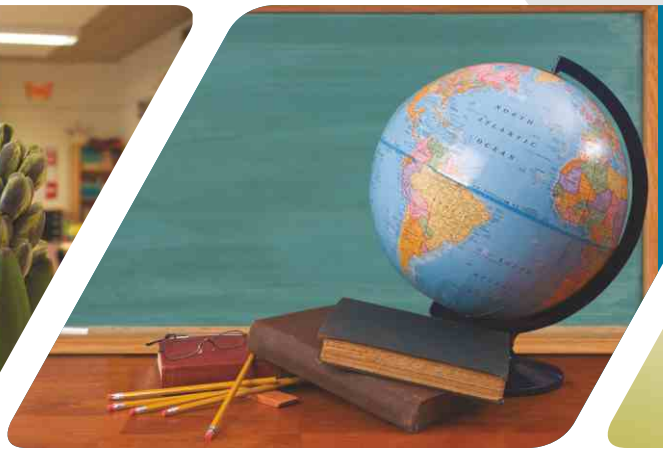
Kaizen Education (KE) Report

South Asia

Update 2.1

Understanding the Sector







Kaizen

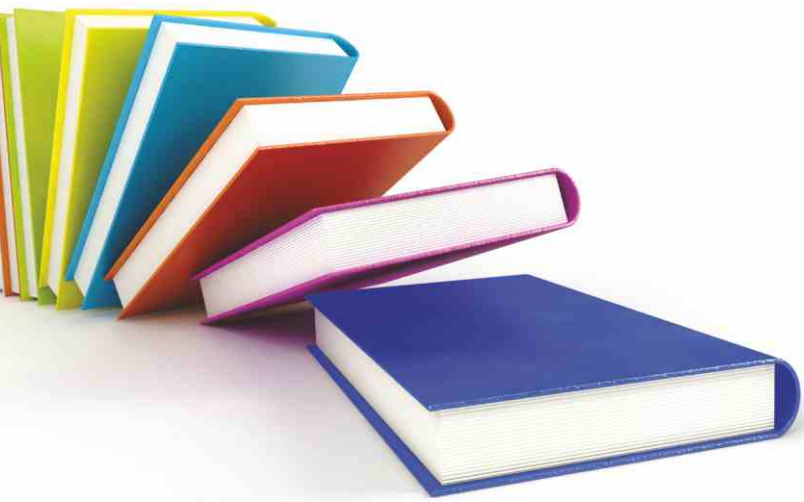


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1 Introduction

This report focuses on the Education Sector in South Asia. It takes forward the previous Education Sector reports written by Kaizen. With most of South Asia under the British rule, these countries won independence between 1945 and 1950 and to some extent share social, cultural, linguistic and economic practices.

India is slowly transforming from a low-income to a middle-income economy, while the other countries are following a smiliar growth path. There is a growing focus on education as a critical driver of overall human capital development as these economies pursue the United Nation's Millenium Development Goals (MDGs). This report examins the Education Sector in South Asia with a backdrop of the prevalent socioeconomic realities, regulations, role of the private sector and investment paradigms.

South Asia has an annual education market of US$150 billion of which India has the highest spend of US$133 billion. This is substantially large compared to the US$1.43 trillion education and training market in the USA and US$110 billion market in South East Asia.

After Sub-Saharan Africa, South Asia is second in terms of number of children not getting an education, with approximately 27 million children out of school. The need to prepare a skilled labor force has increased school enrollment rates, along with increased public and private investment in the Education Sector. As the economies and the consumer spending power continues to grow, there will be an increase in education spend and participation in schools as well as vocational taining institues.

Having analyzed the Education Sector in select countries in South Asia, including India, Pakistan, Bangladesh and Sri Lanka, this report suggests that the countires at different phases of economic development present different investment opportunities within the Education Sector. For example, in India, the higher education and technologically-driven subsegments offer attractive investment opportunities, while in Pakistan, K-12 schools have the highest private participation. Innovative models along with techonological advances will assist in reaching out to the large untapped market, specially across rural areas of the region.



Figure 1: South Asia- US$150 billion Education Market

2 South Asia

Over the last two decades, several countries across South Asia have demonstrated high economic growth rates and have also moved towards closer regional integration. India has experienced high economic growth and is the most populous country of the region, accounting for 80% of South Asia's GDP.

2.1 Growth Opportunities

Regional GDP growth in 2013 was estimated at 5.7%, and is expected to reach 6.7% in 2015. This growth will be supported by a gradual improvement in global demand for South Asia's exports. The region requires policy reforms that will continue to strengthen governance, improve the business climate, upgrade education and attract investment in infrastructure. With the largest working age population, a quarter of the world's middle-clss consumers and the potential to change global poverty, South Asia continues to attract foreign investors, specially in the service sector.

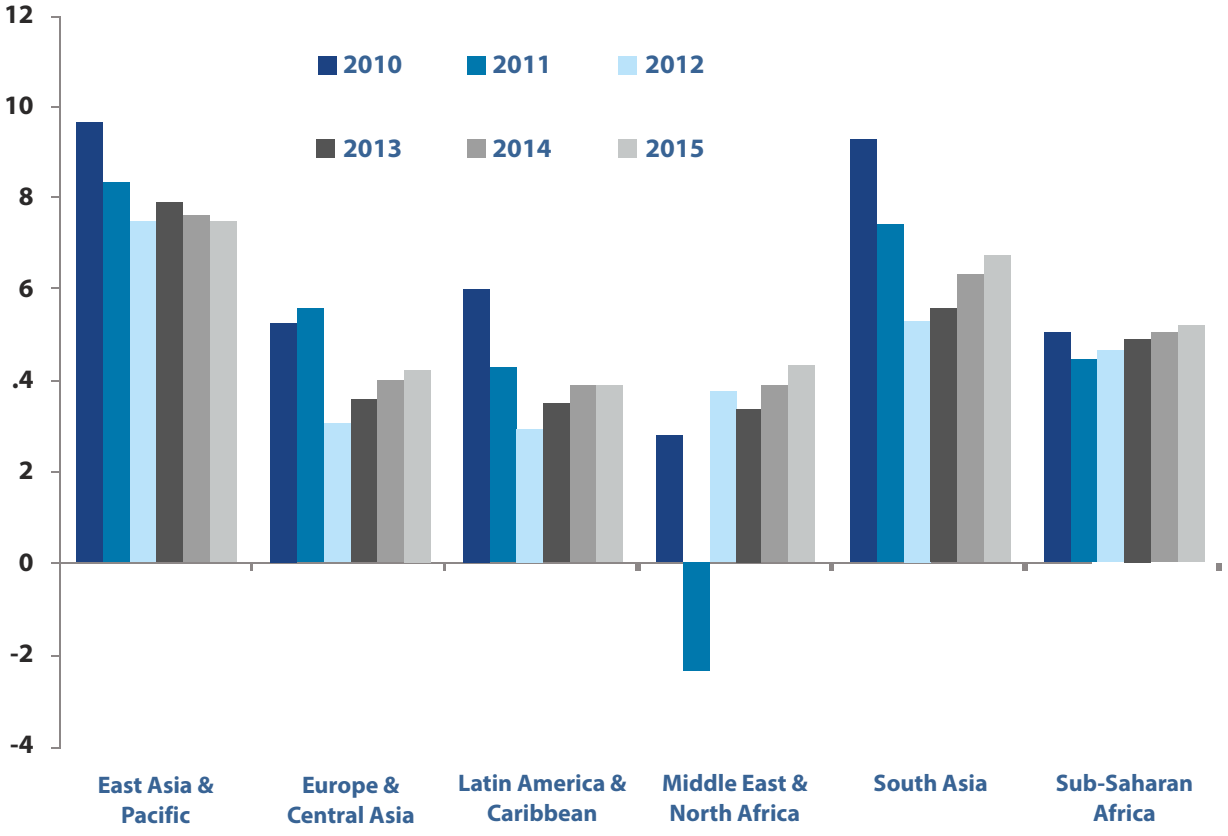


Figure 2: Region-wise Annual GDP Growth (%)

Source: Global Economic Prospects, 2013

Realising the importance of private investment inflows, during the 1990s, Governments of South Asian countries facilitated the growth of FDI. The region has now become an attractive destination for investments and FDI has played an important role in the economic development of the region. Another source of external finance is the substantial flow of migrant remittances. As of 2012, South Asia's remitances were estimated at US$109 billion, thus helping sustain consumption and mitigated trade balance effects.

2.2 SAARC

The South Asian Association for Regional Cooperation ("SAARC"), a geo-political and economic organization of eight countries located in South Asia, was formed in 1985 by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Most recently Afghanistan has been added as a new member along with nine observers, namely, Australia, China, European Union, Iran, Japan, Mauritius, Burma, South Korea and United States. The aim of SAARC is to help increase intra-regional support, promote welfare and accelerate economic growth of South Asia. The projected growth rates of the SAARC countries suggest that four out of the eight SAARC countries, including Bhutan, Sri Lanka, India and Bangladesh, will grow faster than developing countries on average.

