Organization of Thesis

The thesis is organized as follows:

- Chapter I introduces the thesis topic and the industry landscape
- Chapter II discusses the low cost private primary education ecosystem within India
- Chapter III is a deep dive and analysis of the thesis topic
- Chapter IV explores experiences in low cost education in Kenya, Ghana and Pakistan
- Chapter V debates on the need for low cost private schools and suggests a way forward

Chapter I

Introduction

This chapter introduces the context of low cost private education in developing countries and the global industry landscape.

Education

Education is the great engine of personal development. It is through education that the daughter of a peasant can become a doctor...that a child of farmworkers can become the president of a great nation. It is what we make out of what we have, not what we are given, that separates one person from another.

– *Long Walk to Freedom: The Autobiography of Nelson Mandela* (1994, p.144)

Nelson Mandela's words powerfully capture the role of inclusive education in broadening opportunities and building inclusive societies (UNESCO, 2010). The world has seen many leaders with humble beginnings, who went on to do great things in life, aided not in the least by the education they had. From Benjamin Franklin and Abraham Lincoln to Andrew Carnegie and Frederick Douglass, there are numerous inspirational examples of children from underprivileged families who scaled the heights of success with the help of education.

A recent World Bank statement (2011) notes:

> **"Education is central to development.** It empowers people and strengthens nations. It is a powerful "equalizer", opening doors to all to lift themselves out of poverty. It is critical to the world's attainment of the Millennium Development Goals. Investment in education benefits the individual, society, and the world as a whole. Broad-based education of good quality is among the most powerful instruments known to reduce poverty and inequality." (World Bank, 2011)

Education is critical to human, social and economic development. The purpose of education is not only economic. It transcends into social development, improvement in health and living conditions of individuals, general well-being of the society and is known to have multiplying benefits over generations. Good quality education is one of the most powerful tools of reducing poverty. Burchi (2006) says studies have shown that basic education is both theoretically and empirically proven to be relevant in fighting food insecurity and promoting development.

Around the world, education was originally provided by the Church and then replaced by the state. Developed countries like US, UK, France, Germany, Switzerland and Singapore have a state run primary school system, with laws providing for free and compulsory

education at the primary/ elementary level, although private schools continue to exist to serve the wealthy and plug the need gaps. For example, in France, private schools cater widely to foreign students and those with special needs. (Wikipedia, 2011)

Governments in developing countries like India, China, Brazil, Russia and Turkey have instituted large state run school networks. Education continues to be one of the largest budgetary outlays for most of these economies, and the amount of resources demanded by the still not very efficient public school system poses an ongoing challenge. As per UNESCO statistics (UNESCO Institute for Statistics, 2011), public expenditure on education was 10.7% (2003) of total government expenditure in India, 13% (1999) in China, 16.1% (2007) in Brazil and 17.2% (2010) in Kenya. In comparison, the US spends 12% on education, France 7%, Malaysia 20% and Thailand 27% (Technopak, 2009). Despite these relatively large outlays by states that are constantly challenged for the resources required to support and aid growth, public schools in most developing countries suffer from poor infrastructure and shortage of teaching resources.

The UNESCO Education For All Global Monitoring Report 2010 finds that out of the 759 million adults lacking the basic reading, writing and numeracy skills needed in everyday life, over half live in just four countries: Bangladesh, China, India and Pakistan; with India having the single highest number comprising 36% of the world illiterate adult population. The report also says that if the world were to continue the linear trend for 1999-2007, an estimated 56 million children would still be out of school across the world in 2015.

The above report estimates that cumulative costs over 2008-2015 for meeting global primary education goals run to $220 billion or $27.5 billion annually (in constant 2007 $). Current worldwide spending on primary education is $11 billion a year – in other words, the financing required to achieve primary education goals is 2.5 times the current level. Of this, approximately $3.7 billion, or 14% of annual global spending on primary education, is required to finance programs and interventions aimed at reaching the marginalized at the primary level.

The same report notes,

> "For the marginalized, education can be a route to greater social mobility and a way out of poverty. Education has the power to transform lives. It broadens people's freedom of choice and action, empowering them to participate in the social and political lives of their societies and equipping them with the skills they need to develop their livelihoods. Millions of children are denied their human right

to education for the simple reason that their parents cannot afford to keep them in school." (UNESCO, 2010)

While governments have and continue to invest in expanding and improving public school systems, it is a challenge to keep up with the exploding demand and the corresponding financing needs. It was probably a combination of these demand-supply factors along with the entrepreneurial spirit that gave rise to the phenomenon of what I call Low Cost Private Schools; offering education at affordable prices to the economically underprivileged across developing countries.

Low Cost Private Education

Just because a child's parents are poor or uneducated is no reason to deprive the child of basic human rights to health care, education and proper nutrition.

– Marian Wright Edelman **(Clifford, 2008)**

Put in a very simplified way, Low Cost Private Education refers to schools for the economically underprivileged that are run by individual(s) for the purpose of making profits (Commonwealth Secretariat, 2008). Following are the key players in the educational domain:

Schools run by Not-For-Profit organizations

These are schools run by religious communities or charitable societies. Such schools may range from those providing free education to those charging a nominal (subsidized) fee, purely as a demonstration of the parents' commitment. They draw upon various resources depending on the national context, from government subsidies to philanthropy, private donations and Corporate Social Responsibility (CSR) initiatives. There are varying levels of involvement of Not-For-Profit organizations in the provision of low cost education in developing countries. In most cases, they are localized and small scale, dependent and constrained by the donor funding available, with exceptions like The Citizens Foundation and BRAC in Pakistan and Bangladesh respectively, running large scale Not-For-Profit education systems.

Government/ state run schools

Most developing countries have a fairly widespread government school network as governments and development organizations across the world join hands to achieve the

second Millennium Development Goal of achieving universal primary education by 2015. Government schools in developing countries offer free education to children across all economic strata, however, unlike most developed nations; they have not yet been able to ensure uniform quality of education offered. This has led to the rise of private schools, much like the 'elite private school' phenomenon of UK, that cater to the middle and higher income segments, leaving government schools with a primary consumer audience comprising of the lower income segment.

Low Cost Private Schools

There are many definitions of low cost private education. The Commonwealth Secretariat (2008) argues that low-cost, for-profit education is the spontaneous choice of the poor to ignore government-offered services and instead pay fees (low in relative terms, but often high in respect of family income) to a private, unsubsidized entrepreneur who they believe can offer better or more cost-effective outcomes for their children. These are the schools typically used by the poorest fee-paying population in an area. Those poorer than these groups will be able to send their children only to government schools, or not educate them at all.

The term 'low cost' is contextual to the national income and average per capital income, as well as whether the school is located in an urban (slum) or rural area. My study found schools with fees ranging from US$ 2.5 to US$ 15 per month. Given the lack of a formal market definition, some people further sub-divide low cost schools into "Low Cost" with monthly fee ranging from US$ 2.5 to US$ 6 and "Affordable" with monthly fee ranging from US$ 6 to US$ 15. During my interview with Dr. Parth J. Shah, President of the Centre for Civil Society, India on January 19, 2011, he suggested using average income as a base – meaning that monthly fee up to US$ 12 could be considered low cost in an urban Indian area, while in a rural school in India, a monthly fee up to US$ 6 would be the more appropriate level.

I will consider here that schools charging a monthly fee up to US$ 15 are low cost schools. I do not distinguish between 'low cost' and 'affordable' and will use these terms interchangeably.

The target audience for these schools is parents in the lower income range. A typical parent is employed as a daily wage laborer or as a driver, hawker, etc.. Most of these parents are either illiterate themselves or equipped with only basic education and dream of educating their children in order to give them a fighting chance at escaping poverty. As we will see, this aspiration is a key contributor to why they opt to pay for their child's

education at a private school, as against free schooling by government run schools.

Given the limitation that the parents' capacity to pay imposes on their willingness to pay, low cost private schools generally tend to open up in locations with a basic catchment area. There are some overlaps, when a number of schools mushroom in close vicinity. When I visited MA Ideal High School in Hyderabad, India, for example, there were 7 low cost private schools within a radius of half a kilometer, all doing healthy business. In such cases, they tend to compete on 'Pricing', i.e. fee charged or some tangible resource like use of technology in teaching (e.g. Computer lab, multimedia, etc.).

As can be inferred by the sheer pressure on price, low cost private schools typically have bare- bones infrastructure, with low cost construction, sometimes even temporary, make-shift buildings with no formal classrooms. Many do not have benches and/or desks in classroom and suffer from occasional electricity outages. Although teacher salaries comprise up to two-thirds of total operating costs, teachers are usually under-qualified in terms of their own educational qualifications and teaching experience; in comparison to market parameters like teachers in government, well-resourced private schools, or regulatory requirements.

This again raises the question of why parents choose to pay for poorer facilities, ignoring the government-funded educational infrastructure and resources that are better in most cases. The evaluation of competitive offerings of private schools vis-à-vis government schools has been subject to some debate as researchers try to understand why parents choose to pay for a service that is otherwise available free of cost to them. One argument that may be the very act of choosing to pay accords the decision sanctity. However, many agree that this decision may have been made by poorly informed parents, based primarily on perceptions. These factors are discussed in detail in Chapter II, but, on average, the following are considered by researchers as the key advantages of a private school over government schools:

- Greater teacher accountability including low teacher absenteeism
- Better teaching outcomes. Research by Prof. James Tooley (2009) of Newcastle University, UK revealed that on an average, students in low cost private schools in Hyderabad, India outperform their counterparts in government schools in both English and Mathematics. Though these tests have been questioned by some, they may provide a basic understanding of why parents choose the way they do.
- Better accessibility and closer to home

- Preferred language of instruction – most parents have a clear preference for "English" as the medium of imparting education and government schools usually teach in the local language

It is clear that the entrepreneurs running low cost private schools have identified the gaps in the market and the rapid increase in number of low cost private schools in developing countries signals a response to unmet market demand.

Global Industry Landscape

Private provision of low cost education is a huge scale phenomenon across the developing world. There are varying reactions towards low cost private schools from government officials, researchers and from the general society – these reactions range from denial to disbelief to a feeling of "I told you so". But regardless of the reaction, there are enough studies and data to substantiate the existence and progressive growth of low cost private schools across developing countries. There are many factors that contribute to this phenomenon, the primary being the market opportunity that exists, which has been touched upon in earlier sections. I will deliberate on this in further detail in Chapter V.

As noted, Prof. Tooley of Newcastle University has been researching this area for many years. In one of his articles (Tooley, Dixon, & Olaniyan, 2005), he talks about a census and survey of schools in selected poor areas of Lagos State in Nigeria that explored the nature and extent of private education, and compared inputs to public and private schooling. Of all schools, 71% were found to be private, with more unregistered private schools than government and registered private schools (please note that unregistered private schools are generally assumed to be low cost private schools as all other private schools are expected to be able to bear the cost of compliance/ registration). It was estimated that 33% of school children were enrolled in private unregistered schools, and 75% in private schools in general. The same survey of 540 schools in 3 government areas classified as 'poor' within Lagos State, found that unregistered private schools form the largest number of schools (233 or 43.1% of total). A study commissioned by DFID reports that an estimated 40% of the 2.5 million children in school in Lagos, are in unapproved schools (Larbi, Adelabu, Rose, Jawara, Nwaorgu, & Vyas, 2004).

Although reliable statistics are difficult to come by, *The New York Times* recently said that "tens of thousands" of private schools have been started up across India in recent decades (Fazli, 2008). The Indian School Finance Company estimates that there are 300,000 private

schools in low income areas across India (Indian School Finance Company, 2011). As per Amit Kaushik (2011) of Pratham, an NGO working on developing the education sector within India, the Annual State of Education Report 2010 facilitated by Pratham estimates the presence of 300,000 – 400,000 low cost private schools in India. The same report further estimates that 23.2% of rural students and 50% of urban students study in these low cost private schools. An informal industry estimate says there are 12,000 low cost private schools in the city of Hyderabad itself. The existence of low cost private schools is obviously a major phenomenon and cannot be ignored or denied.

At the same time, it is important to recognize that this is still a highly fragmented, nascent stage industry. While there are numerous players, they are mostly "Mom and Pop shops". The landscape is dominated by '*edupreneurs*' running schools in their neighborhoods, out of their homes. Occasionally, someone would expand to say 6-10 schools and very rarely, create a larger chain. After Professor James Tooley published his research paper titled "*Educating Amaretch: Private Schools for the Poor and the New Frontier for Investors*" (2006), followed by his book "*The Beautiful Tree*" (2009), this segment began to attract interest from researchers, development institutions and social venture capital firms. Yet, one of the biggest struggles in this sector is the fact that while it is attracting a fair amount of research, discussion and study, almost all of which confirm, validate and justify the need, opportunity and benefits of low cost private schools, there is little action that significantly aids the evolution of this sector.

As my research found, there are few large players currently on the scene. And due to the fragmented and small scale involvement of existing *edupreneurs*, the face and probably the future, of the low cost private education industry will be dominated and influenced by this small group of large players. Rumi Education Services, India, Omega Schools, Ghana and Bridge International Academies, Kenya are examples of efforts to corporatize the provision of affordable private education. All three ventures are hoping to find the right business model that allows them to scale – critical for any of these ventures to be sustainable or profitable. While they are very young and it is too early to show success or failure, a range of possibilities is emerging. It is too early to prove the sustainability of these business models, yet, there seems enough to indicate the potential of healthy returns that are so critical to attract formal financing and investment. The fact that Bridge has been able to raise commercial funding in its second round, is an encouraging development for the whole sector (Frei, 2011).

Chapter II

Low Cost Private Education in India

This chapter lays out the landscape and ecosystem for low cost private education in India and discusses experiences and challenges from the perspectives of the various participants of the ecosystem.

Primary Education in India

If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and will never be.

- Thomas Jefferson

The present education system in India is comprised of primary education, secondary education, senior secondary education and higher education. Elementary education consists of eight years of schooling from the age of six, each of secondary and senior secondary education consists of two years of education and higher education starts after passing the higher secondary education or the 12th standard.

The Government of India understands the need for improved education, skills and knowledge as India moves towards becoming a leading global power. In order to fully reap its demographic dividends, the country has to ensure its children are educated and equipped with the right skills to capitalize on the numerous growth opportunities. The government also recognizes the long term benefits of education for social and human development. As India's Minister of State for Rural Development, Ms. Agatha Sangma, stated during our conversation on January 25, 2011, "India may not have needed the Women's Reservation Bill if government policies in the past 60 years had focused on increasing women's literacy". Making elementary education in India accessible, universal and relevant has been a goal since the eighth five-year plan established in 1992.

Tooley (2009) notes that governments around the world would like to deny the existence of low cost private schools. I did not get the same understanding from the two government officials I interviewed, but I did get the message that the government believes that it can, is, and will continue to provide good education without support from the private sector. When I asked Ms. Sangma how the government felt about private sector involvement, she said that private sector involvement in the form of CSR is welcome. Her concern was that private sector players are profit oriented and their involvement has been limited to the higher education and skills training segments which are the most lucrative. It should be noted that even CSR has bottom-line priorities (Kaushik, 2011). Ms. Sangma's concern is reflective of the belief that education is a "social right", not for commercial exploitation.

But the needs and gaps in India's primary education system are immense and the investment required to plug this gap will be a significant demand on India's budgetary resources, especially as it faces the demand to scale up its infrastructure on all fronts in order to maintain the pace of its growth. The resistance to involving the private sector in providing education is in part due to political sensitivity. There are rumors that the government is now taking cognizance of the importance of private schools, especially in providing low cost primary education and there have been some initiatives to structure Public Private Partnerships (PPP) in education. At the same time, Mr. M. Dilip Kumar, Undersecretary in the Ministry of Human Resource and Development, in my interview on January 28, 2011, was not very optimistic about the future of PPPs. This is something that will unfold with time.

Making primary education available for all in India has been one of the major challenges for the government. Moreover, the quality of elementary education in India has also been a major cause of worry for the government. Despite making elementary education compulsory and free, the goal of universal elementary education in India has been very difficult to achieve. Therefore, the government is introducing innovative ways of universalizing elementary education in India. (Elementary Education in India: India Education)

After the District Primary Education Programme (DPEP) of 1994, the Indian government launched the "Sarva Shiksha Abhiyan" or SSA in 2001 to universalize and improve the quality of elementary education in India through community ownership of elementary education. SSA, apart from being a program with clear time frame for Elementary Education, also offered opportunities to the states to develop their own vision of elementary education. In order to improve the quality of elementary education in India, the SSA has emphasized improving the student-teacher ratio, teachers training, academic support, facilitating development of teaching learning material and providing textbooks to children from special focus groups etc. Despite all the efforts of the Indian government, universalization of elementary education in India remains a distant dream. (Elementary Education in India: India Education). The UNESCO Education For All Report (UNESCO, 2010) estimates 7million Indian children are not enrolled in a primary school.

