



# Subir Gokarn: Profiting from education

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Entrepreneurs have gained from public institutions remaining virtually stagnant.

Towards the end of last month, it was reported that Helix Investments, a Mauritius-based investment company, had paid \$12 million to acquire approximately 30 per cent of the equity of MT Educare. This is the holding company of Mahesh Tutorials, which runs coaching classes for the entrance tests for several professional courses. It operates predominantly in the south and west and has a strong presence in Mumbai, an obviously large, but also very competitive market for this service. It has also recently opened a facility in West Asia. This infusion of capital will fund its expansion into other geographies. The company generates about Rs 35 crore of revenues today and expects to take this up to Rs 150 crore over the next three years as a result of this expansion.

The reports also carried comments from industry insiders that this was only the beginning of a phase of significant foreign investment into the sector, in which a number of prominent players are emerging, having successfully differentiated themselves from the fragmented mass, which is estimated to collectively generate annual revenues in the region of Rs 5,000 crore.

As the more successful ones pull away from the pack, they are able to earn brand premiums as well as invest more in technology, facilities and, most importantly, content and material development. Given the overall size of the market, which, considering the demographics, can only grow rapidly over the next several years, it will support a fair number of large players, not to mention a large number of lower-priced and more primitively equipped ones. The sector thus offers investors attractive return opportunities, while consumers will benefit from a relatively competitive environment in both the branded and generic segments of the market.

Had this been virtually any other sector, things could have been left at that. But, this is education we are talking about and, as attractive as the business model is, to look at it exclusively in these terms goes against the grain of several years' worth of indoctrination about education being a classic "public" good. Left to the private sector, it would only meet the needs of people who could afford it. The state, therefore, had a critical role to play in both ensuring access to education across the income distribution and monitoring quality so that people who could not afford to pay high prices were being denied even a minimum standard.

Clearly, the state has abysmally failed on these counts. With all due respect to the entrepreneurs who built up the educational supplement sector to the point where foreign investors are taking an interest, their business environment is overwhelmingly the result of public institutions remaining virtually stagnant while demand has grown exponentially. While they cannot be in any way denied the right to exploit that business opportunity, there is legitimate cause for concern about a model that owes its success to government failure. More so, because, by privatising and making exclusive the gateways to an essentially public good, it aggravates the problem of equal access and opportunity, a social goal that few would question.

At the same time, a realistic assessment of the educational sector would suggest that it needs all the help it can get at this point, regardless of where it comes from. Our reluctance to accord to private sector, for-profit institutions degree- or diploma-granting status on a par with public institutions is a huge barrier to a very quick expansion to educational capacity in the country. Apart from the IT sector, in which private sector capacity that directly met the market need for skills emerged, private investment in education has been truly supplemental, confined to enhancing the student's prospects of getting into more prestigious public institutions. Why can't the

innovativeness that at least the more successful ones have shown, which is being recognised and rewarded by investors, be tapped to directly feed trained people to the market?

Given the huge and widening supply-demand mismatch in education, we really cannot afford to adhere to the purist, public good position any more. Anybody who has demonstrated the capacity to train people for success in engineering, medical or management entrance tests should surely have the capacity to train the same people to some degree of proficiency in those very disciplines. The same organisational skills and process efficiencies, which attract both students and investors to these institutions, can be used to create a direct pipeline into the marketplace rather than confining it to the IIT or IIM admission list.

This, of course, still leaves the questions of affordability and exclusivity, on the one hand, and quality control, on the other. If the private sector is allowed to move from a supplementary to a direct provision mode, does the state have a role to play in broadening access? Yes, and it can do this in a number of ways. Direct grants to students based on some means test, loans to students, guarantees to loans made by banks and creating a secondary market for student loans are all means that can be combined to make private sector education accessible to students below the threshold of direct affordability. In fact, I recently came across an advertisement by a bank offering loans to students who were admitted to a coaching class! Imagine their willingness to lend to students who are directly entering the job market.

Quality assurance is a trickier issue. Our experience with the current regime suggests that this may be best left to the market "" the judgment of both students and employers. However, there is a case for some certification, which will reduce the probability of wrong choices being made and the costs that this may inflict on those two constituencies. An independent certification mechanism, perhaps in the form of a self-regulating organisation comprising the education providers themselves, has a role to play in this.

We can confine Mahesh Tutorials and its peers to training more and more people to compete for a fixed number of seats and let Helix Investments and its peers profit from that very juicy market scenario. Or, we can create an opportunity for both Mahesh and Helix to profit while expanding the capacity of the educational system to serve the interests of both students and employers. Our policy generates the former, but our compulsions clearly warrant the latter.

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