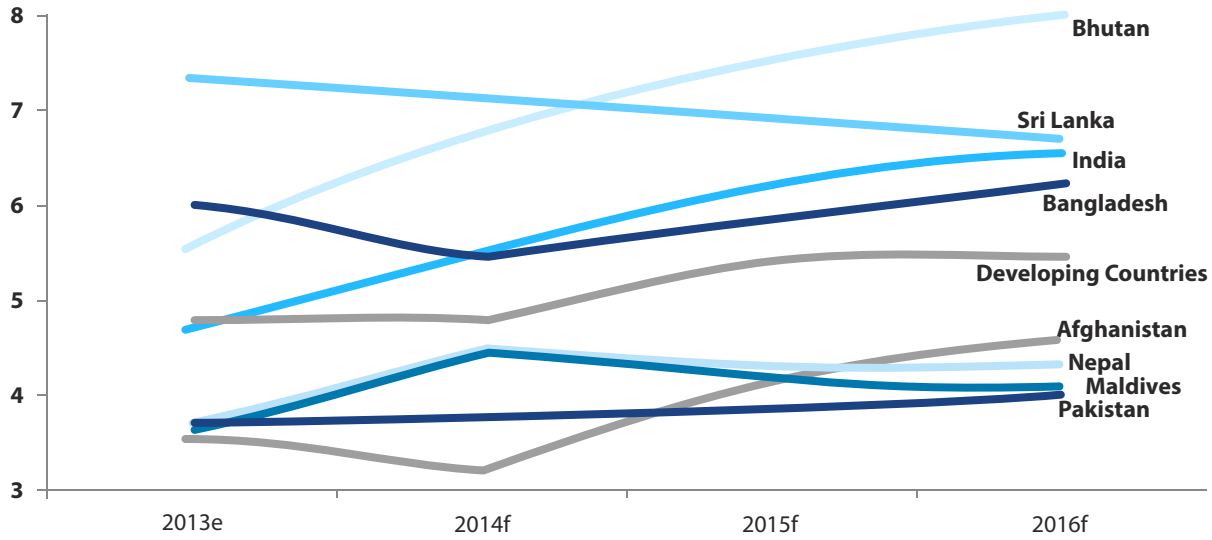


Figure 3: SAARC Countries – High Projected Growth Rates (GDP %)

Source: World Bank, 2013

Most of the SAARC countries are on track towards achieving the Millennium Development Goals (MDGs), particularly in reducing levels of poverty. However, on some targets, such as hunger, health and sanitation, the region is behind schedule for achievement by 2015. While Pakistan has made little or no progress, Sri Lanka is ahead of schedule in achieving universal primary education.

Millenium Development Goals	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Eliminate extreme poverty & hunger	▶	▶	▶	■	▶	▶	▶	●
Achieve universal primary education	NA	NA	▶	●	■	■	◀	●
Promote gender equality & empower women	■	●	●	▶	●	▶	◀	●
Reduce child mortality	■	●	■	■	●	■	■	■
Improve maternal health	■	■	●	■	▶	■	■	▶
Combat HIV/AIDS & other diseases	▶	▶	●	●	●	▶	▶	▶
Ensure Environmental sustainability	▶	◀	●	●	▶	●	■	●

●Early achiever ▶On track ■Slow ◀Regressing/No progress

Table 1: MDG Progress in SAARC Countries

Source: MDG Progress Reports, UNDP, 2012

2.3 Focus Countries

The analysis of South Asia as an education investment destination is based on the macroeconomic environment and the investment potential in the private Education Sector. This report considers India, Pakistan, Bangladesh and Sri Lanka as the focus group of countries based on the size of the economy and human development parameters. Economies such as Nepal, Maldives and Bhutan are not included as they have comparatively smaller economies compared to the region. Afghanistan is also excluded from the report as it has an HDI rank of 169 out of 187 economies and one of the lowest ranks in terms of political stability.

Country	GDP (current US$ billions,2013)	HDI* Rank (2013)
India	1,876.8	135
Pakistan	236.6	146
Bangladesh	129.9	142
Sri Lanka	67.2	73
Afghanistan	20.7	169
Nepal	19.3	145
Maldives	2.3	103
Bhutan	1.9	136

*Human development index is a composite statistic of life expectency, education and income indices used to rank countries

Table 2: Focus Countries

Source: World Bank data, 2013 and UNDP, 2013. HDI Ranks countries from 1 to 187, with first being the best.

The next section rates and ranks the various economies on indicators including political stability, ease of doing business, FDI confidence and GDP growth rate to analyze the respective macroeconomic environments. Further analysis of the Education Sector of each focus country, based on factors such as market size, private sector activity and regulatory environment, led us to recommend India, Pakistan, Bangladesh and Sri Lanka as the countries with the greatest prospects for investment in the private Education Sector.

3 Regional Analysis of Focus Countries

3.1 Political Stability

Within the focus countries, Sri Lanka, India and Bangladesh enjoy higher political stability when compared to Pakistan. The graph below reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.

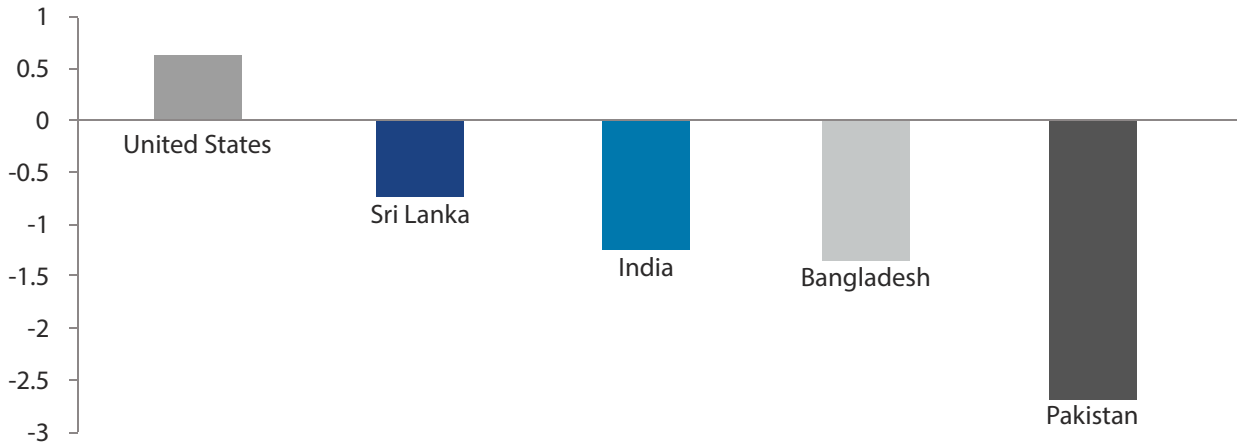


Figure 4: Political Stability Index

Source: World Bank, World Governance Indicators 2012.
Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong)

3.2 Ease of Doing Business

Bangladesh, India and Pakistan rank in the top 35 countries in terms of protecting investors according to the "2014 Doing Business Survey" by the World Bank and International Finance Corporation. While Sri Lanka is placed 85th out of 189 economies and is the easiest place to do business in South Asia.

Country	Ease of Doing Business Rank	Protecting Investors
Reginal Average	121	80
Sri Lanka	85	52
Pakistan	110	34
Bangladesh	130	22
India	134	34

Table 3: Majority of South Asia is Ranked High for Protecting Investors

Source: World Bank's Ease of Doing Business
Index (Ease of doing business ranks countries from 1 to 189, with first place being the best).
Regional Average includes Afghanistan, Maldives, Nepal and Bhutan.

3.3 FDI Confidence

In 2013, South Asia's FDI inflows totaled an estimated US$33 billion growing at a rate of 3.2%, while India alone experienced a 17% growth in FDI. FDI flows into South Asia have been increasing since 2000 and will continue to grow as liberalization reforms have become more receptive to FDI. Both FDI and portfolio investments in the region have moved with the global business cycle, as seen by the drop in 2008.

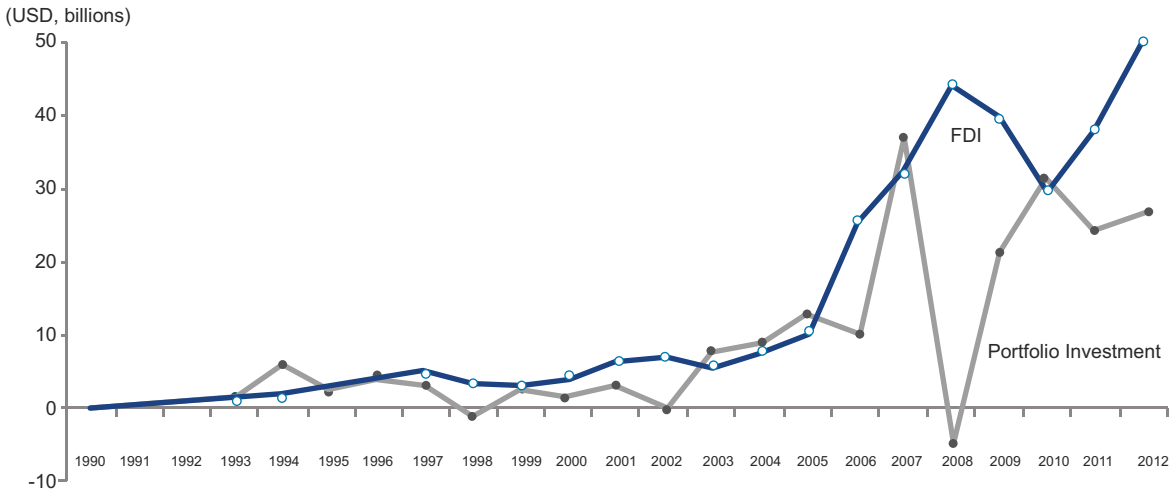


Figure 5: FDI and Portfolio Inflows into South Asia

Source: South Asia Economic Focus (Word Bank) 2013

FDI inflows into South Asia are heavily skewed to the service sector, accounting for 72% of total FDI inflows, particularly for Business Process Outsourcing (BPO). Developing the service sector will shift labor away from agriculture to the industrial sector, where productivity will be significantly higher. This requires investments in human capital and training as the labor force in the region is relatively low skilled.