As per the DISE 2009-10 flash statistics (National University of Educational Planning and Administration, 2011), there are 1.3 million registered schools imparting primary education in India, of which 80% are government schools. Of the 20% registered private schools, roughly 14% are unaided schools. Private aided schools include those that receive

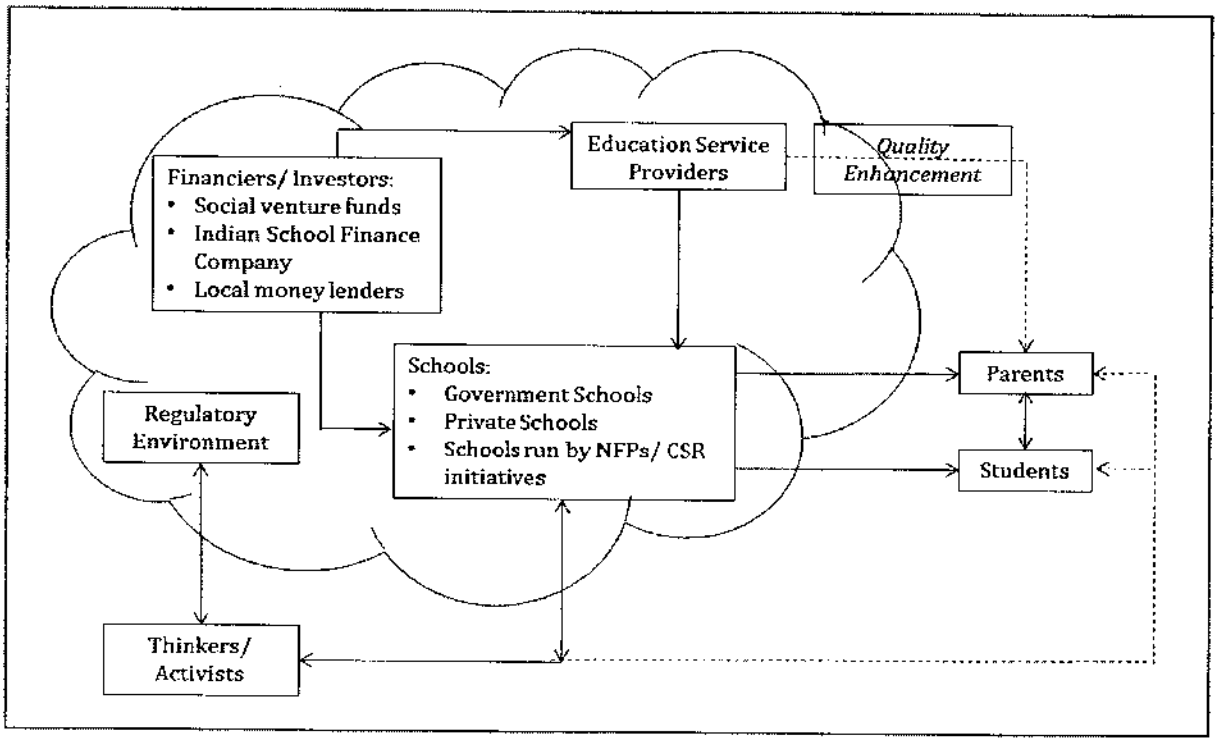
government funding and have significant government involvement in operations. Unaided schools generate revenues through fees and fall in two categories – recognized (or complying with a number of conditions) and unrecognized. It is the latter that has grown the most (Commonwealth Secretariat, 2008).

One of the biggest limitations of the DISE statistics is that its coverage is not complete – with the major omission being that of unregistered private schools. The number of unrecognized private schools is not available on a nationwide basis. Schools accessed by the poor include those from the recognized as well as unrecognized sectors. However, it is apparent that the informal, unrecognized sector is the one that has witnessed greatest growth and has emerged as a major avenue for education among the poorer sections. For example, a study of unrecognized private schools in the state of Punjab reveals that the share of unrecognized enrollment to total enrollment in recognized and unrecognized schools is as high as 26%, and that the existing Gross Enrollment Ratio of 51.73% would alter to 66.27% were the enrollment in unrecognized schools taken into account. (Commonwealth Secretariat, 2008)

The Low Cost Primary Education Ecosystem

The Ecosystem for Low Cost Education in India includes the education providers, the consumers (i.e. parents and children), the suppliers of financing and educational inputs like teacher training, curriculum development, etc.. All work within a complex regulatory environment set by past and current governments. Different civic bodies, thinkers and activists play a critical role in the ecosystem, researching and advocating the need for and impact of different regulations on the millions of school going children in India and working with policy makers to influence the regulatory structure.

Figure 1: The Ecosystem for Low Cost Primary Education in India



Regulatory Environment

"Article 21A. The State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may, by law, determine."

- The Constitution (Eighty-Sixth Amendment) Act, 2002 (making free and compulsory education to the children of 6-14 years age group, a Fundamental Right)

The Indian government lays great emphasis on primary education up to the age of fourteen years (referred to as Elementary Education in India). There are a number of government schemes and programs to encourage school enrolments and lower drop outs rates but the Right to Education Act 2010, and the *Sarva Shiksha Abhiyan* (Education For All program), form the backbone of the regulatory environment around primary education.

The Right of children to Free and Compulsory Education Act (RTE) came into force on April 1, 2010, according the right to education the same legal status as the right to life as provided by Article 21A of the Indian Constitution. As per the Act, every child in the age group 6-14 years will be provided 8 years of elementary education in an age appropriate

classroom in the vicinity of his/ her neighborhood. The Act further provides that 'any cost that prevents a child from accessing school will be borne by the State, which shall have the responsibility of enrolling the child, as well as ensuring attendance and completion of 8 years of schooling. No child shall be denied admission for want of documents; no child shall be turned away if the admission cycle in the school is over and no child shall be asked to take an admission test. Children with disabilities will also be educated in the mainstream schools.'

The RTE is the first legislation in the world that puts the responsibility of providing elementary education and ensuring enrollment, attendance and completion on the government. In most countries like the US, it is the parents' responsibility to send children to school. Importantly, RTE is a 'justiciable legislation', which means that the government can be taken to court if it does not ensure education is provided to all children. Following are the key features of the RTE:

- The Act makes it mandatory for every child between the ages of 6-14 to be provided education by the State. This means that a child does not have to pay a single penny for books, uniforms, etc.
- A child can go to a school and demand that this right be respected any time during the academic year
- Private schools, including unaided schools, have to reserve 25% of their seats for disadvantaged students, starting from grade I, in 2011. Schools shall ensure that children from weaker sections are not segregated from other children
- Strict criteria have been laid down regarding qualifications of teachers. Pupil-Teacher-Ratio has been set at 30:1. All schools are required to have the right number of properly qualified teachers and certain minimum facilities like playground and infrastructure
- A new concept of 'neighborhood schools' has been devised, similar to the model in the US. This implies that the state government and local authorities will establish primary schools within walking distance of one km of the neighborhood and within a walking distance of three km of the neighborhood in case of middle school.

A special division has been created within The National Commission for Protection of Child Rights (NCPCR), an autonomous body, to monitor the implementation of this Right.

Sarva Shiksha Abhiyan (SSA) is the Government of India's flagship program for achievement of Universalization of Elementary Education (UEE) in a time bound manner. SSA was

operationalized in 2002 and is being implemented in partnership with State Governments to cover the entire country and address the needs of 192 million children in 1.1 million habitations. This scheme aims at achieving universalization of elementary education through a number of initiatives including:

- open new schools in those habitations which do not have schooling facilities
- strengthen existing school infrastructure through provision of additional class rooms, toilets, drinking water, maintenance grants and school improvement grants
- Provide existing schools with inadequate teacher strength with additional teachers, strengthen capacity of existing teachers by extensive training, provide grants for developing teaching-learning materials and strengthen the academic support structure at a cluster, block and district level

Originally, SSA had 8 main programs and 15 interventions to achieve the following goals:

- All in school by 2005
- Complete 5 years of primary education by 2005 and 8 years of schooling by 2010
- Satisfactory Quality with emphasis on education for life
- Bridge all gender and social gaps at primary level by 2007 and elementary level by 2010
- Universal retention by 2010

The original target timeline for achieving full SSA objectives was 2010. This remains unmet. With the passing of the Right To Education Act, 2010 (RTE), the scope of SSA is now modified to include provisions of the RTE with respect to establishment of neighborhood schools and provision of teachers and infrastructure, by 2013.

RTE is a central act, meaning that each state has to specify rules for enforcing it within the state. This leads to differing requirements per state and creates inconsistencies in regulatory environments. This lack of consistency makes it difficult to replicate private school business models across states. Some state laws, like the Delhi State Education Act, passed in 1973, are obsolete and impractical in the context of current needs and resource availability. In addition, the requirements laid down by the RTE benchmark the infrastructure and facilities in all schools to those provided in government schools. All schools are required to be 'recognized' by the government and the conditions of recognition include full compliance with RTE by 2013. The implications of RTE on low cost

private schools seem to have been ignored by policy makers, as the cost of compliance is out of reach for these schools.

Though the government says it will find some mechanism to help marginalized schools comply with the provisions of the Act, there has been little to indicate what form that support would take. As per the presentation made by Prof. R. Govinda, Vice Chancellor of NUEPA, at the School Choice National Conference 2009 (Satya, 2009) "Unrecognized schools will not be closed down suddenly. They will all be given time and the opportunity to improve their infrastructure and rise up to meet the requirements of recognition. So there is no need to fear that all the unrecognized schools will vanish one day leaving a large number of students in the lurch. The Government would not want that to happen." While these are probably words of reassurance for the students of these 'unrecognized' private schools, they offer little comfort to the owners of those schools.

Government Schools

In 2007, the annual expenditure on education by the Indian government was 3.2% of GNP and 10.7% (2003) of gross government expenditure (UNESCO Institute for Statistics, 2011). According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), India has the lowest public expenditure on higher education per student in the world (Education in India: Wikipedia, 2011). 130 million children are enrolled in government managed primary schools, representing 80% of the country's school going children. The government school network consists of 1,048,046 schools spread across 635 districts, and employs 3,953,790 teachers (National University of Educational Planning and Administration, 2011). 80% of all recognized elementary schools are government run or supported, making it the largest provider of education in the country.

It is obvious that successive governments have done tremendous work in establishing a government schooling system, including setting up schools in remote or sparsely populated areas where private schools would not go for lack of financial viability. In my interview with Baladevan Rangaraju of the India Institute on January 22, 2011, he talked about a 2008 visit to a government school in Amaldoo (village near Kotdwar in Uttarakhand) that had just one student (and one teacher). Similarly, in Pauri district of Uttarakhand state, a government middle school had five teachers for twenty students. It is obvious that the government can be the only one to not make a cost trade-off for providing a fully equipped school to such a low number of students. Only the government has the capacity to bear the heavy costs of running schools with under-utilized capacity.

Facilities at government schools are better than low cost private schools in almost all cases, ranging from better building infrastructure, playgrounds and toilets to better computing facilities and labs. Teachers must meet required minimum qualifications and are certified through government authorized training programs. Teaching outcomes from some government schools significantly outperform low cost private schools. Some like the *Kendriya Vidyalaya* schools, New Delhi and Model Schools in Chandigarh are at par, if not better than most "well-resourced" private schools.

However, all is not rosy. Due to shortage of resources and lack of political will, the government school system suffers from massive gaps including high pupil-teacher ratios, shortage of infrastructure and poor level of teacher training. Government schools are under heavy criticism for a number of reasons including the mismanagement of physical and human resources. Most schools are plagued by low teacher accountability and high teacher absenteeism. Almost every activist, researcher and school owner I spoke with recounted visits to government schools to find missing teachers or even no teachers. There were stories about visiting classrooms where the teacher was sleeping while the students were idle. Baladevan talked about a school in Pancheshwar, near the Indo-Nepal border, which was closed for a month because the only teacher it had was on leave to appear in a competitive exam. Another school in Jhunjhunu, Rajasthan was converted into a marriage hall on a school day.

Newspaper reports on physical punishment of children (beatings, canings, severe punishments) by teachers are not uncommon. This may not be a wide-spread problem and none of the people I interviewed openly spoke about this. But there are news reports I have seen over the past years of such incidents and there is nothing to indicate that they have stopped. I refer back to the PROBE 1998 report (PROBE Team, in association with Centre for Development Economics, 1998) that lists beating or humiliation from the teacher as discouraging school attendance.

There are other criticisms about the poor management of government resources – computer labs that cannot work as the school does not electricity, or because no teacher knows how to handle the computers or, toilets constructed but not functional due to lack of water supply. Looking beyond the gross misuse of government and taxpayer resources, the impact on the students in and out of school is of a much larger magnitude. Teacher absenteeism results in low 'at work' hours and leads to lower learning outcomes for students.

Government school teachers serve as the electoral officers for all state and national

elections in India. In fact, in many rural and remote areas, these teachers are the only people considered "officially" qualified (read, educated) to serve as electoral officers. Hence, no political party likes to draw policies or rules that do not meet the approval of the teacher unions, making them an immensely powerful body. A story I heard about the power of the teacher unions says that the District Collector of Hyderabad was transferred to another city because he tried to increase teacher accountability in government schools. This is also a key impediment to successful large scale implementation of Public Private Partnership models which envisage investment by private schools without giving them full management control. Government school teachers comprise approximately 10% of government staff and are the highest paid government employees (Kaushik, 2011). What further incentive can the government provide to encourage performance?

The inadequacies of the public school system are seemingly propelling parents towards seeking private education. It is clear that private schools exist around the world to bridge gaps left by public schools in meeting the demand for education services, though the nature and extent of those gaps may vary.

Schools run by Not-For-Profit organizations/ Corporate Social Responsibility Initiatives

Schools run by Not-For-Profit (NFP) organizations and CSR initiatives dot the education landscape in India. Run on donated funds, these schools are largely local and target specific populations in particular neighborhoods. While NFP schools can be found in both rural and urban areas, it is more common to find them in slum settlements of large metropolitan areas like New Delhi and Mumbai, targeting children of migrant and local labor families.

Pudami Neighborhood Schools (run by Dr. Reddy's Foundation)

I visited the Pudami school at Edulabad village near Andhra Pradesh on January 21, 2011. Run by the Dr. Reddy's Foundation, Pudami is a chain of 33 affordable schools, including 29 primary schools and 4 neighborhood schools (hub and spoke), opened at the village or block level in Andhra Pradesh. Dr. Reddy's Foundation is a non-profit partner of Dr. Reddy's Laboratories, which is India's second biggest pharmaceutical company (Dr. Reddy's Laboratories: Wikipedia, 2011). As per the Dr. Reddy's Foundation website (accessed March 8, 2011), the Pudami program aims to make good 'English-medium' education accessible to children from marginalized/ lower income communities. This is consistent with research findings that indicate parental preference for English as the

medium for instruction (mentioned in Chapter I) and will be discussed in detail in my section on parents, later in this chapter.

The school at Edulabad had grades K-7, housing 348 students, with an average class size between 25-30. The village has a population of 10,000 and in addition to the Pudami school, has 3 government and 3 private schools. I was amazed to discover that in spite of this, Pudami was able to attract full enrolment almost immediately upon opening. As per the school manager, one of the key reasons behind this is the fact that Pudami offers 'age-appropriate' admissions whereas private schools admit children to grades based on their current education level. For example, a private school would admit a six year old who has never attended school, into nursery (with 4 year olds), whereas Pudami would admit the child into grade I with his/her peers, creating, according to the school manager, "a positive development atmosphere for that child". And parents prefer this.

Unlike most Not-For-Profits, Pudami schools are not free. However, the fees are not sufficient to cover the expenses and the schools must rely on philanthropy. The current fees and costs (of books etc.) range from US$ 10 (KG) to US$ 23 (Grade VII) per month. This is more expensive than some low cost private schools in the district and, interestingly, unlike low cost private schools, they have no fee delays or defaults. Two phenomena can be seen to be at work here that I will analyze later in this chapter:

- Parents are willing to pay for their children's education
- Parents choose what they perceive as better education for their children

DPS Shiksha Kendra, Delhi Public School, R.K. Puram, New Delhi

This is similar to a Preparatory School Model. The 'school' is run as a project after regular school hours to provide education to under-privileged children under the supervision of Mrs. Pushpa Agarwal, Vice Principal at the Delhi Public School (DPS) in R.K. Puram, New Delhi. The school charges a fee of US$6 per month, as a nominal token to ensure parents' "commitment and buy-in." I visited the school on January 18, 2011. While DPS provides free use of its infrastructure, playground, laboratories and other facilities, the cost of teacher salaries and other school running expenses are funded through donations from parents of the morning/regular school and sale of handicrafts made by children. The project welcomes volunteer teaching in order to reduce costs and provides community service certificates to volunteering students as an incentive.

While all this sounds good, the project has its limitations. It is difficult to attract trained teachers, or to retain volunteers. The project runs after regular school hours, from 2.00 pm

to 5.00 pm. Assuming the full three hours are devoted to classroom study, this leads to a 18 hours of studying in a 6 days week, much less than what would be considered ideal. It promises to promote its top performing students to the regular school at no fee, but with about 1-2 students making it in a year, it is clear that only the extremely bright and determined will have this opportunity. The average student will continue with fewer hours of learning imparted by volunteers.

Skeptics within the Indian low cost education industry say projects like these are "eyewash" to satisfy government regulations requiring all schools using government aid, including subsidized land, to admit 25%-30% students from economically weaker sections. Parents of children studying in the regular school complain about the 'mandatory' donation they are required to make to fund the afternoon project. But for parents like Rajesh, who used to drive my husband's car, it is a dream come true - his son had gotten promoted to the morning school and he hopes his daughter will follow suit – thus gaining them access to education that he could never have been able to pay for.