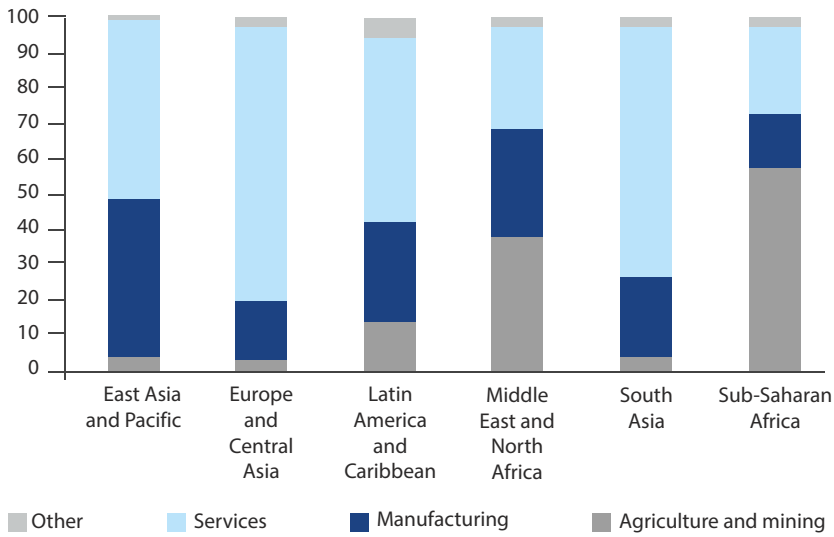


Figure 6: Sector-wise FDI Inflows

Source: South Asia Economic Focus (Word Bank) 2013

4 Private Equity Market

4.1 General Trends

The reduced performance from traditional markets has provided attractive high return investment opportunities in emerging economies. Within emerging markets, Asia takes the lead over South America and Africa as a key region that is highly attractive to investors. Despite the challenges involved in doing business in emerging economies and the recent slowdown, South Asia is the second fastest-growing region of the world economy and is likely to sustain high growth rates over the next 5 years. Institutional capital is flowing into the region at an ever-increasing rate, with increased government support to attract investors. As businesses move away from the traditional family-owned business model, private equity investments will increase. India is the most mature market in South Asia and has witnessed a 13.6% increase with total investments at US$8.2 billion in 2013.

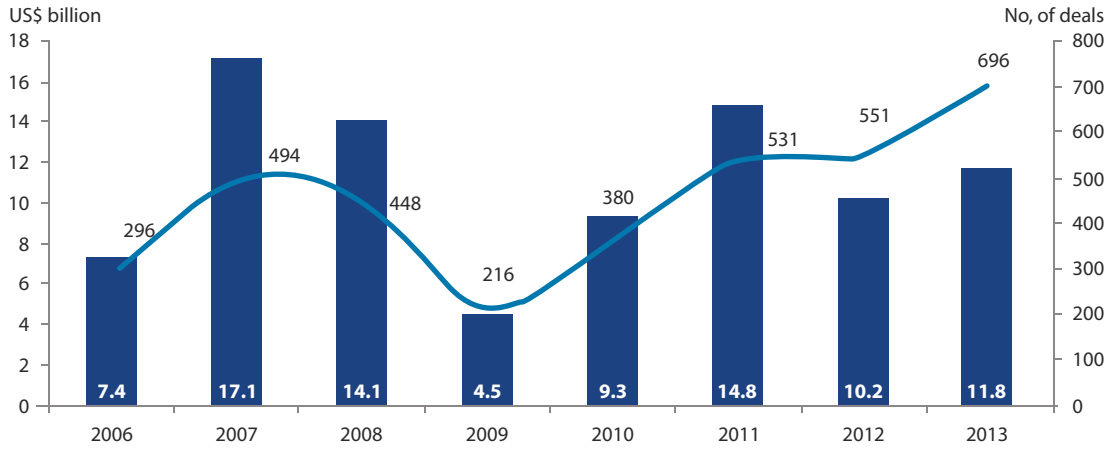


Figure 7: South Asia PE/VC Investments (US$ billions)

Source : Bain & Company Analysis, 2014

Asia as a region ranks 4th in the Global Venture Capital and Private Equity (VCPE) Index, which assesses the country's attractiveness for private investments. India has the highest rank in South Asia, mainly due to higher economic actvity and entreprenuerial opportunities. Pakistan and Bangaldesh have lower rankings, while Sri Lanka remains unranked.

Country	Rank (2014)	Rank (2010)
United States	1	1
Canada	2	2
Singapore	3	3
United Kingdom	4	5
Hong Kong	5	8
India	28	29
Pakistan	61	61
Bangladesh	77	75

Table 4: VCPE Index, 2011

Source : Global Insight. Rankings range from 1 to 118.

4.2 Private Equity in Education Sector

Currently, India has the most number of private equity deals in the Education Sector. Since 2007, investors have injected a total of US$ 1.1 billion in the sector. Education Sector investments are gaining significance even as the investment environment undergoes cyclical changes. Education as a percentage of total investments has grown from 0.9% in 2007 to 1.7% in 2013. 14 of the Indian Education Sector deals have exited through secondary sale, strategic acquisition or an initial public offering (IPO), which are likely to continue to be the preferred exit routes for private equity investors.

	India	Pakistan	Bangladesh	Sri Lanka
Economic Activity	High GDP but slow GDP Growth Average unemployment	Slow growth High unemployment	Low GDP but high GDP growth Low unemployment	Highest GDP growth in the region
In Depth of Market	Large stock market Large number of IPO's	Poor financial market sophistication	Small debt & credit markets, very little M&A activity	Best regional performance for getting credit
- IPO volume	++	-	-	NA
- M&A volume	++	-	- -	NA
- VC activity	++	+	- -	NA
- PE activity	++	- -	- -	NA
Taxation	Eased the administrative burden of paying tax	Increased profit tax rate for small firms	Increased capital gain tax	Reduced corporate income tax
Investor Protection & Corporate Governance	Low security of property rights, poor quality of legal enforcement	Low quality of corporate governance	Poor investor protection	Greater coporate disclosure
Human & Social Enviroment	Average education but high bribing and corruption	Highly rigid labor markets	Poor education & low develoment of human capital	High literacy rates
Enterpreneurship Culture & Deal Opportunities	Lowest regional performance for starting a business	Low ease of closing a business	Limited innovation	Easiest country in the region to start a business

Table 5: Comparison Across the Focus Countries

Source: IESE Business School & IFC Doing Business, 2014

5 Education Market

5.1Kaizen Education ("KE") Map

Kaizen has developed a map to depict a simple yet comprehensive view of the Education Sector. Throughout this report, references will draw attention to the diagram below, which lays out the three education market segments:

1. Core Education: This consists of basic and fundamental education that generally culminates in a degree i.e., K-12 schools & undergraduate and post-graduate colleges.
2. Parallel Education: This segment consists of services which fill the gaps in core education including Preschools, vocational training institutes, coaching classes, tutoring classes, test preparation, teacher training and related services.
3. Ancillary Education: This segment includes products and services supplied to companies in the Core and Parallel segments e.g. Learning Management Solutions (LMS), Information Communication Technology (ICT) and multimedia at schools, books & stationery, Enterprise Resource Planning (ERP) solutions, etc.

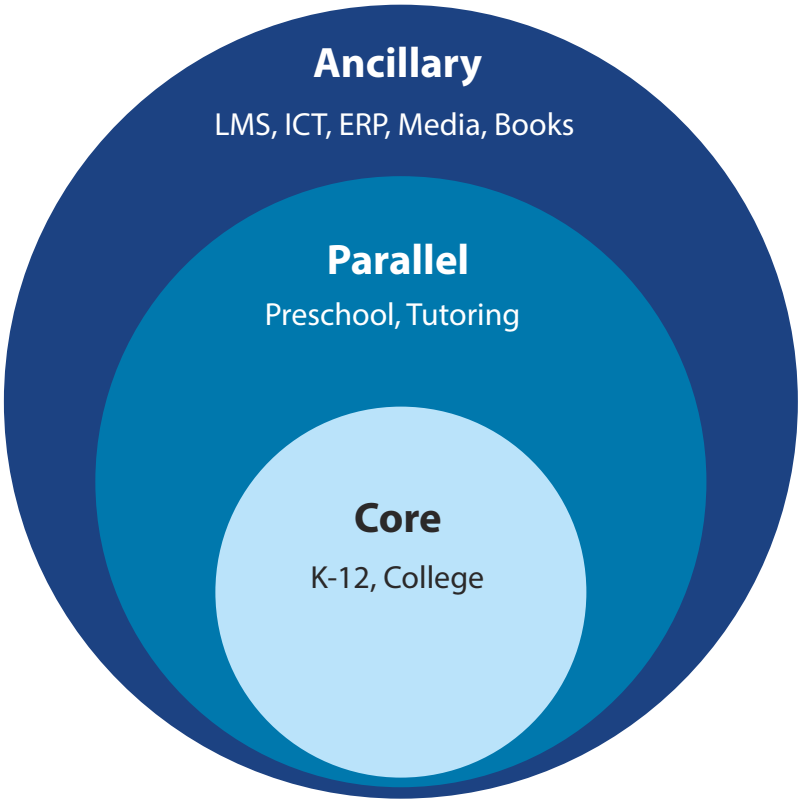


Figure 8: Kaizen Education (KE) Map

5.2 Private Investments in the Education Market

South Asian countries are in a relatively weak position in terms of education and skills. The countries have high illiteracy rates, low enrollment ratios at the secondary and tertiary levels, very low average educational attainment among the adult population, extremely low percentage of professional and technical workers among the labour force, low quality of math and science education, and high emigration of highly skilled workers.

The private sector presents alternatives to state funded education institutes. In the K-12 subsegment, on an average the South Asian countries experienced a 76% growth in private school enrollments while government schools increased enrollments only by 18% over the past decade. After Asia-Pacific, South Asia has the second highest private sector enrollment in higher education, followed by secondary schooling (Grade 6-12).

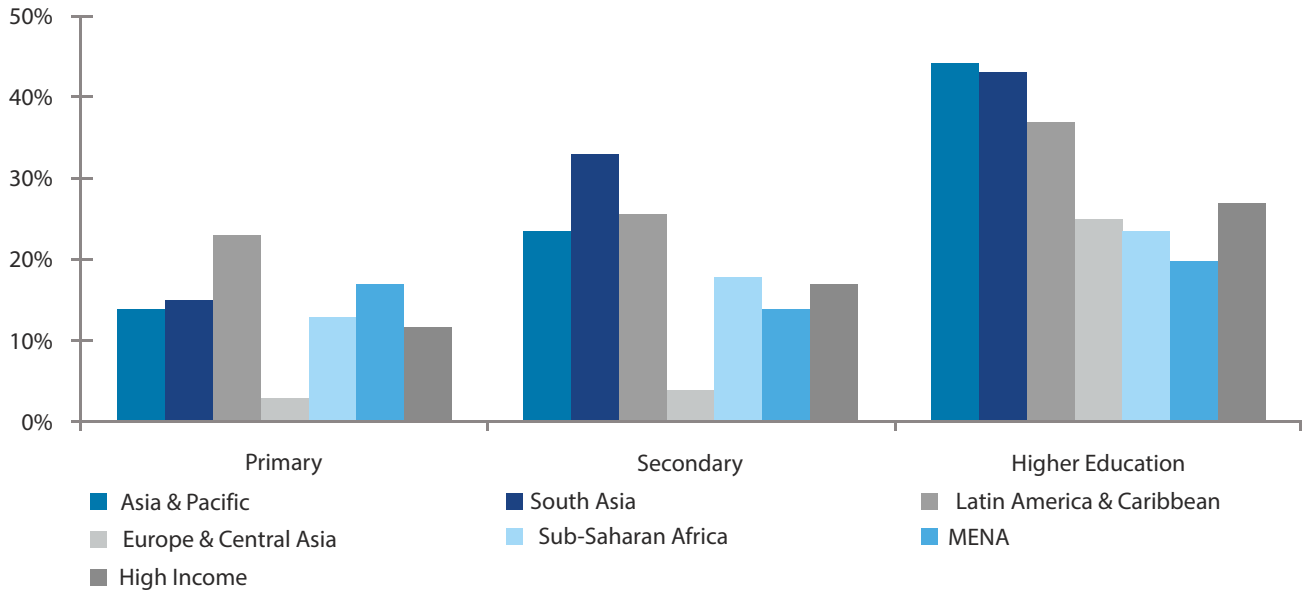


Figure 9: Enrollment in Private Sector by Region and Level of Education

Sources : UNESCO, 2012

Governments are now increasingly focusing their efforts on achieving universal primary education and relying on the private sector to cater to the growing demand for higher education. As countries become richer, the emergence of a middle class has led to increased spending on private education. In these emerging economies, parents with the ability to pay either send their children overseas to very expensive programs in the UK, USA or Australia or pay for them to attend local private institutions affiliated to foreign institutions

Thus, private investments in the Education Sector will lead to higher enrollment in schools and a larger skilled labor force. Larger talent pool will help companies in the private sector harness growth opportunities and increase revenues. The indirect benefits of education will lay the long-term foundation for countries to achieve sustainable and inclusive growth.

5.3 India

5.3.1 Country Overview

India at a glance	
GDP at current prices (2013)	US$ 1.87 trillion
Historical GDP CAGR (2013)	4.7%
GDP/Capital (2013 nominal)	US$ 1.494
Population (2013)	1.25 billion
Education Sector size (2013)	US$ 133 billion
Public spending as % of GDP (2013)	27.1%
FDI as % of GDP (2013)	1.7%

Table 6: India – Overview

Between 2004 and 2011, India touched growth rates close to 9% and was one of the most successful countries in attracting private investments compared to other developing countries. Despite the current economic slowdown, the Asian Development Bank (ADB) has upgraded India's economic growth forecast to 6.3% in 2015-2016, on the hopes of a speedy reform process. India's consumption is expected to rise to US$ 3.6 trillion and investment opportunities to US$ 1.9 trillion.

India is on track to achieve the key Millennium Development Goals (MDGs), and has lifted 137 million people out of poverty along with reducing the poverty headcount to 22% of the population. Under the newly formed government, there will be significant political stability, structural reforms and infrastructure improvement that will boost the investment cycle.

5.3.2 Education Sector

India has one of the largest networks of schools in the world with over 1.3 million schools, thrice the number in China and almost 10 times that in US. Gross enrollment ratio is around 116% in primary and 60% in secondary schools. In the core segment, private K-12 schools serve a population base of approximately 359 million children in the age group of 5 to 19 years.

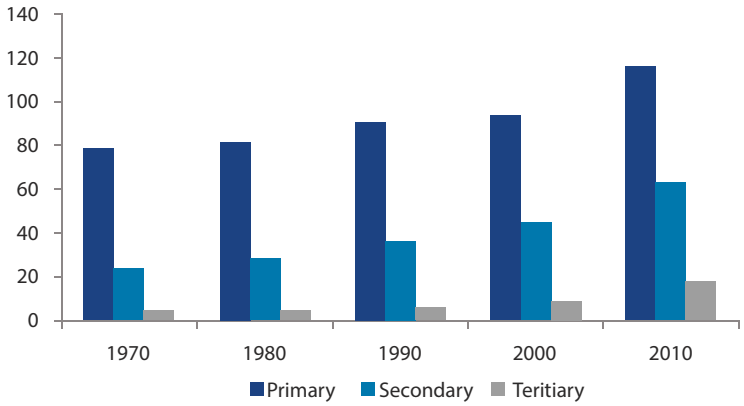


Figure 10: Gross Enrollment Ratio (%)
Sources : World Bank Data, 2013

Currently, the Indian Education Sector is witness to four mega trends such as:

- Individualization- to promote educating students in response to their individual learning needs:-
- Massification- to transform a product/service and make it accessible to a wider market
- Collaboration- to build a massive social learning opportunity and
- Convergence- to bring several related or complementary products, services, or even companies, under a common platform.

A combination of these trends will help mitigate the developmental challenges like quality, access and relevance in education.

The share of the private sector in the Indian Education Sector has grown steadily. In particular, private players have made substantial leaps in hiring talented teachers, using innovative technologies/curricula and collaborating with employers/international partners to enhance both quality and access to education.

5.3.3 Market Size

The Indian Education Sector caters to nearly 640 million people up to the age of 30 years. It is one of the largest capitalized spaces in India with an annual government spend of US$ 63 billion (3.4% of GDP) and an annual private spend of US$ 56 billion. In addition, approximately 200,000 students travel to foreign countries every year and spend about US$ 13 billion on education. This adds up to an annual education spend of US$ 133 billion.

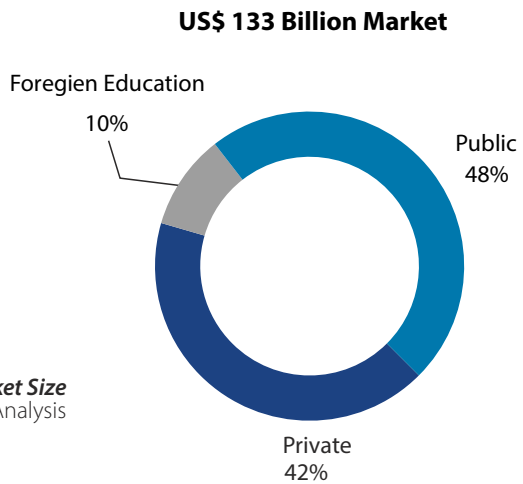


Figure 11: Education Sector Market Size
Source: Kaizen Analysis

Education in India is undergoing rapid transformation with increasing government support for private participation. The sector is a highly attractive investment opportunity due to its "recession proof" nature, low working capital need and high un-met demand. The Indian Government's education spend at 3.4% of GDP lags behind the average spend of 6% of GDP by developed and several developing countries. Hence, a significant investment will be required to reach the desired graduation levels among the target population.

5.3.4 Private Sector Activity

The share of the private sector in the Indian education market has grown steadily. In particular, private players have made substantial leaps in hiring talented teachers, using innovative technologies/curricula and collaborating with employers/international partners to enhance both quality and access to education.

Between 2002 and 2012, more than 30 foreign players entered the Indian education market, either through collaboration, academic partnership or as a research partner. For example, University of Huddersfield has collaborated with IHM Aurangabad on the curriculum for Hotel Management.

Since 2007, private equity investors have injected a total of US$ 1.1 billion in the Indian Education Sector. Investments in the sector are gaining significance even as the investment environment undergoes cyclical changes. Education as a percentage of total investments has grown from 0.9% in 2007 to 1.7% in 2013.

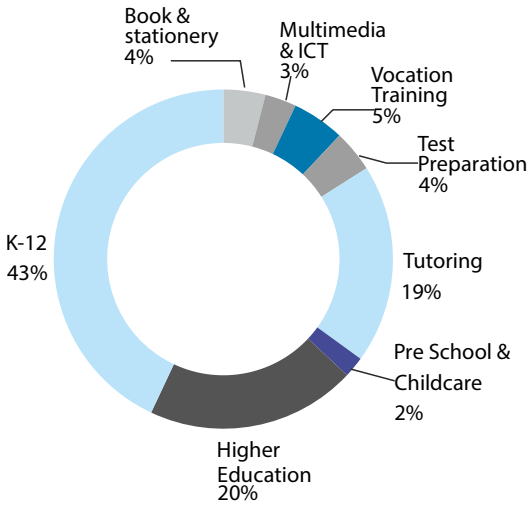


Figure 12: Distribution of Private Participation (% Annual Spend)

Source: Kaizen Analysis

5.3.5 Regulatory Context

The Core segment (K-12 and higher education) is largely regulated, while Parallel (Vocational, Tutoring, etc.) and Ancillary education (Multimedia and ICT, Online and Social Learning, Stationery, etc.) are unregulated.

Education regulation exists at the central and state levels, differing across states. The Ministry of Human Resource Development (MHRD) is the nodal regulatory body overseeing the Department of School Education and Literacy, and the Department of Higher Education.

All institutions require recognition from their respective state authorities, without which they cannot commence operations. The government, as the regulator of K-12 and higher education institutions, has five major functions including entry, accreditation, disbursement, affirmative action and licensing. All sectors except preschools, K-12 and private professional colleges face no regulatory control over profits or fees.

Under the Indian Foreign Direct Investment (FDI) policy, 100% FDI in education or research is permitted under the automatic route, since the Education Sector is not included in the list of industries with investment restrictions. Regulated schools and colleges must be registered as a Trust, Society or Section 25 company (non-profit and tax exempt under the Indian tax law).

5.3.6 Unique Opportunities

The government has emphasized the importance of delivering quality education through various Public Private Partnership (PPP) models. Private enrollment has steadily grown from 54.5 million or 29% of total students in 2009 to 59 million or 31% in 2011. It averages about 62.8% in India's urban areas and 22.7% in rural areas. Due to recent government reforms, the private sector has driven the growth in Indian higher education over the past decade. The private segment currently accounts for more than a third of overall enrollment and about 80% of enrollments in professional and technical education.