Katha Schools

Katha is a Not-For-Profit organization that provides schooling for children from slum and street communities of Delhi and tribal villages of Arunachal Pradesh. I was referred to Katha by Nikhil Pant of Tech Mahindra Foundation, which is an employee-initiative at Tech Mahindra Limited.

I visited the Katha Khazana school in Govindpuri, an industrial slum of New Delhi on January 24, 2011 and saw a beautifully hand painted large school building with posters depicting effects of global warming. The school building has been granted to Katha by the Municipal Corporation of Delhi (MCD), the result of years of efforts that Katha has made in creating partnerships with the local government. As Mrs. Parvinder Kaur, Assistant Executive Director at Katha, proudly noted, Katha is now working on a school transformation proposal for MCD schools and training them in cluster teaching to handle school age differences.

Katha has a unique 'no textbook-story telling' pedagogy ('Katha' translated into English means story). There are no textbooks, except in grades X and XII, when children are tested on a common examination across schools. Different subjects are taught as laboratories, there are no fixed class-rooms and children move between 'labs'. Teachers are drawn from local communities and trained in-house. As a testimony to Katha's achievements, are its partnerships with Intel Clubhouse and MIT Media Lab.

The school targets children from the local community and charges a flat fee of US$2, further subsidized up to 80% based on the child's performance, as an incentive to parents. As Mrs. Kaur explained, children in industrial slums face different challenges from those in rural areas. Parents prefer children to work and earn wages or to help around the house, run errands, etc.. Even when children are enrolled, usually in government schools, they are not regular in attending classes. The challenge is not only in getting children to come to school, but to also create and hold their interest in learning, as their home learning environments do little to inculcate a love for knowledge.

There is no doubt that schools run by Not-For-Profits help bridge the gap in availability of education to children from lower income families. However, Not-For-Profits are dependent on donor funding to sustain their operations. While the established ones like Pudami and Katha are funded through their corporate partnerships, they still feel the dependence on CSR budgets and the strain of raising enough commitments every year. Lack of available funds restricts scaling up and expansion of resources. There are numerous NFPs/ NGOs in India doing commendable work in educating the socially and economically disadvantaged children, it is rare to see them branching out to different cities or expanding into multi-locational centers. The newly issued RTE Act 2010 further compounds the funding constraints by requiring large classrooms and larger playgrounds. As all school owners echoed, given the scarce funding available to these schools, spending priority is higher on building classrooms and teaching resources than on constructing large playgrounds as required by the RTE.

Private Schools

There is a consistent belief in the government, judiciary as well as general public that education is a "service" and a "social right" that should not be used for commercial purposes. This has led to the requirement for all schools to be run as Not-For-Profits, creating disincentives for private/ corporate investments in this sector. Of the 15% Indian students who study in private schools, 14% are enrolled in 'well-resourced' private schools and the remaining 1% choose low cost private schools. The well-resourced private school phenomenon is quite strong in India, and parents who can afford to, will send their children to study in these private schools. So the 14% statistic is not surprising. Even the 1% that choose private schools over government schools does not represent a strong deviation by normal statistical standards. Yet, gaps exist in the data. A number of low cost private schools are unregistered, operating under the radar of various reporting agencies.

Mr. Mohd. Anwar, founder and partner at Empathy Learning Systems (Anwar, 2011), estimates the existence of over 3 million low cost schools in India. Yet, there remain an estimated 70 million children still out of school, indicating weaknesses within the existing public and private school network.

Interestingly, in some ways, the government system has contributed to the growth of low-fee private schools. Starting in the 1990s, the Government of India launched large scale primary and elementary education programs that placed emphasis on enrollment of children. Demand was generated through community mobilization efforts using incentives like midday meals, free textbooks, uniforms and the like. As government schools opened rapidly across the country and people began sending their children to them, parental dissatisfaction also began to be evident. The poor quality of the government schools was reflected in the frequently absent or 'present-but-not-teaching' teachers, low levels of learning attained by children, and highly visible corruption in dealings with the schools. While not all government schools are of the same poor quality, public perceptions of poor quality have been rising. Local entrepreneurs have stoked this dissatisfaction and begun to offer a low cost competing product. As Indians move into higher income brackets, the number of those who now consider paying for education is rising (Commonwealth Secretariat, 2008).

Similar to the global picture, the low cost private school segment in India is a fragmented, "Mom and Pop" phenomenon. Although there are some chains like the Gowtham Model Schools in Hyderabad that have scaled over the years, there are few of them. Recent years saw efforts by the SKS Group, a leading microfinance institution in India and Career Launcher, a chain of highly reputed preparatory schools, to create their own chain of affordable private schools in rural India. The two launched the Indus Budget Academies in partnership, leveraging Career Launcher's expertise in the education sector and SKS's in depth knowledge of Andhra Pradesh. SKS, one of India's largest microfinance institutions, also provided loans to parents towards the school fee. The partnership broke within six months and SKS went on to launch its own chain of Bodhi Shiksha Academies. I visited the SKS Bodhi School, Bongir on January 21, 2011. The school manager was away so I could not talk to him.

I spoke with Nandini Sood, program Director of Career Launcher Education Foundation, on March 9, 2011. Career Launcher is no longer involved in operating low cost private schools, though Nandini says it is only a pause, not a stop. One of their schools in Bongir has been taken over by Naveen Kumar and I will talk about my visit there later in this chapter.

Nandini emphasized the interdependency of sustainability and scaling - a financially sustainable model is needed to scale and scale is required for long term profitability. Career Launcher's Indus Budget Academies had struggled to reach financial sufficiency. Based out of Delhi, they could not establish relationships with local communities. Their enrollment rates continued to remain low (10-30 enrollments in a year) and at a monthly fee of US$ 4, Career Launcher lost a fair amount of money before they exited.

Nandini believes that teacher training is key to improving quality and to move from a teacher-centric method to a child-centric method. A big challenge she feels is to "un-train" teachers in the traditional teaching methods and re-train them in new methodologies. This is one of the reasons Career Launcher had preferred young teachers with less teaching experience. A fair bit of parent training is also involved, in order to increase awareness around new teaching methods that depart from rote-based teaching. Career Launcher is now planning a low cost urban slum school model, which will leverage the infrastructure of the existing city schools (not low cost). One of the things they will do differently this time, is to engage in extensive parent and community communication, including workshops, door-to-door marketing, teaching demonstrations, etc.. They are also planning their second phase involvement in rural schools, though this time, they intend to charge a fee in the range of US$ 10 – US$ 12 per month.

Along with visiting Career Launcher's school in Bongir village on the outskirts of Hyderabad city, I visited a low cost private school in urban Hyderabad.

MA Ideal High School, Hyderabad

I visited the MA Ideal High School, Hyderabad on January 20, 2011. Warmly welcomed by Mr. Mohd. Anwar (owner and school manager) and his team including Mr. Ghouse, I gained the opportunity of learning about the working of a low cost private school in urban settlements. Mr. Anwar owns and runs 12 schools in Hyderabad, and is apparently well respected and trusted by the local communities. He started with a single school in 1987 with 40 students, and has over the years expanded his facilities – he now has 2000 children studying in his schools. Mr. Anwar is also the founder and partner at Empathy Learning Systems, an Education Service Provider I will discuss later.

The MA Ideal High School is located in the Kishanbagh area, surrounded by 6 other low cost schools serving a local population of 50,000 people. Despite the competition, the school is full and bustling with students. Mr. Anwar uses technology in many innovative ways to create value for parents and children. A computerized report card graphically represents

the child's performance over the year making it easy for the illiterate parents to not only understand, but also feel involved in the child's progress and education. The top 4 students of the class are named in every report card, incentivizing children to try and get their name in the list. I saw a report card and was amazed to see 4 different names every term – the incentive system seems to work. The school has a computer lab with educational software and I saw children using the lab to practice basic mathematic sums. Another innovation is using 'sms' packages (unlimited number of text messages at a nominal fee, provided by local cellular service providers) for keeping touch with parents. When I visited, Mr. Anwar was evaluating quotes for purchase of interactive media teaching tools.

Mr. Anwar charges monthly fee ranging from US$ 3 to US$ 5, with high school students paying higher fees due to higher salaries for teachers in the high school. Many parents pay on a daily basis, some weekly and some monthly – but there is no advance quarterly fee payment like the well-resourced private schools. Despite the low fee level and flexible payment options, Mr. Anwar says an average 25% payment default is expected. Schools like MA Ideal schools try to avoid admission cancellation of non-fee paying children – but this is very much linked to the owner's philosophy. As per Mr. Anwar, once a child is out of his school, the chances of that child going to another private or a (free) government school, are extremely low, thereby rendering that child with no opportunity for education. As per the UIS report on Children Out of School:

> "Globally, more than one in four children are out of school during one or more years of primary school age. One in ten will never attend primary school. Two-thirds of the world's out-of-school children grow up without any education. Primary school-age children who live in the poorest 20% of households are three times more likely to be out of school than children in the richest 20%." (UNSECO Institute for Statistics, 2005).

The same report finds that 65.3% of out-of-primary school children in India belong to the poorest 60% population. And the reasons are not difficult to understand. Families in Kishanbagh are usually multi-children and most of them send children to school by rotation – families pull the older child out when sending a younger one to school. Children at home run errands, help with household chores, look after younger siblings and, in many cases, go out to earn wages. Mr. Anwar is willing to work with parents to figure out a way to keep children in school, including supporting applications for government scholarships for eligible children as well as providing his own scholarships to the poorest. Over the years, his persuasion has paid off, and parents are increasingly willing to send their

children to school. Living in a predominantly muslim neighborhood, Mr. Anwar has kept parents' religious sensitivities in mind and keeps them continuously involved in their children's education/ progress. Displaying high levels of accountability, Mr. Anwar makes himself freely available to parents for discussions around how children/ teachers are performing.

Similar to other low cost schools, MA Ideal schools do not require their teachers to be certified as per government regulations. Mr. Anwar acknowledged that in some low cost schools (not his), teachers are so under-qualified that they cannot speak English, let alone teach in English – one of the biggest attractions for parents in the lower income segment. But the economics of running a low cost school do not permit hiring fully qualified teachers – even with the current situation, teacher salaries are estimated to be between 50% - 65% of a school's costs. Mr. Anwar echoes the views of Phil Frei of Bridge International Academies, Kenya (Frei, 2011) when he says that the emphasis is on training teachers to use the right tools and methodologies, instead of their educational qualifications.

Apart from the challenges of keeping children in school and managing the tight financial model of low cost schools, Mr. Anwar faces a big challenge in obtaining funding for expansion and improvement. Banks do not lend to these schools as there are no collaterals. The Indian School Finance Company was formed to finance low cost private schools. But with an average interest rate of >20%, these loans are too expensive for a typical low cost school. Assuming an average loan size of Indian Rupee 500k (~ US$ 10,000), the average interest burden of Indian Rupee 100k (~ US$ 2,000) is much too high for a school with average annual profit of Indian Rupee 100k (~ US$ 2,000). When asked, Mr. Anwar is dismissive of philanthropic contributions to the cause of low cost education. In his experience, charitable organizations would rather spend the majority of their funds on publicity and attracting donors than on actually putting all the money to work. The whole issue of availability of funding for low cost schools is discussed in detail later in this chapter in the section on Financiers and Investors.

Sudiksha Knowledge Solutions

I met Mr. Naveen Kumar of Sudiksha Knowledge Solutions in Hyderabad on January 21, 2011. Mr. Naveen is an *edupreneur* who has recently entered the field by taking over Career Launcher's Indus Academy budget schools in Andhra Pradesh. Sudiksha has five rural schools in Bongir, outside Hyderabad, and launched one new school in the Rangareddy district last year. The Bongir schools are at the lower end of the fee chain, at approximately US$ 3 per month. However, seeing the market potential, Naveen consciously priced the

Rangareddy school higher @ US$ 8.5 per month plus US$ 20 per year for books and has been pleased with the high enrollment numbers, which he attributes to the increased value offering with better infrastructure.

Unlike MA schools, Sudiksha is concentrating on rural areas. Rural schools face different challenges from urban schools – it is more expensive to attract teachers as the migration trend is strong for the educated to move from villages to cities. It is important to choose the right village with high enough population to provide critical student mass. Paying capacity differs across areas, depending on the size of the village as well as the primary occupation of villagers. However, Naveen revealed a very interesting fact. As per him, village parents have a 100% willingness to pay and he sees no payment defaults, unlike schools operating in urban areas or in Talukas, which have the 25% default rate that Mr. Anwar had mentioned. Another difference in the dynamics is that a village school has a lower cost for infrastructure as well as less competition from other private schools. This makes them sustainable even with lower enrolment numbers – a village level school could break even with 65 students whereas an urban school would need at least 200 students.

A key aspect of Naveen's business model is the extensive marketing to the community and parents. He does door-to-door demonstrations of teaching methods and tools, and tries to persuade community leaders and educated members of the neighborhood to act as opinion leaders in order to increase school enrolment. The door to door demonstration includes carrying a laptop to display videos, games and multimedia tools – a sure way of attracting attention of village parents as both parents and children like technology. This understanding has worked in Naveen's favor when he spent more than double the average investment on his Rangareddy school, equipping it with good infrastructure, technology, etc.. The school opened to almost full enrollment, and attracted children from even lower middle class families.

As per Naveen, local government bribes and corruption are a major problem and constitute a big operating cost, a view supported by Mr. Anwar. It is not only the cost of obtaining a license/ registration, but also the cost of 'satisfying' the periodic inspection visits by local government officials. A rough estimate puts the 'compliance' cost at Indian Rupee 4.5k per class (~ US$ 100) – which is a significant cost for schools making what I would estimate an average annual profit of Indian Rupee 100k (~ US$ 2,100). This could be one of the reasons many low cost schools prefer to stay unregistered.

I visited Naveen's Bongir school, one of the schools that he has taken over from Career Launcher. A tiny girl was celebrating her birthday, distributing sweets, dressed up in her

finery, complete with paper flowers in her hair in keeping with the Andhra tradition. She was shy and not very vocal with me, but confident enough to walk up to me and offer me sweets, which I felt honored to accept. The school was small and Naveen has plans to increase facilities and enrollment. He also has long term plans to expand his chain of schools to 30 in 5 years for which he needs an initial investment of Indian Rupee 2.5 million (US$ 52k). Naveen plans to focus on the upper end of the low cost schooling segment (monthly fee US$ 10 – US$ 20), his confidence bolstered by the success of his Rangareddy school. He has a business plan and is in talks with venture financiers. I wish him luck.

There is no doubt that the really low cost schools (US$ 2.5 - US$ 3.5 per month) are financially sustainable. However, they are viable only if they are proprietary and the owner's family is employed full time in the school – saving salaries of at least 2 teachers/ staff. The financial dynamics do not support a "corporate" setup even at larger scale. It is simple to do the math. Average annual profit per school is US$ 2000. Obviously, a really large number of schools would be required in order to support the overheads and other costs associated with a corporate setup.

Following is a summary of the key features of low cost private primary schools as I have understood them from my discussions and visits in India:

- An average low cost school could charge monthly fees ranging from US$ 2.5 to US$ 15.
    - Fee increases marginally per grade progression to provide for higher teacher salaries for senior classes.
    - Schools usually start with a few rooms within a home and then expand as the number of students grows. Many schools start with only about 5 grades and add a grade every year to support the graduating class. For example, a K-5 school would add grade 6 when the grade 5 class graduates, then a grade 7 to absorb the outgoing grade 6, and so on.
    - Average teacher salaries range from US$ 30 per month to US$ 75 per month. School owners on an average earn 25% - 35% margin. In a sample school with 5 grades and 200 students, school owners stand to make between US$ 1500 to US$ 2500 in net income per year, a fairly decent income in a country with 2010 GDP per capita of USD 3,400 (India: CIA World Factbook, 2011).
- Break-even is achieved at approximately 200 students and, as the experienced and knowledgeable Mr. Anwar explained, profitability is a function of capacity utilization, similar to a hotel. The marginal cost of an extra student in a class is zero until the class

has capacity. The standard model to expand the school by one grade a year (add a grade to accommodate the outgoing class) assures captive students.

- Infrastructure is basic, bordering on almost bare bones in some places. Buildings are constructed using average materials and maintenance is limited to necessities. Sometimes there is no electricity, especially in areas prone to power cuts as there is no budget to buy power backups. Sometimes there is no furniture – no benches, desks or chairs. This may be a conscious choice in the context of the local culture and home environments, or it could be driven by funding constraints.

- Spending priorities for any additional funds raised are based on 'tangible' additions that can help support a fee increase:
  - Procuring Real Estate for future schools or to move existing leased school to owned premise or to expand classes and facilities
  - Technology – for example creating a computer lab, getting interactive and multimedia teaching tools, etc..

  Using additional funds for hiring 'more qualified' and therefore, more expensive teachers is a low priority as parents appear to care less about teacher qualifications than about teacher presence, along with other proxy tests like quantity of homework given and prompt action on parents' complaints. These proxy measures are discussed in further detail later in this chapter.

- Teaching challenges include poor learning environments at home, as well as a lack of emotional and technical support from overworked and sometimes uneducated parents. The lack of guidance/ mentoring can sometimes negatively influence the level of interest a child has in education. This lack of support and interest, combined with financial challenges, leads to school drop outs. India is reported to have a 34% primary school drop-out rate (UNESCO, 2010).

- Teachers are usually high school or secondary school graduates. Teachers with government mandated qualifications are not likely to join a low cost private school since government schools offer a much higher salary, with better retirement/ pension plans. A cynical view would add that given the low teacher accountability in government schools, teachers prefer a 'low pressure to perform' job there.

Education Service Providers

The concept of independent Education Service Providers (ESP) is similar to existing private school management structures. Under the Government of India regulations, schools cannot be run for profit. Accordingly, private schools have a standard operating structure – the school is owned by a trust that contracts out the school's management and operations to a private company, that charges management fee and earns profits (very similar to how mutual funds are managed). ESPs have become an increasingly important part of the Indian education ecosystem in the recent years and this segment has been seeing rising private sector interest. ESPs offer a range of services including teacher and management trainings/workshops, curriculum management, and, teaching activities and methodologies. They target improved educational experience for students through improved teaching methods and teacher trainings. I am covering two ESPs in this thesis – Rumi Schools of Excellence and Empathy Learning Systems.

Empathy Learning Systems

Empathy was founded by Prof. James Tooley and Mr. Mohd. Anwar, owner of MA Ideal schools, in order to provide low cost schools a service that can help them enhance their quality of teaching, leading to improved learning outcomes. A news report describes their efforts as follows:

> After nearly a decade of observing these schools under the microscope, Tooley, a professor of education policy at the Newcastle University, stepped under the lens himself in 2009. He set up Empathy Learning Systems, a chain of 12 low-cost schools, investing Indian Rupees 65 lakhs along with Mohd Anwar, an education entrepreneur. Tooley is hoping to treat two primary ailments without stretching his purse: shoddy instruction and teacher attrition. At Empathy's schools, detailed lesson plans are used to combat higher teacher turnover, so that new teachers can immediately fill in the shoes of their predecessors. "A low-cost teacher training model ensures that you are not investing in instructors so much that the whole system collapses when they leave," says Tooley, whose current business interests have not diluted his reputation as a researcher. (Chandrasekaran, 2010)

Empathy provides curriculum and teacher training, introducing new teaching methodologies to improve learning outcomes for partner schools. Their value proposition is the use of phonetics to teach English and work primarily with the lowest cost schools,

with fees ranging from US$ 2.5 to US$ 7.5 per month. During my visit to the MA Ideal High School, I also visited classes and interacted with teachers and students. Mr. Anwar proudly talked about the effectiveness of the phonetics methodology and how children's retention of the English language had increased since it was introduced in his schools.

As Prof. Tooley mentioned during his conversation with me on January 12, 2011, Empathy currently works with Mr. Anwar's 12 schools plus 30 others in partnership. They have a model that can be replicated at an initial investment of USD 20,000 per school and the break-even is at 12 schools. However, when we were speaking with Mr. Anwar, he mentioned that Empathy had made losses last year, so the break-even estimate of 12 schools has to be revised. Empathy's teaching tools and training are also offered at a monthly charge of approximately US$ 3 to teachers from schools competing with MA Ideal schools in Hyderabad. This reduces its dependency on school fees, which are often paid erratically due to the irregular salaries of parents (Chandrasekaran, 2010).

Rumi Schools of Excellence

Rumi was launched in 2008 by R.F. Chandler (previously known as Orient Global), a social investment firm based in Singapore that believes in 'inclusive prosperity', after Richard Chandler read an edited version of Prof. Tooley's essay in the *Financial Times*, titled "Private Schools for the Poor Seek Investors" (Tooley J., 2009). As Paul Gabie, Senior Vice President at R.F. Chandler, mentioned in our conversation on January 12, 2011, Rumi is probably the largest player in the low cost school segment, along with Bridge International Academies, Kenya, although Bridge is still very young and smaller in scale. Rumi works primarily with the upper segment of the low cost market, with schools charging fees ranging between US$ 12 to US$ 25 per month.

Rumi provides teacher training, lesson plans for teachers, computer literacy support and school management training to its partner schools. I learned from two of my interviewees - and what might be something of an "industry grapevine" - that Rumi requires a 10% share of profits, which many school owners find expensive, and that Rumi provides soft loans, as a means of incentivizing partner schools. Rumi's business model is very different from Empathy in the sense that Rumi has a larger corporate setup, with a large team dedicated to developing curriculum and content. Accordingly, Rumi's costs of operation are much higher, pushing up the number of schools required for it to break-even. Prof. Tooley mentioned that he had heard Rumi needs 2000 partner schools, much higher than the 12 schools he estimated for Empathy or 10 schools for Omega Schools, Ghana. But it is quite aligned with the 250,000 students he had heard Bridge would need in order to break even,

given that Bridge too has a centralized corporate setup.

Rumi was a pioneer in its segment and as Snehal Patel, Senior Vice President at R.F. Chandler states, Rumi has tried to bring a business approach to the extremely fragmented and unorganized space. Snehal believes Rumi is going through the learning process like any start up and has to be flexible. Rumi's business model is yet untested and the current churn is part of the learning process as its tries to identify partner schools with similar values. According to Mr. Patel, it is a matter of time as the economy grows and the sector grows exciting.

Broadly speaking, both Rumi and Empathy are relatively young and it is too early to say which business model will prove successful. Returns are still projected but not yet realized. Broad calculations say that it will take between 3 to 6 years from startup to achieve break-even and longer perhaps to understand what works in this segment.

Financiers and Investors

Sources of funds for low cost schools include loans from banks/financiers and investment from venture capitalists/ social investment firms. Education is a hot sector for investors globally but it is unorganized and needs deep operational knowledge at both the school and investor level. Players like Rumi and Bridge have tried to bring a business approach, but not many business models have been proven yet. Further, the current economics of low cost education do not support corporatization. This, combined with the fact that players are doing well individually, deters consolidation. Lack of corporatization and consolidation creates disincentives for investors looking at business models that can provide returns comparable to alternate investment avenues.

Banks typically do not lend to low cost private schools. The reasons are numerous, all linked to the peculiar risk profile of this segment:

- Regulations require schools to be Not-For-Profit and banks do not lend to Not-For-Profit organizations
- Low cost schools lack the ability to provide tangible collateral or security
- Most low cost private schools do not maintain formal accounts, making due diligence difficult
- Most owners of low cost private schools lack high personal net-worth/ credit score
- Most banks do not understand the education sector and the schooling business

Indian School Finance Company

The Indian School Finance Company (ISFC) is a Hyderabad-based non-banking finance company which extends medium term loans at market rates to private schools which fall in the monthly average student fee range of Indian Rupee 250-600 (US$ 5 - US$ 12). School borrowers must meet credit and collateral requirements and be able to demonstrate the project management skills needed to use and repay borrowed loan capital effectively. Average loan sizes are about 12 lakh Indian rupees (US$ 24000) and are used primarily for infrastructure investment which allows an increase in enrollment, which in turn increases school revenue and ability to repay loan obligations. The ISFC's goal is to identify the most capable school operators, help them improve the academic quality of their programs for more children, and to expand their financial support of their schools over time as their experience with making productive use of loans improves. (Home: Indian School Finance Company).

ISFC was formed by Gray Ghost Ventures, one of the world's leading social enterprise investment organizations (Indian School Finance Company, 2011). Being a social venture fund, it understands the challenges of operating in an unorganized sector. Low cost private schools have a simple business model, and ISFC has the tolerance for less than perfect business processes. As per details provided by Mr. Brajesh Mishra, Director at ISFC, in our meeting on January 20, 2011, ISFC has provided about 250 loans in 2 years, totaling up to approximately US$ 3.35 million. The average loan size has been between US$ 17,000 to US$ 21,000, for a tenor of 3-5 years.

Among the challenges that ISFC sees in expanding its operations is the need for critical balance between process efficiency and credit evaluation. The lack of formal accounts at most schools leads to subjective due diligence, with healthy doses of intuition/ gut feeling thrown in while arriving at the lending decision. ISFC charges a fairly high rate of interest (@20% and above), which I believe is related to the high level of risk it takes on and probably the high processing cost per dollar transacted. The dynamics seem similar to the microfinance business where loan size is small and operational costs are high, necessitating shorter/ more efficient due diligence processes than banks, without compromising the quality of credit assessment. However, Brajesh says that they have been pleasantly surprised by the low level of defaults and NPAs. He says, "Our 30 days past due clients are just about 2.5% of the total portfolio. This is a great number to have; it is in the same range as other financial products out in the market to proven customer segments like car loans, personal loans, etc.. This means that our school owners as an asset class are equal to the

other asset classes." This is definitely an encouraging indicator for financiers and hopefully will help attract more players.

Another challenge that ISFC faces is around market creation and encouraging *edupreneurs* to work with ISFC. Given the history of not getting financing for low cost schools, many school owners are not aware of ISFC, especially outside Hyderabad. As both Mr. Anwar and Naveen had mentioned, it is usually quite expensive for an average low cost private school to borrow at ISFC's interest rates. Evaluating it from a borrowers' perspective – assuming an average loan size of USD 17,000, which is the amount required to construct 2 rooms, the annual interest @ ~24% is US$ 4000. For a typical small school owner in the target segment for ISFC, the annual profits from a single school are ~US$ 4000, making the loans too expensive. This probably means that borrowing will be limited to those *edupreneurs* who are planning for long term expansion/ scaling or to those who need funds for improvements that can increase the school's earning capacity and help compensate for the incremental interest cost.

R.F. Chandler (previously known as Orient Global)

Orient Global was created in 2007 by Richard Chandler, a New Zealand based businessman. It was renamed to R.F. Chandler in 2010. R.F. Chandler is a Singapore based private investment organization "accelerating inclusive prosperity through creative entrepreneurship" (Home: R.F. Chandler) and was the founder/ investor of Rumi Schools of Excellence, India.

Paul Gabie, mentioned in the previous section, feels that low cost education is a very nascent, young sector and while players like Rumi and Bridge are introducing new business models, they are still in the test phase and yet to prove the success of any given model, especially with regard to scaling. As discussed earlier, scaling is the key to successful corporatization, as only scale can provide the required financial sustainability.

As Paul says, the industry is attracting a lot of attention. However, most of it is around research studies, and policy discussions, and little is getting converted into action. While the business models are simple, the segment is complex. Business dynamics are driven by price points; developing curriculum, lessons and trainings for 12 grades x 5 subjects creates product complexity; plus the sector is extremely sensitive to socio-economic-political changes.

In India specifically, the RTE Act 2010 has threatened the existence of low cost schools - schools may not be able to keep fees low while fulfilling the norms of the RTE. The

changing regulatory landscape makes it difficult for an investor to take a long term view on a project. As Snehal Patel, Senior Vice President at R.F. Chandler mentioned in our call on January 24, 2011, the situation is compounded by corruption and practices like bribes/ compliance costs that do not stand scrutiny within a corporate context. As he rightly says, it is a challenge for the Indian government to create an environment where private players can operate and provide much needed services.

However, both Paul and Snehal agree that investors are excited with the potential of this segment. They believe that with the economy on the upswing, there is enough room for multiple players and multiple business models. It is only a matter of time they believe before this segment matures into a more organized and structured ecosystem.

SONG Advisors

SONG Investment Management Company and SONG Investment Company are firms based out of Mauritius, funded and owned by the Soros Economic Development Fund, Omidyar Network and Google. The overall aim of SONG Investment Advisors is to create a successful model to demonstrate that investing in SMEs not only can achieve shareholder returns-hence catalyzing greater investment in the sector-but can also generate stakeholder returns, such as increasing economic opportunities and jobs for the masses in India. (About Us: SONG Investment Advisors)

In 2010, SONG co-invested in a chain of affordable private schools in the state of Andhra Pradesh in India. I spoke to SONG's Managing Director Vishal Vasishth on March 4, 2011 to understand his view of the industry. Vishal is optimistic about the education sector in India. As an investor, he expects to see more deals happening and increased entrepreneurial activity in coming years. He feels that the K-12 segment has not seen much innovation due to the non-conducive regulatory environment, but this might be changing.

Vishal feels that investors are ready to bet on K-12, but in the fee range of US$ 20 - US$ 40 per month. This is not strictly low cost, but is at a level that existing business models can support corporatization. Informal sources say that SONG's portfolio company K12 Techno Services runs schools charging monthly fee in the range of US$ 30 - US$ 45 (I could not ascertain it directly). K12 owns the 'Gowtham' brand under which they have 65 schools in Andhra Pradesh. As part of SONG's innovative growth ideas, the group will leverage the brand to venture into new segments like vocational and pre-schools; and to partner with leading preparatory and coaching courses. They intend to leverage their expanding volumes to manage prices while enhancing their offerings.

Omidyar Networks

Omidyar Network is a philanthropic investment firm. The website for the firm describes Omidyar Network as:

> "dedicated to harnessing the power of markets to create opportunity for people to improve their lives. We invest in and help scale innovative organizations to catalyze economic, social, and political change. eBay founder Pierre Omidyar and wife Pam established Omidyar Network based on their conviction that every person has the power to make a difference." (About Us: Omidyar Network).

Omidyar provides early stage as well as follow-on financing rounds to established companies with profitable models. As per Mallika Singh, Investment Manager at Omidyar in India (in our call on March 3, 2011), what differentiates Omidyar from many other investors is that it is focused on market rate returns, and not on getting an exit. Thus, it seeks long term partners for social enterprises. That does not mean that Omidyar is not demanding – it requires similar returns as other 'financial' investors, ranging between 20% - 25% (inflation adjusted) and has stringent requirements for entrepreneurial quality.

Mallika sees 3 major hurdles to investments in low cost education sector:

- Legal and regulatory hurdles. These include the requirement of schools to be not-for-profit, restricting cross deployment of funds across schools and therefore the ability to scale; as well as the requirements for 'board' affiliations for any school having grades X and XII.
- Time and scale of returns. While on a unit basis almost all low cost schools are profitable, it requires upfront investment (high fixed cost) and several years to reach 20% operating margins. Further, the lack of models that can scale successfully limits the amount of margins.
- Entrepreneurial quality. Most *edupreneurs* are educators without business or academic backgrounds. This is similar to Vishal's view that the core education sector is educator driven or politically driven. They are said to lack the drive and vision to do things on a larger scale. And, they seemingly lack the business and financial credibility required to attract large investors.

Interestingly, none of the investors I spoke to appeared worried about the RTE and the fact that it might lead to the closure of low cost schools. While everyone agreed that the regulatory environment is non-conducive, they also seem to feel that the RTE may have

little impact beyond increasing corruption and 'compliance costs'. As per Vishal, the government spends US$ 30 on average per student per month – therefore, private schools that are able to recover more than US$ 30 per month in fees should be able to afford compliance with all RTE requirements in terms of infrastructure and facilities. This ties in with his earlier statement that schools charging monthly fee in the US$ 20 - US$ 40 range would be viable investment targets. Mallika felt that working with state affiliated and recognized schools will mitigate risks, especially as some states are more flexible than others with respect to interpreting the RTE rules.

Omidyar sees the demand for funds continuously rising while supply stays short as investors continue to look for solutions to the hurdles to investment. This seems to contradict the research by Mary Svenstrup, now a student at Princeton. Before coming back to school, Mary worked with the International Finance Corporation in the education sector in Asia. During our call on February 2, 2011, Mary said that in her experience, the biggest challenge for an investor was the lack of legitimate sponsors (entrepreneurs). In her view, investors are there, but viable investees are not.

Equity investments have started flowing in, yet debt continues to be expensive. Recent activities in large scale private investment in the affordable primary education space in India include involvement of SONG Advisors with K-12 Technologies and New Silk Route's investment in Chaitanya Schools – though these are not strictly low cost schools with a fee range of US$ 20 to US$ 40 per month. Omidyar is also exploring the affordable school segment for a possible equity investment.

From an entrepreneur's perspective however, financing continues to be expensive – it is either a share in stake/ ownership/ control or high interest rates. The average loan size required by low cost schools is too big for Microfinance Institutions to cover, although their 'customers', the parents, are microfinance borrowers. Lack of access to affordable funding prevents proprietary schools from making large investments in expansion or improvement, with the fragmented state of the industry acting as a re-enforcing loop.

Thinkers, Activists and Policy Advisors

Thinkers, activists and policy advisors have increasingly gained prominence in India. Rising levels of awareness and incomes have strengthened the civil society. Prominent figures from society including industrialists and celebrities are joining thinkers in lending their name, time and money in support of social and civic causes, including availability of

education for the economically disadvantaged. As noted in the *Wall Street Journal* by students of the Indian School of Business, Hyderabad,

> "It is a watershed year for the education sector in India with the Right to Education Act becoming operational from April 1, 2010. The budget has increased the allocation for education to 31,036 crore rupees from 26,900 crore rupees. The states will have access to a further 3675 crores through the Finance Commission. While this is a higher allocation, this still constitutes only about 4.5% of expected GDP, much lower than a number of other developing nations. The Finance Minister has followed the old adage of throwing more money in to build more schools and hard infrastructure, and there is no clarity on proposals for improving the quality of instruction and teachers. Year after year, we find that the Sarva Shiksha Abhiyan has unspent amounts, and increasing inefficiencies in the delivery of quality education. The budget has stopped short of any firm commitment for the implementation of the Right to Education Act or providing the right incentives for state and private players to contribute to this mission. Overall, a plaid budget for the education sector, displaying a lack of political will to implement the Right to Education Act and making quality education a reality for all the children." (Nandakumar, 2010)

Centre for Civil Society

I met Dr. Parth J. Shah, President of the Centre for Civil Society (CCS) and former Professor at University of Michigan-Dearborn, and Ms. Sujatha Muthayya, the Associate Director of CCS's School Choice Campaign, on January 19, 2011. The Centre for Civil Society is an independent, non-profit, research and educational organization devoted to improving the quality of life for all citizens of India by reviving and reinvigorating civil society. As per its website, CCS "is an ideas organization, a 'think tank' that develops ideas to better the world. The concept of 'civil society' is premised on individual freedom and responsibility, and on limited and accountable government. The "principle of subsidiarity" suggests that the state should undertake those tasks that people cannot undertake for themselves through voluntary associations of civil society" (About Us: Centre for Civil Society).