Tutoring, the largest subsegment in parallel education segment is expected to grow at a CAGR of 15% from US$ 11 billion in 2014 to US$ 16 billion in 2017, while test preparation will grow from US$ 2 billion to US$ 4 billion at a CAGR of 25% during the same period. Recent private investments in the sector includes Tata Consultancy Services (TCS) with a US$ 5 million contract to conduct the Combined Aptitute Test (CAT) examinations for the Indian Institutes of Management (IIMs).

The market size for Multimedia and ICT is US$ 2 billion and is expected to grow at 18% CAGR. Digital classrooms, wherein teachers use technology to facilitate learning, are growing fast among private schools in India. A recent *Business Standard** article in March 2012 estimated about 15,000 schools across the country have either fully or partially adopted a 'digital classroom' system on their campus. Adoption is driven by demand for technology and the shortfall of teachers.

Education Segment	Market Size (US$ million)
Core	35,272
K-12	24,272
Higher Education	11,000
Parallel	16,451
Preschool	1,183
Tutoring	10,580
Test Preparation	2,031
Corporate Training (TVET)	2,656

Table 7: India's Private Education Market
Source: Market estimates and Kaizen research

**http://www.business-standard.com/article/companies/digital-classroom-concept-growing-fast-112032100093_1.html*

5.4 Pakistan

5.4.1 Country Overview

Pakistan at a glance	
GDP at current prices (2013)	US$ 236.6 Billion
Historical GDP CAGR (2013)	3.7%
GDP/Capital (2013 nominal)	US$ 1.299
Population (2013)	182.1 million
Education Sector size (2013)	US$ 7.1 billion
Public spending as % of GDP (2013)	17.6%
FDI as % of GDP (2012)	0.36%

Table 8: Pakistan - Overview

Pakistan's economy is at a turning point with the projected GDP growth approaching 4.0%. Agriculture has remained central to Pakistan's resilience, generating about 22% of GDP, 45% of jobs, and 60% of exports. Another important source is remittances from Pakistanis working abroad, that was approximately US$ 13 billion in 2012, an amount equivalent to about half of its total exports.

With the labor force growing faster than the regional average, Pakistan has a large working-age population with higher participation of women. Developing infrastructure with better energy availability will assist in improving the economic activity by accelerating the growth of large-scale manufacturing agro-based industries, iron and steel plants and service sector activities. The uncertain political environment has kept FDI and private investments low, depressing the economic activity in the country. Thus, to increase foreign reserves and facilitate recovery, it is essential to revive investor confidence.

5.4.2 Education Sector

Pakistan has one of the lowest literacy rates in the region with only 55% of adults considered literate. More than 50% of girls in rural areas do not attend primary school, and more than 75% do not attend secondary school. In K-12 schools, both access and student achievements are low—by international standards as well as the standard of meeting Pakistan's broad development challenges. Pakistan is also likely to fall short of the Millennium Development Goals (MDGs) of achieving universal primary education by 2015.

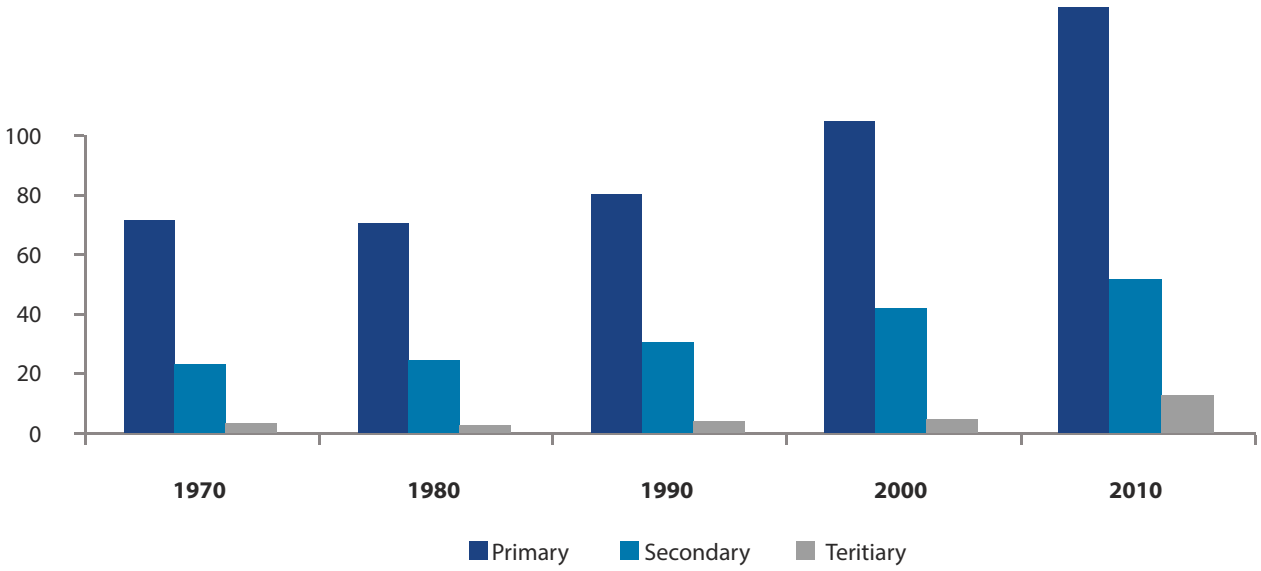


Figure 13: Gross Enrollment Ratio (%)

Source: World Bank Data, 2013

The student-teacher ratio in primary schools has increased from 37.5 in 2004 to 41.4 in 2012. Teacher preparation and teacher attendance at schools is inadequate and less than 1% of the population has ever received technical education or vocational training.

There has been a growth in formal and informal preschools as early childhood education (ECE), termed Katchi, is being developed by public as well as private education providers. In the private sector, there are approximately 6 million students enrolled in primary schools of which only 1 million enroll in universities and colleges for higher education.

5.4.3 Market Size

The Education Sector contributed approximately US$ 7.1 billion in 2013, of which 70% came from government expenditure. After India, Pakistan has the second largest public fund allocation for education (about 9% of total government expenditure or 2% of the GDP). Furthermore, the government is committed to allocate 7% of GDP to education by 2015.

Growth over the past decade has done little to reduce inequality. Demographic shifts and limited access to the public education system has resulted in Pakistan suffering from one of the worst dropout school rates globally. Families in rural and urban areas are increasingly looking at private schools. This has created a growing demand for low-cost private schools or private schools that cater to children from low-income families.

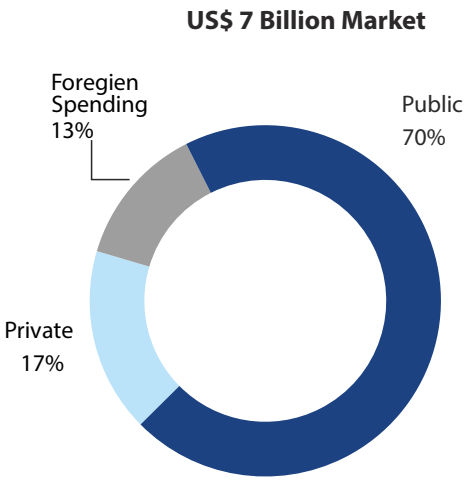


Figure 14: Education Sector Market Size

Source: Kaizen Analysis

5.4.4 Private Sector Activity

The private sector contributes about 0.5% of the GDP to education and also includes religious/missionary institutions, called Deeni Madaris. In urban cities, nearly 51% of students are enrolled in private schools and one-third of all students across the country attend private schools. These schools span both elite schools catering to the high-income segment of the population, as well as the more affordable and low-cost schools catering to the middle-income and low-income families. With a large number of private players concentrated in the core segment, the highest share of private participation is in middle schools (Grade 5-10).

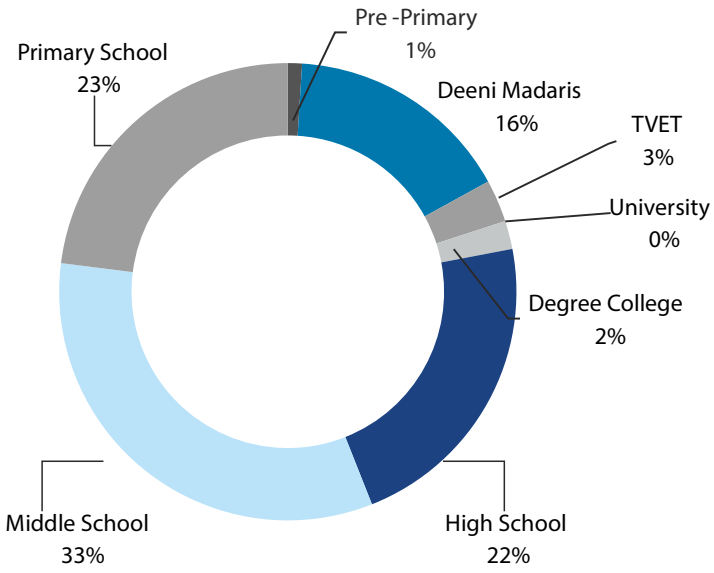


Figure 15 : Distribution of Private Participation (% of Institutions)

Source: I-SAPS

Within the K-12 subsegment there are few private school networks established across the country. For example, City School has one of the largest private school networks in Pakistan, with 178 schools in 51 cities and 60,000 students enrolled. Beaconhouse Schools is another example of a private institution operating on a franchise system throughout 30 cities. Private education providers like Roots School System have expanded beyond K-12 school by establishing higher education institutes. While Bloomfield Hall School, located in 19 cities, offers its students degree programs of the University of London.

In the parallel segment, 34% of private school students and 17% of public school students undertake private tutoring with an average monthly spend of approximately US$ 5*. About 40% of the work force has no formal education, providing incentives for greater involvement of the private sector in program design, on-the-job training, and temporary initial placements.