The School Choice Campaign (SCC) is "CCS's flagship project and was launched in 2007 to bring about the much-needed reforms in the system of school education in India today using the three pronged approach of Education Vouchers, Regulatory Reforms and Encouraging *Edupreneurs.*

School Choice is a policy reform idea developed to increase the involvement of parents in responsibly schooling their children by giving them ownership of the task. Based on education vouchers as a mode of funding for the schooling of needy children, School Choice is also designed to reduce disparity in the quality of schooling offered by the government and increase transparency and efficiency.

Article 26 of the UN Declaration of Human Rights states that parents have a prior right to choose the type of education they want for their children. The School Choice Campaign believes that what the poor need today is not just the Right to Education, but the Right to Education of Choice. As a public policy think tank, it has long been conducting research and advocating School Choice for the poor in India." (About Us: School Choice)

The School Choice Campaign is based on the premise that school vouchers have the potential to increase schools enrollments through providing coverage of school fee and costs, to empower parents by providing them the option to choose a school that they are satisfied with, to create incentive mechanisms for government schools and to open avenues for constructive Public-Private Partnership models. School vouchers have been used in different parts of the world, including Chile, US and some countries in Europe. However, there is no evidence to show that this system results in improved learning. Carnoy (1998) claims that based on the research of the Chile voucher system, when controls for the student's background (parental income and education) are introduced, the difference in performance between public and private subsectors is not significant. Per Thulberg, director general of the Swedish National Agency for Education, has said that the system "has not led to better results" in Sweden (Shepherd, 2010).

Prof. Tooley talks about his experiment with a small-scale targeted voucher scheme through the Educare Trust in Hyderabad, India, using the physical voucher idea to fund 500 children in private schools. He says "On a small scale it seems successful. But even on this scale, in the schools that I knew fairly well, a case of fraud arose. This problem grew exponentially with the scale of intervention, and so we would need to learn countermeasures early on" (Tooley J. , 2009). The School Choice Campaign is conducting two pilot projects testing school vouchers in Delhi. It will be some time before the results and success are measured and assessed.

CCS also houses the RTE Coalition – "a collaborative effort that wants to nurture a democratic space where each coalition partner - and interested citizen/ teacher/ parent/ stakeholder - will be able to strategize and contribute as to make universal elementary

education a reality in India. This portal is a One Stop resource for all interested in the Right to Education Act in India. Here you can find news, events, blog discussions, legislation and analysis" (About Us: Right To Education portal). As the description mentions, the website is a compilation of various resources on the RTE, including analysis of its requirements, latest news, comments and views, as well as suggestions sent by the Coalition to the government.

Pratham

Pratham is the largest non-governmental organization working to provide quality education to the underprivileged children of India. Pratham was established in 1994 to provide education to the children in the slums of Mumbai. Today it reaches out to millions of children living both in rural and urban areas in India through a range of interventions. The Pratham team comprises of educationists, development professionals, media personnel, corporates, workers, activists, PhDs, MBAs, CAs, civil servants, bankers, corporate professionals, consultants, who all bring their experiences and perspectives to the organization and are unified by the common vision of improving the future of children. (Home: Pratham)

Pratham has become a powerful voice in the area of educational reform. The Annual Status of Education Report (ASER) facilitated by Pratham is referred to by the Central and State Governments of India for formulating various plans and policies. Its senior team leaders are members of important policy making bodies both at the Central and State levels, including the Governing Council of the Sarva Shiksha Abhiyan. (About Us: Pratham)

I met with Amit Kaushik, COO of Pratham, on January 27, 2011. Amit has a long and distinguished background in the education sector, having worked as the Director of Elementary Education with the Government of India, then with UNESCO and with a private education foundation running well known and successful K-12 schools. He has a unique vantage point combining the perspectives of the government, private sector and a policy think tank. The meeting with him reconfirmed my understanding of the sector, providing a confirmation from someone who has evaluated many issues from different angles.

Having worked on the UNESCO Education For All program in India and on drafting the RTE 2005, Amit provided insights into policy thinking. As mentioned earlier, primary education across the world is considered the responsibility of governments. Making it a part of the Millennium Development Goals has made education a visible performance indicator for every government, and the Indian government is no exception. As Amit explained, there is considerable merit in restricting commercialization of private schools, as unconditional

commercialization will, in his view, lead to 'ghettoization' of schools. He believes separate schools will spring up serving different segments of the society based on income levels, religion, caste, etc.. Lack of adequate social interaction will lead to isolation and stratification of children and society, reducing respect for diversity. He also noted that the 25% seat reservation for socially/ economically challenged children is actually based on the social values of the Indian Constitution.

Another factor in support of large scale government involvement is curriculum control and alignment with the constitutional values. Unconditional privatization may lead to an increase in indoctrinations by religious schools like *madrasas* and schools run by RSS (a political party in India with a caste based philosophy). This does not mean that regulated and monitored private investment will not work, but it is to be seen if, and when, the government will change its policies. While consultation papers have been circulated on Public-Private-Partnership (PPP) models for schools, action has been slow. Amit recounted an incident when Pratham was working with the government of Punjab state on a PPP project. Government school teachers were agitated and annoyed with private sector involvement in Punjab. This lack of management control and minimal financial return makes the PPP model unattractive for private players.

A portion of our conversation focused on the RTE, perhaps the most disruptive development in the low cost education space in India, and its impact on the low cost private schools. Amit expects RTE to slow down the private investment in this sector. As it is, the regulatory environment makes it difficult to run a school for profit. Given the low dollar amounts of returns, there is little incentive for larger players to find workarounds to invest. This will be compounded by RTE requirements to reserve 25% seats for socially/ economically challenged children – cross subsidizing non-paying students with paying students – drastically skewing the profit model. According to Amit, existing low cost schools will either close down, unable to comply; or move up to serve the middle class segment in order to recover the cost of compliance; or work illegally. In either case, both the low cost schools and their students will suffer since it is not certain that the government will be able to step in with enough new schools to bridge supply gaps.

The RTE says that government will create enough schools in three years to ensure every child has access to free primary education. One wonders however, where they will get so many qualified teachers given the ongoing shortage of teachers. This question was answered by Mr. M. Dilip Kumar, Undersecretary in the Ministry of Human Resource and Development (Kumar, 2011) – as per him, the government is planning to recruit 500,000

teachers and allow them 3 years to complete their teacher certification program. It sounds like a plan, but given the historical record of poor enforcement and monitoring practices by the government, it is doubtful many of these teachers will actually be certified.

There is consensus among most observers of education in India that the private sector is not yet completely explored. As per Baladevan (Rangaraju, 2011), no formal research has yet been done on the number, penetration and performance of low cost private schools. His India Institute is surveying the state of Bihar to plug the data gap on low cost private schools which, he hopes, will bring to light information on the existence and contribution of these schools and help policy makers think constructively about how to improve and grow the sector. As policy researchers say, the education system is being run by non-educationists and policies are made by people who do not have insights into education.

Grey Matters Capital

Gray Matters Capital (GMC) is a private operating foundation, funded by Bob Pattillo. Gray Matters Capital researches and co-creates initiatives with local partners to build sustainable, replicable business models for the benefit of underserved populations. In 2007, the foundation turned its focus towards improving the quality and access to education for poor children in developing countries. (About the Foundation: Grey Matters Capital). GMC is playing the role of market maker for the affordable school segment in India and hence, occupies a place of its own in the ecosystem. Its role is complimentary to ISFC - GMC is helping create the market and ISFC will finance the growth. Co-located in the same office with ISFC, it is a fine balance for GMC while implementing its school rating system to be in close association with ISFC. But, the organization must take care to not be seen as dependent or pro-investor, pro-investee, or, even, pro-parents.

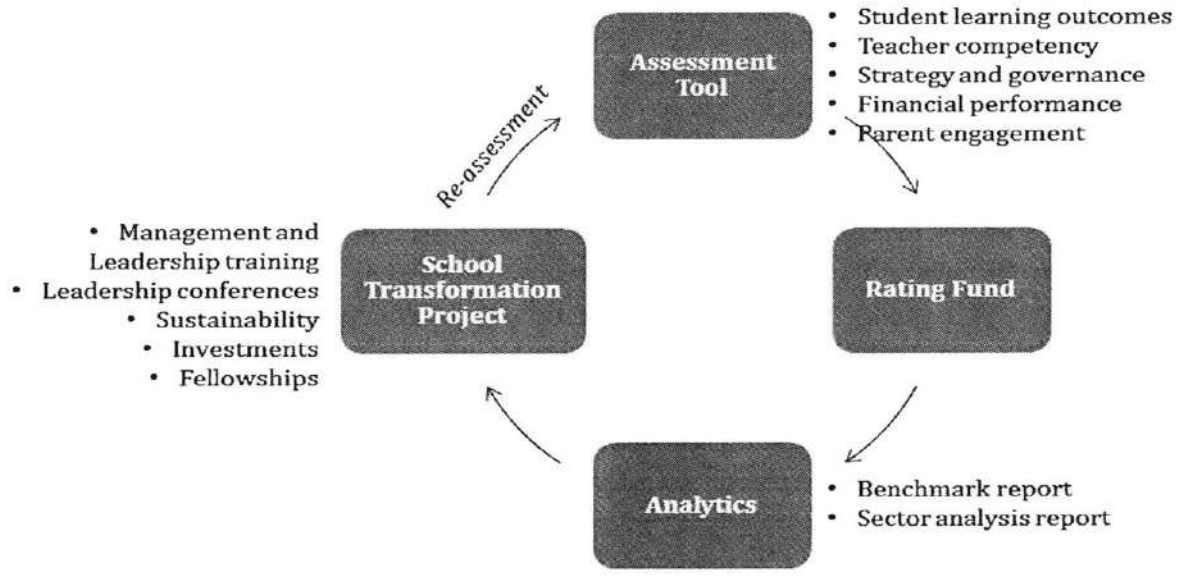
GMC is working to strengthen the ecosystem around the emerging affordable private school sector to ensure that schools have access to affordable tools and resources that allow them to offer quality education in a sustainable manner and to establish industry standards. The ecosystem will consist of a network of stakeholders from school owners/principals, teachers, parents and students working with external partners such as education service providers, donors, investors, and regulators. As a first step, GMC aims to measure performance and learning outcomes in 1,000 affordable private schools in Hyderabad by 2011. (About the Foundation: Grey Matters Capital).

This project is called the School Rating Project, where GMC is working with the Micro-

Credit Rating International Limited (M-Cril) in developing key indicators of quality education ranging from input data such as infrastructure, facilities, teachers, to outcome data such as student performance. Once established, it is hoped that the rating system would become an "industry standard" so that all affordable private schools would seek a rating, continually strive to earn a top rating, and freely share their data for benchmarking purposes. Under a new accreditation system such as this, stakeholders, especially parents, would have a better understanding of each school and the services they provide to drive student achievement. (School Ratings Project: Grey Matters Capital)

As explained by Pradeep Sharma, Country Director, GMC India, on January 20, 2011, schools would be required to subscribe for the rating service to establish the rating as being independent. The amount would be approximately US$ 250 – US$ 500, which will be subsidized by the rating company @ 70% - 90% in year 1 and 50% in year 2. It is expected that market dynamics will take over in year 3 as the program gets established. Pradeep expects that the ratings will create adequate incentives for schools to participate through three sets of benefits (1) Marketing and brand building for schools with good ratings (2) Opportunity for self-evaluation and improvement (3) School transformation program. The following figure (Figure 2) demonstrates how GMC visualizes its School Rating project linking with the School Transformation program to the benefit of school owners.

Figure 2: GMC's School Rating Project and School Transformation program



This School Transformation program will create a physical market to bring together schools and education solution providers to help schools strengthen performance in areas that are rated. Ratings are targeted to parents with currently enrolled children, to provide them tools to compare schools and make an informed decision about their children's education. There is also a potential for use of these ratings by regulators and financiers in the future.

Parents

Why do poor parents, who sometimes live hand to mouth, choose to send their children to private schools where they have to pay a fee as against sending them to free schools run by the government? The most likely argument is because these private schools are meeting parents' needs and preferences in ways that government schools are not. Poor parents spending a large portion of their income on education use proxy measures to test schools. Such proxies include:

- How well does the teacher speak English?
- Can their children read English signs and boards on streets? Can they converse with English speaking friends/ relatives?
- What did they do in school and how much time did they spend on 'studying'. How much time did the teacher spend with the class?
- Observe changes in child's personal grooming and habits
- Social network, talking to community leaders, comparing notes with friends
- How much homework do they get? (More homework is considered better, symbolizing that the child is 'studying')
- How well does the child score in tests?

Much of parents' preference for private education depends on the real or perceived quality of private education. Several studies demonstrate that many parents believe private schools are of better quality than government schools. The demand for private schools comes from a perception that government schools are not providing acceptable education for children, as manifested by low test scores, absent or ineffective teachers, and "status" indicators of private schools such as uniforms, or merely being able to tell one's peers that "my child goes to private school" (Baird, 2009).

The Commonwealth Secretariat report on low cost private education (Commonwealth Secretariat, 2008) draws upon a 2006 report by the Catholic Relief Services on an EQUIP program to bring about quality improvement in a group of low-fee private schools in Uttar Pradesh. The report points out that lack of sufficient number of teachers, teacher absenteeism where they are available and poor education quality (in government schools) are reasons articulated by parents for sending their children to private schools. The same report draws on Arun C. Mehta's study on elementary education in unrecognized schools in India (Mehta, 2005) to state that another reason for the demand for private schools is that they are popularly known as 'English-medium' schools and this too attracts parents.

English maintains a powerful presence among the poor of India. Many families choose private schools because they are English-medium and parents believe English provides their children with a competitive advantage. Although India has official languages at the state level, English is one of the two official languages for state business (along with Hindi). The vast majority of low income parents interviewed by Baird (2009) believed that if their child can speak English, he or she would be guaranteed a middle-class job. Baird also points out that in previous demand-side studies of low-fee private schools, the majority of lower-middle class Indians viewed English as their "ticket to mobility"— just within reach, but a ticket that requires sacrifices. Private school tuition is one of these sacrifices.

The PROBE 1998 report (PROBE Team, in association with Centre for Development Economics, 1998) documents the interest parents have in their children's education in India. The report states:

> "We find that even in the PROBE states (where parental apathy is likely to be most widespread) most parents attach importance to their children's education. For instance, in response to the question "is it important for a boy to be educated?", the proportion of parents who answer "yes" is as high as 98 per cent. Parental motivation for the education of girls, in particular, is lacking in a significant proportion of families. But the general pattern is not one of parental indifference. On the contrary, the "typical" father and mother are very keen that their children should receive a good education. It is another matter that they do not always have much faith in the schooling system's ability to impart such education."

With millions of parents making the choice of paying for their children to attend private school even in a context where relatively lower cost or even free government education is available, the reasons are fairly obvious (Commonwealth Secretariat, 2008). As the PROBE report (De, Drèze, & Kumar, 1999) pointed out:

- Poor parents perceive the quality of the private schools to be higher than that of government schools;
- This is not restricted to perception, and the quality is actually higher in terms of:
  - Level of teaching activity and time spent on teaching
  - Higher levels of teacher activity and closer attention to students; and
- The greater accountability of private schools to parents also results in better quality of education

Chapter III

Analysis of Low Cost Private Education in India

This chapter analyzes the low cost private education space in India in light of the information, facts and issues discussed in Chapter II. It discusses the quality of education offered by low cost private schools and the challenges faced by them in expanding/ enhancing their offerings.

Education versus Schooling: Assessing quality of education in low cost private schools

There is no doubt in my mind that low cost private schools are fulfilling a much needed role in India. However, many advocates of the low cost private school tend to ignore a crucial aspect – the fact that the bad is being chosen over the worse does not make it good! (Commonwealth Secretariat, 2008). It is a misconceived notion that government schools as a generalization are not good enough. In my view, the biggest issue and biggest difference between government schools and private schools is teacher accountability.

In a private school, parents feel 'empowered' as a paying consumer – they have the right and power to question the school and demand services. Supporters of the private schools argue that parents use proxy measures to test schools. I remember talking to our cab driver in Hyderabad about his daughter studying in an affordable private school. When I asked him whether it was a good school, he responded strongly in the affirmative – he was delighted with the school because they made the children study a lot, his daughter got a lot of homework and she scored 98% in her class tests. He did not seem to care about much beyond the fact that she was 'doing very well in her school', never realizing that the school is testing and evaluating the child internally with no external benchmarking and therefore the child's scores may not accurately reflect her learning levels.

All school owners recognize these proxy measures and try to meet them. As Prof. Tooley (2009) says, they ensure that teachers show up and teach, and they invest any surpluses in school improvement, to ensure parental satisfaction. But are these measures adequate? Prof. Tooley states "school proprietors simply care about their children's education and want the best for them".

I respectfully question that generalization. While I had the opportunity to meet some very committed school owners, I also see entrepreneurs who have identified a market gap and opportunity. Does the fact that school owners satisfy these parental proxy tests indicate a commitment to providing education or is it about satisfying customer's needs and running a profitable business?

I appreciate the phenomenon that these poor uneducated parents are beginning to demand services in return for their money. But, are these proxy measures really an informed way of taking decisions? Given the lack of information, it probably is the only solution for parents. Hopefully, the school rating project by GMC will be able to change the market information asymmetry and equip parents to be able to make more informed choices. But until then, these poor children have to be satisfied with receiving some sort of 'schooling' instead of education.

There are numerous studies comparing the learning outcomes in low cost private schools with government schools. There are conflicting views. A study by Prof. Tooley (2009) in India and Africa finds that children in low cost private schools outperform those in public schools. The Commonwealth report (Commonwealth Secretariat, 2008) draws upon different studies. It refers to studies by Geeta Kingdon in 1996 that showed private-unaided schools were 27% more effective at teaching mathematics than government and private-aided schools. It also refers to the study 'Mobilizing the Private Sector for Public Education' (World Bank, Kennedy School of Government & Harvard University, 2005) that points out that with schools being affiliated to different examination boards, learning achievement data across school types and states does not exist. Hence:

> 'school effectiveness studies in India are based on small surveys of schools in individual states, rather than on nationwide or even state-wide data....Thus, studies of the relative effectiveness of public and private schools in India have had to rely on standardized achievement tests carried out by the researchers themselves in small samples of schools..... but they share the common conclusion that private school students outperform their public school counterparts even after controlling for the schools' student intake.'

These studies are fairly dated, especially the one by Geeta Kingdon. India's public school system has grown by leaps and bounds over the last decade. Organizations like Pratham disagree that government schools can be generalized as having poor education. In fact, in Amit Kaushik's (2011) view, the generalization that private schools are better than government schools does not apply to low cost private schools at all.

While I am inclined to agree with Amit, let me explore this issue a bit. What is good quality education? That the 'private schools have better quality than government schools' may sound intuitively sound to people based on their experiences with other services provided by the government, such claims are difficult to substantiate given that there is no commonly agreed upon set of indicators of education that can measure the holistic

development of a child. Most claims to quality are based on comparison of scholastic performance in cognitive or subject-based tests, with the scores being used as a proxy for quality education. These tests typically tend to focus on a limited number of lower-order, mechanistic learning objectives and thus seldom assess critical learning goals (Commonwealth Secretariat, 2008).

The Commonwealth report further states that "in a recent research by the author, there is some indication that private schools might not have as strong an edge in such a case, since they tend to rely on rote memorization and 'exam preparation' and might emerge to be as 'bad' as government schools" (Note: I was unable to find this particular report in my search). Finally, while private schools might 'score' well when compared to those from a near-dysfunctional government school system, it is still worth exploring what the quality of these schools is *per se* (Commonwealth Secretariat, 2008).

There is a difference between education and schooling. What most low cost private schools are able to provide with their limited resources is schooling. I struggle with the comparison of low cost schools with government schools. Why not compare them with the 'well-resourced' private schools? Is it because such a comparison will put the spotlight on how poorly these low cost private schools perform? Or is it because the poor and economically dis-advantaged are entitled to only the lowest quality of services and they must wait while the world tries to figure out if there is enough aid money to help them? Are these private schools really equipped to be responsible for shaping the futures of millions of young children? I am not questioning the intent, just the capacity. Given massive resource constraints, these schools are able to provide only the basics. There is no money to obtain land for a playground – but sporting activities are an important part of a child's development. There is no money to get experienced teachers who have taught for many years and have gained a depth of knowledge – but teaching is not only about imparting specified lessons.

As per Nandini Sood (2011), the non-availability of physical infrastructure does not affect a child's learning, except for a playground. Nandini also believes that teachers with lower qualifications can compensate for the lack of training, knowledge and experience by having the enthusiasm to teach. Career Launcher had recruited teachers for their low cost schools based on the same internal tests as for their city schools, except that a lower score was required to qualify for the low cost schools. To quote from the Digital StudyHall website (Digital StudyHall is a project started by Randolph Wang, ex-Professor at Princeton University, and uses a technical approach which can be seen as the educational equivalent

of Netflix + YouTube + Kazaa): "One of the most important roles played by a hub is to ensure that the content generated at the hub is appropriate for the target audience of the underprivileged children to be served by the hub. We cannot simply record lessons in middle class schools and hope the resulting content can be meaningful for a rural audience... we stage and record specially designed classes in front of an audience of children from the neighborhood slums, who share similar backgrounds as our other target audience" (Hubs & Spokes: Digital StudyHall).

Why are the poor to be taught so differently? I understand that they have weak learning environments at home and their parents cannot help them with school work, but do we not see children learn a new language which their parents do not speak? Do we not see examples of first-generation college goers who have accomplished much without receiving 'learning support' at home?

I spoke with Deepti Doshi, the India representative for Escuela Nueva on February 8, 2011. Escuela Nueva is a Columbia based NFP in the education sector. In her view, low cost private schools are a great symbol of empowerment for poor parents and the fact that these people can hold the school owners accountable and answerable to them in case a teacher is missing or the child is not studying is a social benefit.

But I think these parents are already empowered if they have made a conscious choice of what they think is better education for their children. In my view, low cost private education is not about parental empowerment. It is about ensuring socially and economically disadvantaged children have quality education to form a solid foundation for a bright future, and providing them an equitable opportunity to progress in life.

* * * * * * * *

At present, the only options available to lower income segments consist of the low cost private schools and government schools. Low cost private schools work under numerous challenges to provide education to millions of children who otherwise may not have the opportunity. The mushrooming of private schools in a space hitherto occupied by the government is a demonstration of the power of social enterprises and markets – and, as markets grow, they will see innovations and quality enhancements, some of which are already taking root. So, even though I was dismayed when I saw a grade 6 child get single digit addition sums and tables repeatedly wrong, I am relieved that someone is at least providing him basic education and he is in school, enjoying his childhood with friends. He

still has a chance at a brighter future than he otherwise would have. But I am also afraid we are living in denial about the weaknesses in low cost education; and in its zeal to endorse the low cost private school phenomenon, the world may lose focus on the massive needs for improvement.

There is research questioning the quality of education in low cost private schools, but it seems to be overshadowed by reports of the benefits and need for low cost private schools. There is no denying the fact that government school systems in developing countries have failed to deliver; and that low cost private schools have for many years been bridging the gaps in the supply of education. But it is time to move up the curve and create quality improvements - the industry is still young, and this is the time for product innovation to capture market share through offering education to the poor with combination of high quality and affordable price.

Challenges for low cost private schools

Upon the education of the people of this country, the fate of this country depends.

- Benjamin Disraeli

Despite their shortcomings, low cost private schools fulfill a critical role – and in innovation-speak, they "kick-started the industry and product s-curve" for the affordable education segment. However, as discussed in earlier sections, the industry faces a number of challenges that it has to overcome as it matures.

Challenges within the regulatory environment

Low cost private schools seem to have been treated as exceptions and outliers, their existence ignored and denied for many years. Consequently, few in the education ecosystem considered them participants. Market and regulatory practices were designed to keep government and 'well-resourced' private schools functioning. Regulatory hurdles to For-Profit school ventures have discouraged corporatization and inflow of private investment. While *edupreneurs* have invented work-arounds, there has been little incentive for larger players to enter. The constantly changing regulatory landscape makes long term investments risky and corrupt practices make corporatization difficult. Today, RTE 2010, threatens the very existence of low cost private schools. Not only does it impact the lives of millions of children studying in these schools, it also threatens the entrepreneurial spirit and livelihood of thousands of *edupreneurs*, their employees and families.

Challenges inherent to the industry

While there is business and financial potential in this segment, it is tempered with risks and business complexity. As a way of summary, consider the following list of challenges:

- Informal sector: Formalizing it will be a challenge
- Product complexity: Created by content development and customization of each lesson for each subject taught in each class; and extensive lesson plans and teacher training are required
- Complex ecosystem: It is a very sensitive sector with many stakeholders including the central, state and local governments, parents, children, teachers and the community within which the school operates
- Risky growth model: There is no customer 'loyalty'. It is easy for parents to transfer children to another school if they are unhappy with a particular school. Additionally, bad test results can lead to long term damage to brand, reputation and enrollments. For example, adding a "board" class (10^{th} or 12^{th} when students are tested through a common statewide or national exam) triples the revenue of a school but one poor exam result can damage the school's reputation badly enough to threaten the school's existence
- Lack of organized, scalable business solutions: Individual schools are profitable but scaling is required to achieve profitability at a corporate or group level. There is no scale based solution that has been customized/ contextualized for low cost schools. GMC guesses the reason to be that the feasibility and market size have not yet been established
- Lack of formal funding: Lack of access to financing at reasonable costs severely restricts capacity to grow/ expand and enhance facilities
- Sensitivity to price points: The whole revenue model is based on charging a low fee. Any undue increase in fee can lower enrollments. Accordingly, operational costs have to be closely monitored and controlled
- Others: It is critical to build brand and reputation. The extent may depend on the scale of operations and could range from building relationships with community leaders to creating a brand at a 'block' level

Operational Challenges

- Availability and retention of qualified teachers: Teachers are known to change jobs for a hike of even a few hundred Indian Rupees (100 India Rupees = ~ US$ 2). High teacher turnover creates greater emphasis on teacher training programs. Teacher salaries constitute up to two-thirds of operating costs for low cost schools and this links back to the extreme price sensitivity of the business model

- Low management capacity: This is especially true for the numerous small proprietary schools, run by educators without business training. They lack understanding of operational and systemic inefficiencies, leading investors to shy away. In the view of investors, they are willing to invest but cannot find credible investees. Patel (2011) from R.F. Chandler sees most school owners having a short term focus on fees instead of a long term vision that helps generate increased revenue streams through improved education and services. He believes parents are ready to spend more for "better" education and move from US$ 2.5 to US$ 8.5 per month if they can see tangible improvement in education services offered

Apart from the above, a major challenge for low cost private schools is to find a way to improve their educational offering and take it beyond basic literacy and English/ Maths to incorporate aspects of critical and analytical thinking and personality development. This is easier said than done, given the ambiguities around what is considered 'good' education. But even if we go by the existing measures of scholastic performance, it is obvious, low cost private schools have a fair distance to travel before their students can compete with students from 'well-resourced' schools.

Chapter IV

Experiences from other developing countries

This chapter explores experiences in non-government provision of low cost education in other developing countries for learnings that can be possibly replicated in India.

Africa

Africa has been witnessing a low cost private education phenomenon similar to India and both countries have been covered together and separately in numerous studies on this sector.

Omega Schools, Ghana

Private schools play an important role in education in Ghana, accounting for at least 20% of all schools (estimates range from 18% through 30% to 60% - the uncertainties exist because of the difficulty of knowing how many children are in unregistered private schools). The Ghana Education Service recognizes this role through its Private Schools Unit and the government supports private schools for their contribution to education (Edited version: Omega's business plan, 2011).

This is a significant difference between India and Ghana. Indian regulations require schools to be NFPs whereas, Ghana permits schools to be run for-profit. This difference positively alters incentives for entrepreneurs wanting to enter the low cost education space in Ghana. Omega Schools was founded in 2008 by Prof. James Tooley and Ken Donkoh. It is partnering with school proprietors to create a sustainable large chain of branded low-cost private schools in Ghana. Omega currently operates 7 schools, teaching the Ghanaian curriculum, with 10 more in the immediate pipeline. When I spoke to Professor Tooley, he was excited about Omega and the possibilities its model offers not only for providing education to deprived Ghanaian children, but also for lessons that can be carried over to design solutions for other developing countries.

Omega's innovative business model has the following key features:

- Establish a premier chain of low-cost private schools in Ghana, with the potential for expansion to other countries in Africa
- Leverage scale to significantly reduce the average cost of educating each child in order to support a resilient education business, and build ability to succeed at the bottom of the pyramid marketplace. It is able to build and open a new school in three months at around US$ 60,000 each

- Innovative daily fee payment system. At present, parents pay a one-time GHC 2.00 (US$ 1.40) admission/entrance fee, and thereafter GHC 1.00 a day (US$ 0.70) recurrent fee covering cost of tuition, feeding, transportation, text books, supplementary readers, use of computer lab, school uniforms, workbooks and other stationery, plus cost of all internal examinations. Omega offers 15 discount cards to every parent per child per year. The child brings a card on any day the parent is unable to get the daily fee. This translates to a rebate of GHC 15.00 per year (US$ 10.5), ensuring that children are able to attend school on all days including times when their parents may not be able to pay the daily fee
- Child-centric approach. Omega's teaching is designed to focus on individual students, eliminate rote learning and expand student horizons through introduction of customized curriculum including vocational and life skills
- In addition Omega has the opportunity to utilize the same buildings, teachers and curriculum at the same 1 GHC per student per day for evening adult and teen classes
- Centralized curriculum development and teacher training
- Extensive use of data and metrics to analyze the educational model. Omega will conduct base-line assessments in Maths, English and student motivation, with change monitored each semester, and comparisons with a control group of schools

As per the Eleos Foundation website,

> "Eleos plans to provide loans to fund the next phase of Omega's growth. Omega currently has successfully proven its model in five pilot schools and is ready to expand at the rate of ten schools per year. Each school takes approximately two months to build and costs US$ 60,000 all inclusive. They break even almost immediately due to pre-enrollment efforts and they can produce positive cash flow of US$ 15,000 per year. Its economic profile makes each Omega School very suitable for startup loan financing, which can comfortably be repaid over the course of 5 years. Eleos contemplates structuring its funding as a loan with a five year maturity, with terms to be negotiated. This financing model for Omega Schools lends itself to an Eleos co-investment vehicle structure. We can finance any amount in multiples of US$ 60,000." (The Eleos Foundation)

I spoke with Ken Donkoh, co-founder and CEO of Omega Schools on April 2, 2011. One of the key factors in Omega's success has been its ability to attract full enrollment from the day a school opens. Omega pays careful attention to the location decision – the right

location includes presence of adequate target population plus the existence of other schools, implying parents are aware of the importance of education and are willing to pay for it. Omega starts canvassing local communities as soon as building construction begins; using banners, flyers, face to face meetings, word of mouth and informal communications to build awareness of Omega's educational offering.

As per Ken, the biggest challenge is to get parents and local communities to trust the school management. In his experience, even though parents may not be able to carry out sophisticated assessments of schools, they have their own rudimentary ways of evaluating quality. They are quick to shift their children to another school if they are unhappy with the current school. Omega tries to work with the parents' values and what they want for their children, instead of imposing their own views of what is better for children. For example, parents want market relevant education, including ICT training and spoken English skills, which they believe will help their children find 'good' jobs. They are naturally attracted toward schools that they believe will be able to provide these.

Each of Omega's individual schools is in the black and it is breaking even this year (7 schools) at the consolidated group level. Apart from the regulatory environment, which is more conducive in Ghana than in India, Omega's biggest challenges are similar to those of low cost schools in India – community acceptance, low availability of qualified/ trained teachers and the difficulty in attracting and retaining teachers. If Omega's model proves sustainable, its operational strengths can be replicated in other developing countries, including India. Additionally, Omega's fee payment is structured in a manner that enables application to the population segments living below or close to poverty line. This can be a revolutionary way of making private education available to the poorest, who are unable to make the monthly fee payments usually required by low cost private schools, and have no choice but to send their children to the free government schools.

Bridge International Academies, Kenya ("School in a Box")

Bridge International Academies was founded in 2007 by Jay Kimmelman, Shannon May and Phil Frei, with the objective of operating a franchise-like network of low-cost for profit primary schools to provide access to affordable high quality education for poor families in the developing world. Jay and Shannon are graduates from the Harvard Business School, while Phil studied at MIT. Their idea is to operate a network of schools supported by a strong central headquarters to have the scale, experience and capacity to invest in systems of management, support, training and innovation that will allow individual schools to dramatically increase their effectiveness.

At the heart of the model is the "School in a Box." The "School in a Box" is developed by the initial team and includes all of the tools, curriculum, materials, systems, processes, training programs, research and monitoring needed to open and run an affordable but high quality school. It also standardizes operations across all schools. The first school opened in 2009, and, as of August 2010, Bridge International operated a total of 10 schools in the slums of Nairobi (with a roll out of another 15 in January 2011). These schools employ 60 teachers and school managers and have 1,500 active students. The company has set a target of operating 3,337 schools by 2018; these schools would serve close to 2.5 million students (Rangan & Lee, 2010).