5.4.5 Regulatory Context

Even with a large public spend, Pakistan's education system is among the most deficient in Asia, due to inefficiencies and political conflicts. The government aims to draw upon resources from the private sector through public-private partnerships, especially in the areas of teacher education and professional development programs. In 2009, the New National Education Policy (NEP) was created and is currently under implementation to address the issues of access, equality and quality of education at all levels, along with the goal of free and universal primary education by 2015, and up to class 10 by 2025.

In pursuance of the 1979 Education Policy, measures to encourage participation of the private sector in educational development, the Punjab Private Institutions (Promotion and Regulation) Ordinance No. II was adopted in 1984. The Governments of Northwest Frontier Province (NWFP) and Sindh adopted similar Ordinances. These Ordinances provide for the registration of all private institutions with the Registration Authority.

**The 'Shadow' Education Sector in India and Pakistan: The Determinants, Benefits and Equity Effects of Private Tutoring.*

5.4.6 Unique Opportunities

In 2011, the Punjab Skill Development Fund (PSDF), a non-profit company, was set up by the Government of Punjab in collaboration with the Department for International Development (DFID) UK, with the aim to encourage capital investments in vocational training. DFID has also established "IIM Ideas", a three-year program worth US$ 10.1 million or 3.51% of DFID budget, to award grants for increasing access to quality education.

The Foundation-Assisted School (FAS) program, introduced in 2005 and administered by the Punjab Education Foundation (PEF), is an autonomous statutory body to encourage and promote education in the private sector. It provides monthly per-student subsidies to low-cost private schools, conditional on free schooling for all students.

Moreover, foreign participation in higher education is on the rise with 118 Pakistani universities developing partnerships with over 90 universities in the UK. The British Council is also investing in schools and Pakistan will soon have the greatest number of General Certificate of Education (GEC examination board comprises of the O level and A level) students in the world outside the UK.

Under the development project of "Pak-US Joint Academic and Research Project," six research linkages between Pakistan and the USA were developed under the "Bio Engagement Program" in 2010 and a total of 73 projects have been funded. Germany will also spend approximately US$ 55 million on projects across Pakistan till 2016 to improve facilities for vocational and teacher training.

Education Segment	Market Size (US$ million)
Core	991.61
K-12	731.35
Higher Education	260.26
Parallel	239.17
Preschool	67.50
Tutoring	10.00
Corporate Training (TVET)	161.67

Table 9: Pakistan's Private Education Market

Source: Market estimates and Kaizen research

5.5 Bangladesh

5.5.1 Country Overview

Bangladesh at a glance	
GDP at current prices (2013)	US$ 129.9 billion
Historical GDP CAGR (2013)	6.2%
GDP/Capital (2013 nominal)	US$ 830
Population (2013)	156.6 million
Education Sector size (2013)	US$ 3.97 billion
Public spending as % of GDP (2011)	11.32%
FDI as % of GDP (2013)	0.8%

Table 10: Bangladesh - Overview

Having sustained economic growth of 6% over the last 5 years, Bangladesh has been identified as one of the next eleven emerging economies in the world. The country has met several Millennium Development Goals ahead of time and reduced poverty, as the percentage of people living below the poverty line decreased from 40% in 2005 to 31.5% in 2010. Labor-intensive manufacturing in the garment sector has played an important role in employing low-skill, low-wage workers, 90% of whom are women. However, with 2.1 million people annually entering the working-age over the next decade and unemployment currently at 8%, there is a need to create high-productivity jobs. Thus, in order to move to the next state of economic development, the government has launched initiatives to increase access and quality of education.

5.5.2 Education Sector

Bangladesh has improved access to education with primary and secondary gross enrollment rates (GERs) at 109% and 63% in 2010. The country has also achieved gender parity for educational access in both primary and secondary education. While dropout rates for primary schools, public and private, have declined from 47% in 2005 to 40% in 2010, repetition rates have remained high. It is estimated that for every 10 students who enter school, only 7 students reach grade 5, and of the 7 students only 5 transit to grade 10, without repeating a year. Also inadequate resources and lack of trained teachers has increased the student-teacher ratio in primary schools to 1:36.

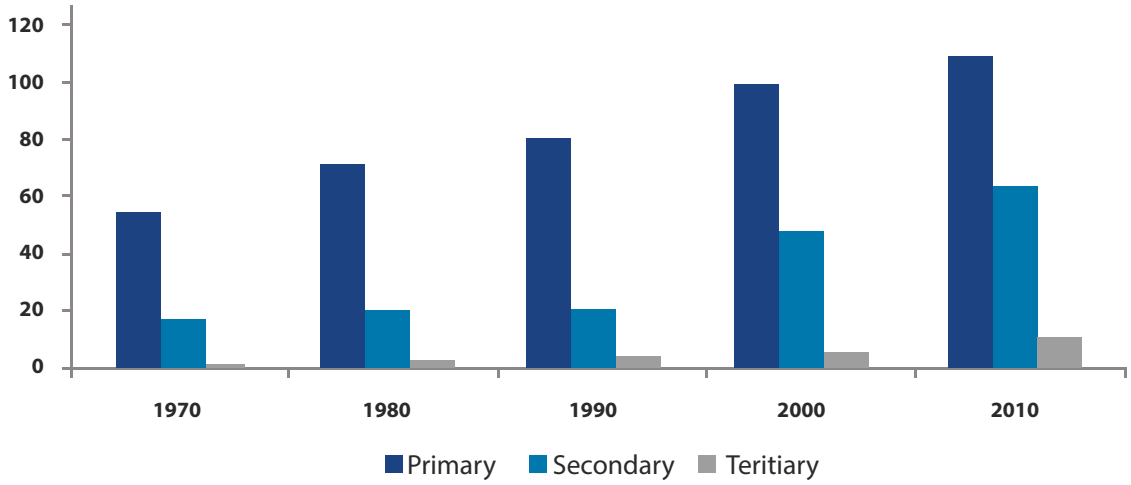


Figure 16: Gross Enrollment Ratio (%)

Source: UNESCO Institute of Statistics

Bangladesh has a variety of education providers ranging from government-run schools, privately managed secular schools, madrasas (Islamic religious schools, both registered and non-registered) to non-governmental organizations (NGOs). Primary education (Grade 1-5) is dominated by public schools, while secondary education (Grade 6-12) has adopted a public-private partnership model with private providers. Moreover, madrasa's support approximately 10% of total enrollment in primary education (2 million students) and 12% of total enrollment in secondary schools (1.6 million students). NGO schools cover 4% of primary school enrollment while private non-funded schools have 3% of the market. At the university level, there are 31 public institutions with a majority of students enrolled in arts and humanities, science, and social science, and 51 private universities with students mostly studying business administration and engineering.

Source: Bangladesh Bureau of Educational Information and Statistics (BANBEIS), 2011

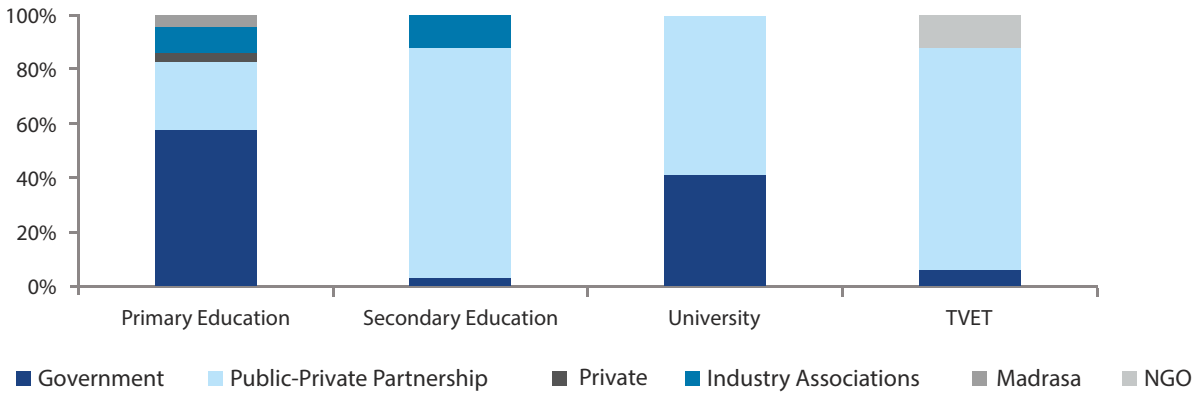


Figure 17: Student Enrollment (%) Across Education Providers

Source: Bangladesh Bureau of Educational Information & Statistics (BANBEIS), 2011

Despite having one of the highest primary school enrollments in the region, about 5 million children are still out of school, either not enrolled or dropped out very early. Thus, most of the workforce is comprised of students who have dropped out of school before completing secondary education. Lack of skilled labor has created a large opportunity for technical and vocational education and training (TVET). In 2013, there were 3,200 TVET institutions; of which 3,000 were private with 899,800 students enrolled.

5.5.3 Market Size

In 2013, education spend in Bangladesh was approximately US$ 4 billion, of which the public contribution was close to 72% and 90% of the total education budget, in both public and private schools, goes towards teacher salaries, leaving little room for operational expenditure and expansion plans. Over the past 10 years, government expenditure on education has remained between 2.2-2.5% of the GDP and 14% of total government expenditure. Primary school enrollment has doubled over the past 30 years and the number of private colleges has tripled from 16 in 2000 to 51 in 2010. Poor quality of education in schools has increased private spend for tutoring, representing on average 46% of total household expenditure. Additionally, around 5,000 students leave the country for higher education in UK, USA or Australia, representing 4% of the market.

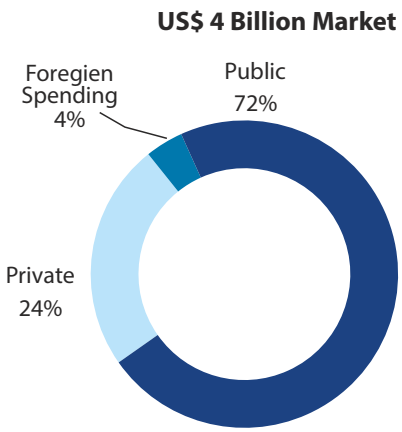


Figure 18: Education Sector Market Size
Source: Kaizen Analysis

5.5.4 Private Sector Activity

Within the private Education Sector, the highest spend per student is in private universities, where the tuition fee on average is $1,500 per annum. The parallel segment, which includes training, tutoring and preschools, also attracts a large share of the private education spend. There is a large disparity in the annual spend for tutoring, with the highest quintile spending 22 times more than students in the lowest quintile. Increased awareness on Early Childhood Development (ECD) programs has presented new opportunities for English-medium kindergartens that are completely privately owned and managed. Moreover, with the aim to improve quality of teachers, 54 private teacher-training institutes are offering a 1-year Bachelor of Education (B.Ed.) course. In the TVET sub-segment, 14.5% of Bangladeshi firms are providing off-the-job training, and 18.8% are providing on-the-job training.

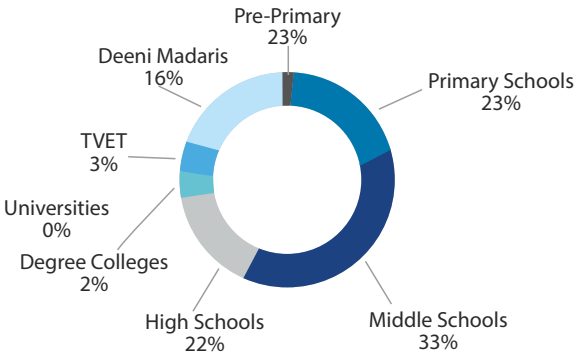


Figure : Distribution of Private Participation (% of Institutions)
Source: Kaizen Analysis

5.5.5 Regulatory Context

The Ministry of Primary and Mass Education (MoPME) covers primary education, non-formal education and literacy, while the Ministry of Education (MoE) oversees secondary education, TVET, higher education and madrasa education. The MOE has the overall responsibility for formulating policy, strategic leadership, and preparing the national budget for public funding in higher education. An autonomous University Grants Commission (UGC) manages both public and private universities.

For higher education, all colleges follow the curriculum prepared by the National University, whereas public and private universities are free to develop their own curricula and testing methods. More than half of the private colleges receive direct support from the government mainly in terms of salary subventions, commonly known as Monthly Pay Order (MPO).

In order to improve the quality of education, the government launched the National Student Assessment (NSA) in 2012, the first credible assessment to provide information on system performance. The NSA will provide insights on factors contributing to learning in primary and secondary education and ways to implement information and communication technologies (ICT) initiatives. The Ministry of Science Information and Communication Technology is responsible for providing the policy framework and institutional mechanism for the development of the ICT sector in the country.

5.5.6 Unique Opportunities

Government participation in the primary education has made the parallel segment attractive for private players. There is also a growing demand for private universities as students are willing to pay more for market-friendly courses that are more likely to guarantee a job upon graduation.

Additionally, an Academic Innovation Fund (AIF) has been set up as a grant for all eligible public and private universities on a competitive basis. The AIF's goal is to improve the quality of academic activities and outcomes, and to strengthen universities' links with national development efforts. It also will be used to encourage cross-disciplinary or inter-institutional academic collaboration, and to promote the use of modern communication technologies.

Education Segment	Market Size (US$ million)
Core	573.31
K-12	203.10
Higher Education	370.21
Parallel	391.90
Preschool	1.99
Tutoring	86.08
Corporate Training (TVET)	303.83

Table 11: Private Education Market in Bangladesh

Source: Market estimates and Kaizen research

5.6 Sri Lanka

5.6.1 Country Overview

Sri Lanka at a glance	
GDP at current prices (2013)	US$ 67.2 billion
Historical GDP CAGR (2013)	6.3%
GDP/Capital (2013 nominal)	US$ 3,280
Population (2013)	20.48 million
Education Sector size (2013)	US$ 2.96 billion
Public spending as % of GDP (2011)	17.84%
FDI as % of GDP (2012)	1.51%

Table 12: Sri Lanka – Overview

Over the past thirty years, the Sri Lankan economy has moved its focus from agriculture to manufacturing and services. Post-conflict years have seen accelerated economic growth and substantial poverty reduction, with poverty rates declining from 22.7% in 2002 to 8.9% in 2012. As in many middle-income countries, in order to sustain the high growth rates, Sri Lanka too must develop the potential of the private sector to increase investments, spur productivity and generate broader-based, more inclusive growth. This will require structural reforms aimed at promoting aggregate savings and private investments, along with attracting more FDI as a vehicle for technological upgrading. Under the Government of Sri Lanka's development plan, Mahinda Chintana (MC), funds to support private investments will be as high as 33-35% of GDP.

5.6.2 Education Sector

Sri Lanka offers free education for all from primary school to the university level. The country has one of the highest gross enrollment ratios (GER) in South Asia, with 98% literacy rate, widespread access, high completion rates, and gender parity in general education. GER at secondary schools has increased from 46% in 1970 to 100% in 2010. However, there is limited access to higher education with only 15 State Universities, 7 postgraduate institutes and 19 private degree-granting universities; none of which feature in the top 100 universities of the world.

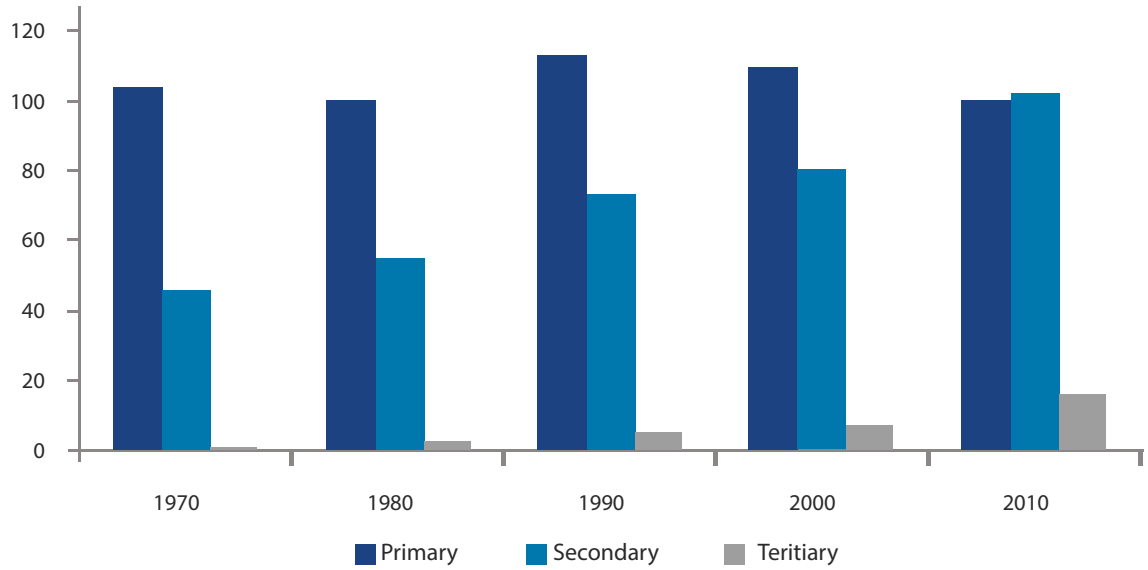


Figure 19: Gross Enrollment Ratio (%)
Source: UNESCO Institute of Statistics

Recognizing the importance of skills training, the Government of Sri Lanka (GoSL) has put skills development at the center of the MC plan. Some of the initiatives launched include establishing the Tertiary and Vocational Education Commission as the apex agency, creating the National Vocational Qualification Framework, expanding existing technology colleges to educate midlevel technicians and professionals, and opening the University of Vocational Technology.

5.6.3 Market Size

Budget constraints have limited the government's investment in the Education Sector to 1.64% of GDP. Of the US$ 1.1 billion investment in education, approximately 80% is devoted to recurrent expenditure. The limited availability of capital expenditure for developing the Education Sector has driven growth opportunities for the private tuition market, currently valued at US$ 132 million.

With no regulations in place for the preschool market, private players dominate the US$ 12 million preschool subsegment. Within the K-12 school segment, there is high enrollment in the public sector and only 3% students attend private and international schools. Free education until university level has limited the number of placements in government funded universities. Only 17% of the qualified youth gain admission to State universities, while another 10% high school graduates attend private colleges with high fee structures and 5% move to study abroad.

It is estimated that every year 140,000 youth enter the labor market without having completed secondary education and lacking job-specific technical and vocational skills, creating a large market opportunity for training institutes. With 97,000 students enrolled across 318 training centers, the current annual public expenditure for Technical and Vocational Education and Training (TVET) is US$ 104 million. While in the private sector, there are 990 TVET institutes that provide training to a niche market of students spending approximately US$ 1,300 annually.

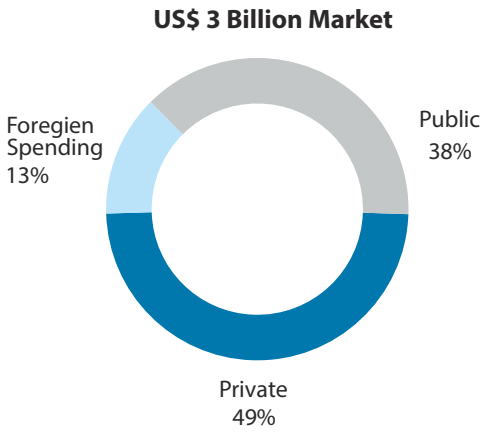


Figure 20: Education Sector Market Size

Source: Kaizen Analysis

5.6.4 Private Sector Activity

The growing middle-income population has increased total expenditure on education from 3.5% in 1985 to 5.5% in 2012. Due to limited access and poor quality of education in public schools, household private tuition expenditure has changed from a premium service in 1995 to a necessary option in 2007. Approximately 40% of urban households and 20% of rural households spent 3-5% of their household expenditure on private tuition classes.