In September 2010, the Harvard Business School did a case study analyzing Bridge's business model. The HBS case study (Rangan & Lee, 2010) illustrates the challenges to low cost education in Africa – which are similar to those in India. These include low teaching times, hidden costs of education and a shortage of supply of government schools leading to overcrowded schools, decreased supplies per student, and a general deterioration of the system. As the case states:

> "Kimmelman recalled studies in which researchers, "went with stop watches to observe a number of class rooms. Only 90 minutes on an average, in an entire day, were devoted to instruction. Even in a developed country setting only five percent of kids in any class have the capability to learn on their own, the other 95 percent need instruction. In 2008 and 2009, Bridge International's research department conducted household economic surveys in dozens of the major slum areas in Nairobi and in many areas found that greater than 50 percent of respondents stated that the "free" government education was costing them more than US$ 3 in fees (sanctioned and non-sanctioned) each month. The company's research had revealed that in Kenya, like that in many countries of south Asia and sub-Saharan Africa, "education" was high on the hierarchy of purchased commodities, usually right behind food and shelter."

I spoke with Phil Frei, on March 1, 2011 while he drove to work in Nairobi. Shannon had been kind enough to share the HBS case study with me, and I could not help noticing pictures of seemingly dark iron sheds with children housed in them. Phil explained that there were specific reasons behind choosing iron sheds for school buildings – the soil in the area is clay, making 'proper' construction extremely difficult and expensive. All structures in the neighboring slum are the same – families live in iron houses so iron schools are not out of place. And, the iron schools are fully lighted and ventilated and designed to keep out

severe weather conditions. He also said that parents prefer good schools to fancy schools and good teachers are more important than good buildings. This, I think, is a philosophical and ideological response and does not acknowledge the main reason – the cost. Like any other low cost private school, Bridge also works under severe sensitivity to price points. Expensive construction would make the school unviable with its current fee structure.

Bridge's model is 'franchise-like'. Though Bridge owns the schools it operates, it has created an operational design, including incentives for school managers, similar to those of franchisees. Given the scarcity of entrepreneurial capital in Kenya, this is a practical solution to scale. The school managers are drawn from the local community, getting precious "buy-in" for the school to the extent that sometimes the school managers are self-selected by the community itself. Bridge lays a huge emphasis on the quality of school managers and has a double filtering process to eliminate those that are not the right 'fit'.

A similar rigorous selection method is followed for teachers, who are recruited based on internal evaluations and trained in the 'Bridge International Training Institute' (BITI). Although the teachers in Kenya are required to be government certified (similar to India), the Kenyan Ministry of Education recognizes that low cost private schools are limited by how much teacher salary they can pay. Hence, it is allowing an exception – and now the onus is on these low cost schools to demonstrate through their school performance that the non-certified teachers are at least as good, if not better, than certified ones. As per Phil, certification does not guarantee quality and vice versa, lack of certification does not indicate lack of quality. In the poorer regions, an expensive government certification program is out of reach for many aspiring teachers. BITI provides them an option and opportunity.

Similar to Omega, Bridge's educational model uses testing of student performance as a means of measuring teaching quality/ learning outcomes. It has hired an independent assessor to conduct longitudinal studies comparing the best and worst performing students at Bridge schools against those from other schools over time. It also follows individual student performances over time to identify any specific needs. I asked Phil if 'other' schools agreed to participate in the comparative assessment. He answered: "It is not always easy but sometimes they do!"

The target Pupil-Teacher-Ratio (PTR) at Bridge schools is 66:1 – high in comparison to the 30:1 ratio found in low cost schools in India, and the generally recommended 30:1 or 25:1 ratios in developed countries. As per Phil, most research shows that there are significant gains in learning from a lower PTR only if the PTR is really low, in the 7 to 15 range. Phil

said, "Beyond that, up to about 70 students, there is almost negligible differential." Most of my basic internet research indicates a preference for PTRs in the range of 15-30 but, I have not closely analyzed the research on this subject. As Phil says, the overall school and student performance is the key, regardless of the size of a class.

Among the topics I discussed with Phil were the proxy tests that parents often use for evaluating a low cost private school. The phenomenon in Kenya is the same as in India. Parents are demanding even if they are uneducated themselves. They compare schools and are quick to recognize differences between them. Bridge teachers send homework books daily to show parents the 'quantity' of work done, along with some visibly 'difficult' exercises. Bridge tries to balance a fair workload for students with the need to satisfy these proxy tests but it is clear that learning needs to be visible to parents.

We also discussed the experience of the three founders in raising funding for their venture. Bridge was able to raise USD 5 million from commercial and social investors in early stages. Phil acknowledges that it was extraordinarily difficult and they had a lot of individual investors. Institutional investors did not invest in the education sector and did not think Bridge could deliver the 20% return it was promising. Over the last three years, the economics have been proven and Bridge's success in delivering its business plan is making it easier to attract further funding. However, at the corporate level, Bridge has yet to turn a profit and this is yet the biggest hurdle for Bridge to cross.

Pakistan

The Citizens Foundation, Pakistan

The Citizens Foundation (TCF) is a professionally managed, non-profit organization set up in 1995 by a group of citizens concerned with the state of education in Pakistan. It is now one of Pakistan's leading organizations in the field of formal education. As of 2011, TCF has established 730 purpose-built school units nationwide with an enrollment of 102,000 students. TCF is constantly surveying education-deprived locations in Pakistan to extend its network. Each new location is appraised through an extensive land survey, assessment of population, income level, number and standard of existing schools in the area, demand for new school units, availability of an accessible site to build a school, qualified teachers in the area and a number of other criteria. (TCF Story: The Citizens Foundation)

I spoke with Faraz Siddiqui, a volunteer with TCF for the last 3 years, on March 31, 2011. Faraz works with Reckitt Benckiser but has been closely involved with TCF and its operations. The focus of our conversation was TCF's successful scaling and ability to maintain consistency in its educational offerings based on operational standardization at almost all levels. TCF has standardized its school model into 'units' of 5 classes each. Every school is built, operated, staffed, financed and managed as a multiple of a unit. School layouts are standardized, and every building follows the same blueprint. Subjectivity in decision making is reduced to whatever extent is possible. Even donations are linked to 'units' to the extent possible.

Faraz attributes the extreme discipline within TCF to the military background of its founders and key officials. Staff functioning follows a military-like protocol, with strategy being set at headquarters and being implemented in the field. Most of the field staff is also from the army, and TCF draws upon their training in multi-cultural dealings to canvass for enrollments within local communities. TCF is dissimilar to many Not-For-Profits in the level of emphasis laid upon efficient use of donor funds. The operational cost per child per month is Pakistani Rupees 800 (US$ 9.5). Total operational overheads are limited to 10% of overall cost, to avoid creating a large internal bureaucracy that is quite commonly seen in Not-For-Profits.

Being a Not-For-Profit, TCF is able to provide many resources and facilities to its students that a fund strapped low cost private school cannot. This includes mentoring, career counseling, computer education, laboratories etc. TCF schools have a pass percentage equivalent to schools with comparable operations as well as the more 'well-resourced' schools. However, the grade distribution is still considerably below that of the 'well-resourced' schools. As per Faraz, the biggest reason for this is not the poor learning environments that students get at home – they believe their teachers can compensate for that. In TCF's view, the biggest reason is the lack of exposure or rather the limited exposure to the wider world that TCF students and their parents have. As an example, while students from 'well-resourced' families and schools aspire to enter the best colleges and universities, a typical TCF student, from a lower income family, aspires to simply pass his exams and move on to the next grade. The drive to do better is weaker, given the lack of awareness of the opportunities available.

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The three examples above are based on three different business and educational models. However, all three have lessons to offer. Bridge and Omega are new entrants in the low cost education segment and their early financial and operational successes are helping establish evidence that certain innovations can work. They are also helping open the space for social investors, which will hopefully lead the way for financial investors. Though TCF is a Not-For-Profit, the design of its operations and scaling model has applications in the private sector.

Chapter V

Conclusions and Recommendations

This last chapter debates the need for low cost private schools in India and suggests the way forward and future research topics.

Making the case for low cost private schools in India

There are many critics of low cost private schools who maintain that there is no credible evidence to prove that the education offered by budget private schools is viable or desirable. Sarangapani (2009) argues that schools need to provide for holistic all-round development of children; this requires adequate space and facilities, time to be spent at school, a sound curriculum, and qualified teachers who can ensure that children have worthwhile learning and development experiences and opportunities.

While everyone agrees that low cost private schools are severely lacking in the space and facilities they provide, the issue of curriculum and 'qualified' teachers is much disputed. School owners claim their lesson plans are designed within the requirements of the national curriculum, hence should be no cause for concern. On the matter of having government certified teachers, school owners simply point to the state of teaching in government schools and ask if certification can guarantee teaching quality. Instead, they insist, it is their intense focus on teacher training and accountability that ensures teaching quality - though surveys find that less than 10% of teachers from low cost private schools undergo annual training.

As per the Commonwealth Secretariat (2008), report, the UNESCO Institution for Statistics (UIS) urged caution when attempting to survey unrecognized and low cost private schools 'as they may not meet the requirement of Universal Primary Education as regards of quality education'. Of this, Sarangapani (2009) says:

> "there is no credible evidence yet, that the education offered by budget private schools is comparable, leave alone viable or desirable. The desirability of the education on offer in private schools should also be a matter of concern, when we realize that in Tooley's model, the commodity that is on offer in the market is "educational opportunity" and not education per se. This means that the onus on the private provider is only the provision of education, and not the responsibility or task of ensuring that children become educated."

In order to understand the need and importance of low cost private schools, it is important to analyze their function from the following perspectives:

- Why do low cost private schools exist? What has spurred their rapid rate of growth over the last few years?
- What is the role they fulfill within the socio-economic context?

Reasons behind the low cost school phenomenon

As I have stated earlier, low-cost schools have emerged out of demand from low-income parents for access to education for their children. Two principal problems plague low cost education systems across the world: lack of access and low quality of education. Low cost private education has emerged as an effective, market driven solution to these two issues. As per Baela Raza Jamil (2010),

> "Affordable Private Schools are a response to both excess and differentiated demand. Excess demand fills the gap of low provision for all children at different sub-sectors of the education system (primary, middle, high/higher secondary). Differentiated demand represents "school choice" and variety available to households beyond one stereotypical "public sector" school type, inclusive of both secular and faith based schools.
>
> They are a market, or perhaps a citizen response to creating acceptable alternatives to poor performing public sector schools. In many ways, they are symbolic of the new role of the state and the citizen, symbolizing "citizens voting with their feet" for alternatives that they can live with and be assured of for their children's well-being in the 21st century, rejecting the so-called myth of "free education." Citizens are willing to bear the burden of learning themselves, often at considerable cost. Such is the demand for quality education."

Low cost private schools are social enterprises. Parents are 'customers' who demand quality education. Essentially, low cost private schools represent a parallel education system. And, as with any market solution, supply and demand is driven by consumer behavior. With private schools, we have consumers - children and their families. These consumers are aspirational. Parents hope for a better life for their children. They can see the future, and they will try to reach it through educating their children (Villani, 2010). And they see these private schools as the means of reaching this imagined future, thus creating tangible demand.

Low cost private schools are 'entrepreneurial' ventures. They are focused on servicing market needs with enough flexibility to respond to feedback and market changes. School owners can hold their teachers accountable to quality standards, thus holding themselves

accountable to parents. Performance and teaching evaluation is ongoing and student turnover and fee collections translate into real time feedback on parent satisfaction. Government schools, on the other hand, lack mechanisms to capture feedback and translate it into action items. It is no wonder that parents are frustrated with the lack of accountability and results in government schools.

Socio-Economic impacts of low cost private schools

The key arguments in favor of low cost private schools center around two basic factors: superior learning outcomes and greater accountability.

- Superior learning outcomes:

Probably the most cited factor is superior learning outcomes in low cost private schools than those obtained in government schools. In India for example, the ASER 2010 report (Pratham, 2011) finds that only about 41% grade III students can read text books from grade I and only approximately 53% students from grade V can read text from grade II text books. And these percentages have shown a decline since 2007. This is a telling statistic about the quality of teaching taking place in government schools. There are many research and studies that have found learning outcomes in low cost private schools exceed learning outcomes in government schools. Although the evidence from these studies is not yet extensive enough to offer conclusive findings, it is indicative of the trend. As Genia Topple argues:

> "The sector of affordable private schools —independent schools in low-income areas that can cost as little as US$ 2 per month—has the opportunity to transform education for low-income children worldwide. Social entrepreneurs have stepped up and initial research indicates that they give the parents what they pay for – a better quality education" (Topple, 2010).

As per the Centre for Civil Society survey titled 'Education for the Poor' (Centre for Civil Society, 2007):

> "The poorest parents of Delhi belonging to the socio-economic classes of C, D and E, households with an income of less than Rs. 5,000 per month (~US$ 105), were asked how much they were willing to pay for government school education, if they had to pay for it themselves. The average answer was an astonishing Rs. 66 (~US$ 1.7) per month. When asked what they thought it cost the government, they said Rs.100 (~US$ 2) per month per child. Nearly 37% of them felt the

government was spending about Rs. 50 (~US$ 1)! In reality, these schools cost tax payers, on a conservative estimate, Rs. 800 (US$ 17) per month per child! Government school education is valued by its consumers at less than 1/8th of what it costs the exchequer. The discord between the perceived value of government schools and the actual value is indicative of the quality of the education provided."

- Social empowerment:

  The second most cited factor is the social empowerment impact of low cost private schools. Poor parents have a choice as to where they want their children educated. They also have a voice in the quality of service they receive – the ability of parents to complain and demand action against teachers they think are 'low performing'. A vast majority of poor families look upon education as a necessity for their children in order for them to have opportunities to progress and move out of poverty. The fact that they now have the ability to choose, decide and pay for where their children should receive their education, is an acknowledgment of their increasing participation in the economic landscape. Couple this with their right to demand 'quality' services and a picture of economically and socially disadvantaged being active participants in the market-place emerges.

There are other socio-economic advantages as well. Consider these listed below:

- Positive impact of entrepreneurship on the economy:

  Most economists agree that entrepreneurship is essential to the vitality of any economy, developed or developing. Entrepreneurs create new businesses and then generate jobs for themselves and those they employ. In many cases, entrepreneurial activity increases competition and, with technological or operational changes, it increases productivity as well. Hector V. Baretto, administrator of the U.S. Small Business Administration (SBA), explains: "Small businesses broaden the base of participation in society, create jobs, decentralize economic power, and give people a stake in the future" (U.S. Department of State/Bureau of International Information Programs). As Peter Drucker (1985) says: "The entrepreneur always searches for change, responds to it, and exploits it as an opportunity". Entrepreneurs are responsible for the commercial introduction of many new products and services, for opening new markets and for multiplying consumers' choices (Holden, 2008).

  Low cost private schools are creating all of the above mentioned impacts on economic

development. They are creating new businesses that generate income, creating employment and introducing new schooling choices for poor parents. By including both school owners as well as lower income segments in economic transactions, they are decentralizing economic power and helping in poverty reduction.

In countries like India, low cost private schools face competition not only from government schools, but also from schools run by Not-For-Profit institutions and other low cost private schools in the same vicinity. As the private schools model is profit-driven, school owners have strong incentives to maximize revenues, respond to market/ customer feedback and compete effectively. As noted earlier in the thesis, the low cost private school business model is extremely sensitive to price points and hence, limits price-competition. As the market grows, these schools will be forced to sustain themselves through differentiation, using innovations and quality improvements – positively benefiting their customers; the parents and the students.

- School Efficiency:

Apart from test and examination results, another aspect of school quality is in terms of school efficiency. One of the reasons some educators advocate low-cost private schools is their economic efficiency. Different estimates put the government's average annual cost per child in a government school between US$ 250 and US$ 400. The annual cost of a low-cost private school is usually in the range of US$ 25 to US$ 50 per child. It is clear that the private sector is providing education at a lower cost than the government. The Commonwealth Secretariat report on low cost education (Commonwealth Secretariat, 2008) notes the following research findings from Y. Josephine's study of school efficiency in Mysore high schools (Josephine, 1999):

- Private institutions had lower unit costs when compared to government schools – 'they pay less to teachers, may operate shift systems, use teaching aids, laboratories and libraries more efficiently'
- Despite higher unit costs, government schools had lower outputs, as a result of greater wastage and stagnation. Unlike parents of children in private schools, parents of children in government schools took less care to ensure their children's attendance, and much higher dropout rates were observed in government schools.
- In terms of examination results, the pass percentage was the greatest in English medium private schools (the least being in government schools). The English medium schools also registered better marks, at a lower unit cost than in

government schools.

- Government schools made poor use of available resources (for example poor maintenance of libraries) and funds (e.g. delays in purchase of lab equipment, leading to cost escalation and the school being deprived of the resource for the duration), thus failing to get 'optimum better return for the money spent'.

* * * * * * * *

Criticism for low cost private schools sometimes stems from the belief that education should be the responsibility of the government and that it is only with the help of government resources that education can be made available for all. But private schools exist in every country and they will continue to do so as long as there are paying consumers who prefer to send their children to those schools. Based on the points discussed above, I think it is quite clear that the case in favor of low cost private schools is strong. Their socio-economic impacts outweigh criticism that has been directed at them.