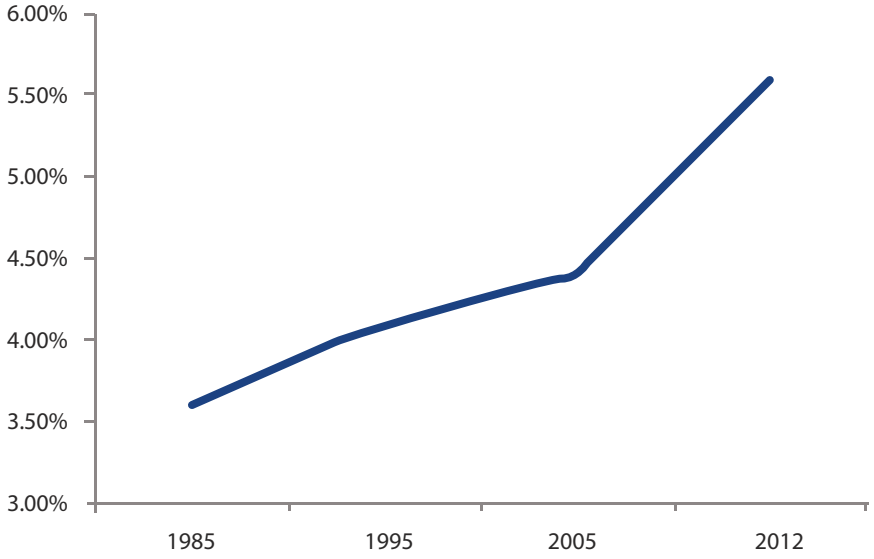


Figure 21: Household Expenditure on Education

Source: Ministry of Finance and Planning, 2013

The growing demand for higher education and increasing willingness to pay has given foreign universities the opportunity to enter the country. Recently, 10 foreign universities submitted their applications to establish a campus with a local education partner. The University of Surrey (UK) and Sri Lanka Institute of Information Technology (SLIIT) have also established a joint program that will allow undergraduate SLIIT students to continue their MSc studies in UK.

5.6.5 Regulatory Context

All private, public and semi-government schools use the same national curricula and all international schools must be registered with the Ministry of Education (MoE). Additionally, the National Education Commission (NEC) was established in 1991, to make recommendations and give advice to the president on the shape and content of the national education policy.

The government has established a 'free investment zone' for education under the Board of Investment of Sri Lanka (BOI), to enable foreign education providers to deliver courses in the country under their own brand, with full ownership and 100% repatriation of profits. The University of Central Lancashire (UCLan), set to open in September 2015, is the first foreign university to receive a 99-year lease with a 15-year corporate income tax holiday under the BOI scheme. Moreover, there is no legal barrier for foreign universities/higher education institutes recognized by the University Grants Commission (UGC) to award degree programs and be affiliated with Sri Lankan institutes.

Foreign education providers can either set up operations under the Department of Registrar of Companies as a private limited company or under the Board of Investment in Sri Lanka (BOI). Under the New Private University Act, foreign universities will be allowed to set up branch/offshore campuses in Sri Lanka.

For the tutoring subsegment, the 1990 act regulates academic and training standards in all establishments that provide tertiary and vocational education. It specifies procedures for the registration of providers, specified courses, and examinations. It also formulates the National Development Plan and gives training companies the power to regulate admissions requirements, curricula, qualifications of trainers, and certification; require training performance reports and inspect institutions; and cancel registrations for breach of specified conditions.

5.6.6 Unique Opportunities

Sri Lanka targets to achieve excellence in higher education by 2020, by becoming the most preferred country in the Asian subcontinent. The government has commenced the formulation of regulations for private participation in higher education.

The establishment of private universities will attract foreign students to Sri Lanka and absorb the 11,000 students who leave the country for higher education. Leading foreign universities such as Raffles College, Singapore and Manipal University, India have committed to invest in Sri Lanka.

As Colombo emerges as a fast growing global outsourcing city, private players in the TVET subsegment will also have the opportunity to increase supply of customized training programs for companies in the BPO industry.

Education Segment	Market Size (US$ million)
Core	1,255.91
K-12	1,217.64
Higher Education	38.27
Parallel	213.11
Preschool	12.12
Tutoring	132.76
Corporate Training (TVET)	68.23

Table 13: Sri Lanka's Private Education Market

Source: Market estimates and Kaizen research

6 South Asia – Growing Opportunities for Investments in Education

South Asia continues to be an attractive market for investments in the education sector. With a fast growing youth population, increasing public spend on education, lack of skilled labor, increase in number of students studying aboard and innovative models capturing large markets, these countries have the right enablers to increase private investments in education.

Private institutions are perceived to offer better education than public institutions and are thus in high demand by the growing middle class of South Asia. In the core segment, an increasing number of private players are building their brand by collaborating with international institutions, in order to help improve the quality of education. While in the parallel and ancillary segment, private investments remain most appealing to investors given the ease of commercial scalability.

Thus, establishing private institutions through public-private partnership models and increasing equity investments are expected to improve the quality of education, increase access and ensure the students have relevant skills to enhance their employability.

6.1 Limited Access and Poor Quality of Education

In most countries in South Asia, only 60% of the students enrolled in primary school complete secondary education and 18% gain access to higher education. Limited access to schools/colleges may lead to education becoming further unaffordable to a large section of the population.

Furthermore, on an average, the region has a student-teacher ratio of 35:1 in primary schools, one of the highest in the world, indicating the need for additional trained teachers. The shortage of qualified teachers also forces institutions to restrict the number of courses available to students. The unmet demand of trained teachers offers opportunities for investments in vocational teacher training schools.

The quality of education offered continues to remain a challenge as the region lacks accredited universities. For example in India, only 27% of the universities and 16% of the colleges are accredited by the National Assessment and Accreditation Council, reflecting a poor quality of education in a large proportion of Indian institutions.

6.2 Lack of Skilled Labor Force

Schools and colleges fail to focus on developing cognitive skills that would enhance employability. College courses lack practical context and are not aligned with the dynamic nature of the workforce. To deal with the value of knowledge for the future, instituties should ensure the content is current and not static and students should be able to translate their knowledge, attitude, skills and values into action.

In order to develop and by deploying the right skill sets through investments in human capital development, investments in vocational training will help close the skill gap, increase productivity and ensure that the economic system maintains its competitive advantage. Structural changes in the Education Sector will also help bring a higher level of education and skills to the workforce.

6.3 Growing Public Spend on Education

Education spend is correlated to and influenced by headline macroeconomic issues such as GDP growth, population growth and growth in per capita income. Based on the figure below, from 2003 to 2013, public spend on education per capita in South Asian countries increased an average at a CAGR of 12%. Private institutions can expect to capitalize on this trend, which has played out well especially in India, where the government is increasing support for private sector institutions to provide quality education.

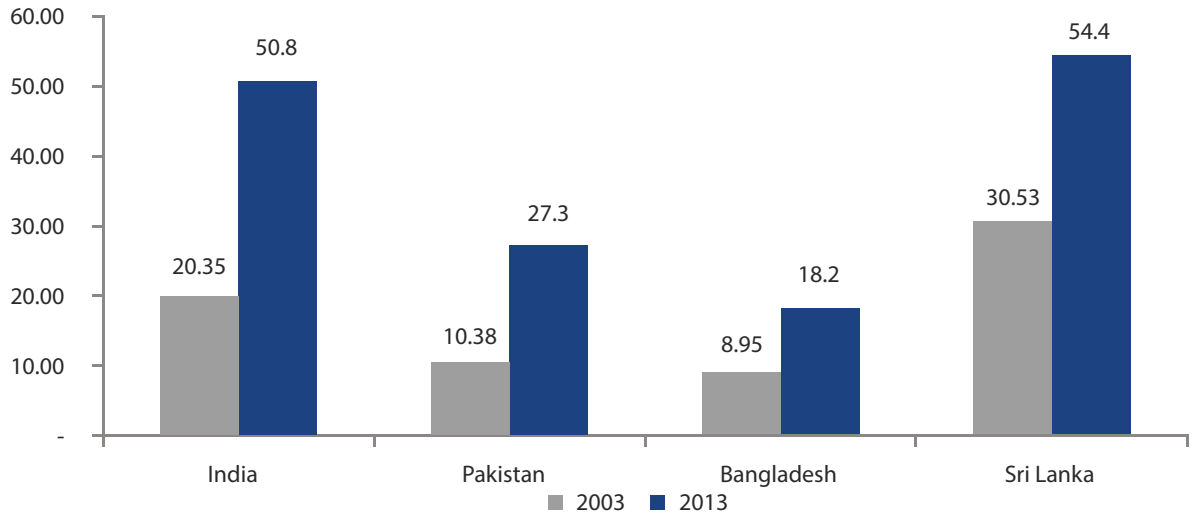


Figure 22: Public Education Spend per Capita (US$)

Source: World Bank Data and Kaizen research

6.4 Increasing Willingness to Pay

South Asia's expanding economies and their rising middle class populations are likely to continue to increase their spend on education, and the demand for quality education is the main driver for rising private sector participation in education.

Student mobility has become a central part of a student's education experience, with a significant increase in the number of students studying abroad for the full duration of their higher studies. Data from UNESCO Institute of Statistics indicates that the number of globally mobile students was at 3.4 million in 2009, up from 2.1 million students in 2002, a 7% CAGR in student mobility.

With a growing demand for higher education and one of the largest pools of international students, the number of South Asian students looking for opportunities to study abroad is expected to increase significantly in the coming years. Increasing spend on education enabled approximately 270,000 students from South Asia to study abroad in US, UK and Australia.

6.5 Innovative Models to Increase Access

Through innovation, education costs are being reduced and the quality of teaching is improving. Currently, higher and vocational education as well as educational products are being developed to increase the range of offerings for the mass market.

International institutions, online courses and industry partnerships are positioning themselves to offer their services to emerging economies. For instance, companies such as GEMS, Laureate and Raffles have attracted the Indian student population while online players like Coursera are developing traction with India contributing as the second largest user base. Digital classrooms, wherein teachers use technology to facilitate learning, are growing fast among private schools in India. Recently, tier-two and tier-three city schools in India are also adopting the latest technologies.

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