Tooley (2009) cites Kevin Watkins, the author of The Oxfam Education Report and then director of United Nations Development Programme as writing that parents should not "withdraw their children from the public education system and put them in private schools" for this "reduces parental pressure to improve government schools". I would think that the very act of parents withdrawing their children sends the strongest possible signal to government schools that their quality is lacking. Despite all criticism targeted at low cost private schools, why should poor children spend valuable years of their school life waiting for the government to respond to their complaints?

If private schools can provide at least the same quality of education (temporarily discounting claims of better learning outcomes) as government schools in a more resource efficient manner, is it not good for the consumer (parents) to have a choice? Should the right to choose schools be a luxury reserved only for the elite while the poor are forced to be satisfied with what the government decides is good for them? While their teaching quality definitely raises questions, shutting down low cost schools and taking away whatever limited school choice is available, is not the solution. Raising their quality, is.

The Way Forward

It is not enough however to make a case in favor of low cost private schools and leave it at that. Some amount of regulation is important to maintain discipline in the private sector which is susceptible to the lure of profits. At the same time, low cost education has to be treated as similar to any other industry, where private participation is crucial for the development of the market, product and price. Appropriate incentives should be created to encourage further growth and investment; and transparency and compliance, while providing for monitoring of operations, outcome and quality.

"India is a land of diversity -- of different castes, peoples, communities, languages, religions, and culture. Although these people enjoy complete political freedom, a vast part of the multitude is illiterate and lives below the poverty line. The single most powerful tool for the upliftment and progress of such diverse communities is education. The state, with its limited resources and slow-moving machinery, is unable to fully develop the genius of the Indian people...

(Private institutions') grievance is that the necessary and unproductive load on their back in the form of governmental control, by 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

Vishal Vasishth of SONG Advisors feels that the K-12 segment in India has not seen much innovation due to the non-conducive regulatory environment that, instead of encouraging private investment, encourages many 'non-kosher activities'. There is a multitude of coaching and preparatory schools helping students prepare for higher education from engineering and medical to SAT and GMAT. Preparatory courses and schools represent a multi-billion dollar industry in India.

With the passing of the RTE, low cost private schools face the threat of going out of business. It will disrupt many small local economies by running entrepreneurs out of business. And by any reasonable estimates, the government is not prepared to handle the sudden increase in requirements for schools and teachers to plug the gap that will be created by the closure of these schools. Further, it is not clear that all displaced students from these low cost private schools will shift to government schools. Even for those who

do, given the weaknesses of the government schooling system, is it necessarily going to be better education?

The government needs to take a more constructive view on the involvement of the private sector, looking at it as a partner rather than an undesirable entrant. It should allow private sector involvement, incentivizing competition and entry of larger players to bring scale, innovation and quality enhancements. The government must also provide for transparency and monitor compliance; leading to the free market necessary to grow the low cost education segment into a mature industry. The government of India is open to private sector investment in other segments of education including vocational training, preparatory schools, colleges and universities – all institutions that are fed by schools. Large corporate houses and some of India's richest people are planning large universities. Then why not let schools be open to private sector investment too? Higher education institutions face the same supply scarcity as elementary and secondary schools. So too with vocational schools. If the private sector can step in to support the government in meeting the demand in these segments, then why can it not do the same in primary schooling? Is it because proponents of the low cost education segment have little political influence?

A more conducive regulatory environment allowing for-profit entities and easy registration procedures must be accompanied also by carefully designed guidelines to ensure that the desired quality of education, teaching and facilities is provided. It is important to acknowledge the limitations of the facilities that the existing low cost private schools are providing – from small crowded rooms, to poor lighting, to under-qualified teachers and missing emphasis on overall child development. The solution is not in imposing expensive requirements that will force these schools to shut down and take away whatever limited freedom of choice poor children and their parents have. The solution is in working with the private sector to help build capacity and quality improvements. This should not be difficult to set in place. Simple considerations for the financial limitations of low cost schools like allowing for use of common playgrounds instead of mandating a large, expensive owned playground, may help low cost schools survive. In the current corrupt system, it is easy to escape with non-compliance as long as school owners keep the concerned government officials happy. A revision to RTE, allowing low cost private schools to function and reducing the cost of "license to operate" would be a welcome step for those who want to enter the segment with scalable models and for investors wary of high compliance costs. Added transparency would also go a long way in enforcing compliance with government regulations, to the benefit of children, parents and society.

Edupreneurs in India have traditionally followed the bootstrap model: They plough in personal funds and those generated by trade credit, consumers (student fees), debt and factoring. Their choice is made as much for the ease of following the model as for the restrictions on private provision of for-profit education in the country. In most cases, low cost private schools are tiny, run out of small rooms, with less than 100 students and run by an owner/proprietor who also teaches in these schools. Against this backdrop, scaling up has a different dimension altogether. Visions of bigger buildings or a greater number of classrooms give way to that of more small schools in more locations benefiting more communities – vertical sprawl gives way to horizontal spread. But, as established low-cost schools seek expansion, funding appears as the key constraint. (Ganesh, 2010).

The next step should be to create an investment climate that allows larger and formal private sector involvement in this space. School owners want to grow their schools, scale and enhance their quality offerings, but their biggest hurdle is finance. Formal and mainstream financial institutions are reluctant to extend finance to these tiny businesses, for fear of default, since the schools lack collateral.

Another challenge for the government is to improve teaching quality, across both government schools as well as low cost private schools. In this regard, it is worth considering why the teaching profession is not a preferred choice for a young professional in India. It is common to find housewives working part time to obtain certifications to get a teaching job, but not common to find bright young scholars wanting to spend time teaching. Maybe it stems from the old adage that professors and school teachers are 'poor', and being 'poor' hardly fits the aspirations of upwardly mobile Indian youth. Or it may be linked to the lack of non-monetary incentives for academicians. For example, lack of research funds prevents the intellectual stimulation that drives scholars. Professors from colleges/ universities are rarely invited to research and work on critical programs in government or industry. Teachers in India are rarely considered an important part of a child's development.

Ms. Agatha Sangma, India's Minister of State for Rural Development, has suggested that government efforts to increase salaries for government school teachers would help make the teaching profession more attractive. Even at the current levels, salaries of government school teachers are somewhere between 10x to 12x that of the salaries of teachers in low cost private schools. In some cases, the monthly salary of a government school teacher is more than the annual profit of a small low cost private school. Yet, there is no proven positive correlation between teacher salaries and teaching quality/ learning outcomes. This

has been observed in the disparity in learning outcomes in low cost private schools with low paid teachers versus those in government schools with high paid teachers. Raising salaries is not I think the solution, but better teacher training and establishing accountability and measurable performance metrics, is.

The low cost education segment should also draw upon its past experiences in India and in other countries of the world to counter the challenge to scale. For example, the segment could learn from models used by The Citizens Foundation, Bridge and Omega - building a chain of schools with standardized deliverables that can be measured and compared. Ensuring governance, quality and standardized education provision at multiple locations is key to successful scaling – the more the standardization, the easier the replicability; and the more rigorous the governance and monitoring, the smoother the delivery and consistency of teaching quality.

Given the tremendous resource constraints in the sector, evidence points to franchising as a suitable model to scale. Franchising offers several degrees of involvement between franchise partners and can range from a simple brand or seal for a royalty to deeper value chain relationships – in other words, a sub-model to suit every *edupreneur*. Franchising in the low-cost schools sector has significant benefits for school owners and for the sector as a whole - schools can scale rapidly with shorter time to launch, leverage start-up and ongoing training and curriculum support, and, potentially, see a reduction in teacher attrition levels, given that the franchise is a brand teachers want to associate with. As Ganesh (2010) suggests, chains of schools might also engender greater credibility with consumers (parents and students), funders (banks, private equity) and regulators (State and Central Government).

Genia Topple of Grey Matters Capital recommends the following industry specific needs in order to increase access to quality education to more low-income students (Topple, 2010):

- Metrics: Data on the quality and performance of low cost private schools is very limited. Better data is required to prove how these schools are directly impacting the lives of their students and to enable parents to select the best schools for their child. Enrollment data and, more importantly, performance data, are needed.
- Quality interventions: Do low cost private schools have the right tools for success? What interventions—whether it be instructional practices, the use of innovative technology, or improvements that are taken for granted in the developing world (such as the midday meal) will help the sector and its students thrive? Quality interventions, driven

by demand from low cost private schools, are a necessity.

- Capital: School owners and administrators are cash-strapped and typically on tight budget margins. They need access to finance to build more classrooms and improve the quality of learning in the schools.
- More low cost private schools: Many low-income communities do not have the choice of affordable private schools and the government schools are not delivering quality education. Whether it is replicating successful low cost private schools in new communities or better broadcasting existing opportunities in low cost schooling to shareholders; choice and access are key for expanding the sector.

Key stakeholders are beginning to address all the needs identified above. Capital providers, ranging from banks to foundations to social venture funds, are gathering data on the most promising programs so that they can efficiently provide capital. Parents are asking for metrics on school performance and holding school owners accountable. School operators are seeking capital and innovation to make their thin budgets stretch further. Education service providers are assessing the potential market so that they can best meet the needs of their customers. And associations of schools, teachers, and parents are forming to help their members grow sustainably.

The biggest stakeholders of all, though, are the students. And for the students that have learned to read, write, and utilize basic computer skills, ensuring them a livelihood and an escape from the day-to-day poverty of the slums; affordable private schools can make the largest impact. (Topple, 2010)

Questions for further research: Pedagogical Debates

Given the size of low cost education landscape and its increasingly important role in shaping societies in developing countries, it seems that there has been little research focusing on the quality of education. While there is a general notion that private schools are better than government schools, it is supported by only scattered research and seems to stem more from personal observations and anecdotes such as those that claim that students 'study' more in private schools. There are few studies that test learning outcomes and child development in low cost private schools. While writing my thesis, the following questions came to my mind. Some are such that can be debated for many years, others are, in my view of critical importance to the growth of low cost private education.

- What defines good quality education? How much of it is technical, and how much of it is linked to the holistic development of a child? How should it be measured, assessed and compared across schools? Does it differ based on the context of the student – that is, does good quality education have different implications for a poor child and a rich child?

- Do low cost private schools offer education or schooling? Is it enough to test learning outcomes in Maths and English? What are the inputs to achieving holistic education? Do facilities like sports and extra-curricular activities, which are largely not available in low cost private schools, have a role in 'educating' a child?

- What is the importance of 'contextualizing' education as applied to economic stratification? What is the impact on learning outcomes if the learning environment at school is better resourced than home environments? Will a model that aims to teach an under-privileged child in the same environment as a child from a more affluent background, have significantly different results?

* * * * * * * *

I hope this thesis will shed light on the educational desires of millions of poor children and how their needs have for so long been ignored in the guise of pity and governmental responsibility for the poor; buried under government inefficiencies; and exploited by the private sector in the name of choice and empowerment. I do not advocate blanket privatization of the education sector. I think the government has an extremely important role to play as a provider of education services – there is no denying that education is also a social right and cannot always be expected to return profits. But I am also a firm proponent of free markets as a great leveler in society. I believe free markets result in increased number of service providers (meaning more choices) and improved quality and pricing as players compete for market share through innovations and efficiencies (meaning better teaching at affordable prices). The government has a critical role to play as an enabler of this free market, as a player providing constructive competition and as the oversight body to regulate market practices.

I think it is time the world woke up to the reality of what is provided in the name of education to millions of poor children in developing countries, and worked together to make available to them, the same quality of education as millions of economically privileged children are getting. Let us make the future more equitable for them.

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Exhibits II – A: Pudami Neighborhood School, Edulabad, Andhra Pradesh

The school building and compound

The rest area and playhouse

The multimedia projector room

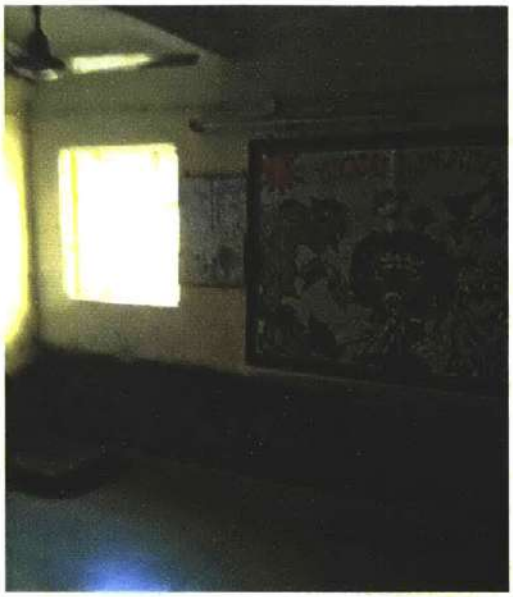
Exhibits II – B: DPS Shiksha Kendra, Delhi Public School, R.K. Puram, New Delhi

The school assembly at DPS Shiksha Kendra. Being housed in DPS school compound, students can avail all DPS infrastructure

Mrs. Pushpa Agarwal discussing DPS Shiksha's challenges

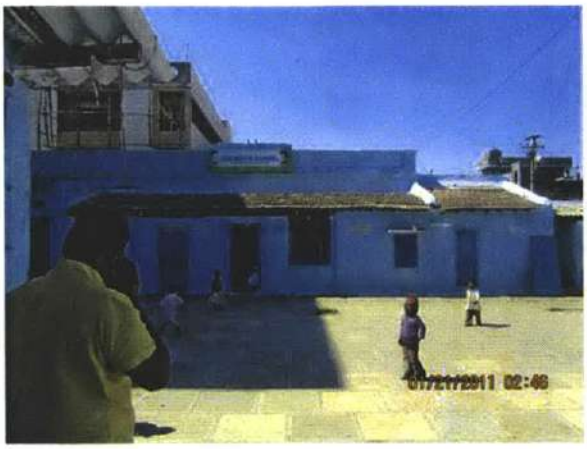
Exhibit II – C: Katha Schools

Inside the Katha School



Source: Katha website

Exhibit II – D: SKS Bodhi School, Bongir



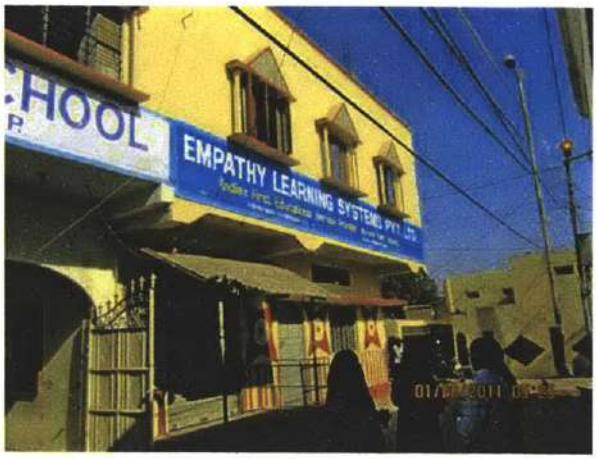
The School Compound

Children queuing up to wash hands after eating

Teachers collecting students after recess

Grade - Lower Kindergarten

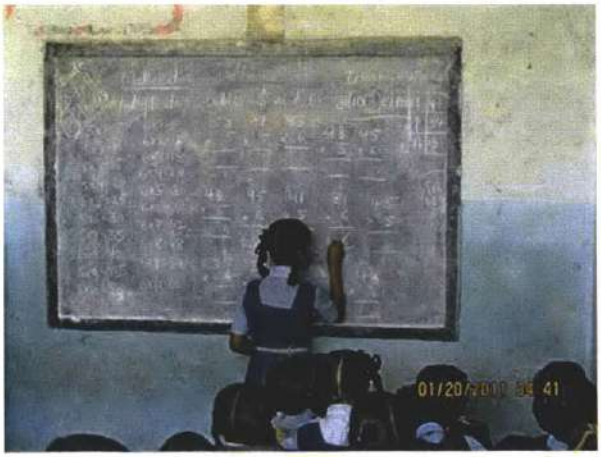
Exhibit II – E: MA Ideal High School, Hyderabad



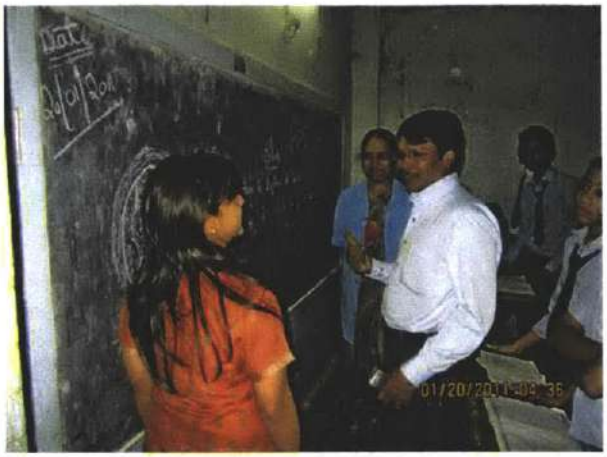
MA Ideal High School and adjacent HQ of Empathy Learning Systems

Students at the Computer Lab, excited at being able to access computers even though they have to share

Exhibit II – E contd...: MA Ideal High School, Hyderabad



A student solves math sums



Mr. Anwar introducing the Biology teacher

Excited children pose for the photograph!

Exhibit II – F: Sudiksha Knowledge Solutions – Indus Academy, Bongir

The school compound and playground

The school interior

Classes going on

Children with their slates

Exhibit V – A: Bridge International Academies, Kenya

Bridge International Academies, Kenya (Rangan & Lee, 2010)