



# Financial Need Analysis of a Budget Private School Owner

**Riya Garg**

Researching Reality Summer Internship 2014  
Working paper: 321

## TABLE OF CONTENTS

<b>1. ABSTRACT</b> .....	<b>3</b>
<b>2. INTRODUCTION</b> .....	<b>4</b>
<b>3. LITERATURE REVIEW</b> .....	<b>7</b>
<b>4. METHODOLOGY</b> .....	<b>9</b>
<b>5. WHY CAPITAL AVAILABILITY?</b> .....	<b>11</b>
<b>5.1) AVAILING A LOAN, DIFFICULT:</b> .....	<b>11</b>
<b>5.2) RIGHT TO EDUCATION ACT:</b> .....	<b>12</b>
<b>6. RECOGNIZED SCHOOLS</b> .....	<b>15</b>
<b>6.1) BORROWINGS</b> .....	<b>15</b>
<b>6.1.1) BANKS</b> .....	<b>15</b>
<b>6.1.2) NON-BANKING FINANCING COMPANIES</b> .....	<b>17</b>
<b>6.2) EQUITY</b> .....	<b>19</b>
<b>7. UNRECOGNIZED SCHOOLS</b> .....	<b>21</b>
<b>8. CONCLUSION AND POLICY RECOMMENDATION</b> .....	<b>22</b>
<b>9. REFERENCES</b> .....	<b>25</b>
<b>10. APPENDIX 1</b> .....	<b>27</b>
<b>11. APPENDIX 2</b> .....	<b>29</b>
<b>12. APPENDIX 3</b> .....	<b>30</b>

## 1. ABSTRACT

This paper examines whether there exists a need to reform the access and availability of capital for Budget Private School (BPS) owners. That is the basis on which, the study tries to find out the manner in which this need affects the BPS owners. It checks the access and availability of the existing sources of raising capital, as well as the merits and demerits associated with each.

The hypothesis for this study has been that capital availability is a major problem for the BPS owners. If the hypothesis proves to be true, the author aims at coming up with policy recommendations.

## 2. INTRODUCTION

In India, out of:

100 children enrolled in class 1<sup>st</sup>

58 children reach class 8<sup>th</sup>

39 reach class 10<sup>th</sup>

19 pass 10<sup>th</sup>

12 pursue higher education

-World Bank 2013

Schools in India can be broadly classified into-

- 1) Private Schools
- 2) Government schools

The private schools can be further categorized as-

- 1) High End Private Schools
- 2) Low Cost Private Schools/Budget Private Schools

(The categorization of government schools is ignored as they are not a part of this study)

The Low Cost Private Schools, hereon mentioned as 'Budget Private Schools' or 'BPS', are what the study is based on. For ease, in this paper, schools refer to BPS schools and school owners are 'BPS school owners'.

Due to lack of standardized definition of Budget Private Schools, for this study I have assumed a school to be a Budget Private School if it charges a fee less than the respective state's per child expenditure amount. The rationale behind this is that the per child expenditure amount is the amount that the state deems necessary to spend on a child's education. Any school charging more than that would be qualified as a 'high' cost private school and the school charging less as a 'low' cost private school.

The research question for this study is, **"Is access and availability of capital a constraint for setting up or running a Budget Private School? Can Policy recommendations make capital easily accessible and available?"**

In the Indian city of Hyderabad, within slums that are home to 8,00,000 people, two out of three children attend private schools. A similar figure for the percentage of students studying in private schools in the urban slums of Delhi is not available. However, several papers point out that today, more and more children from low income background are gaining education through Budget

Private Schools (Kingdon, 1996a and 1996b; PROBE Report 1999; De et al 2001; Tooley and Dixon 2003; the Pratham ASER Report 2005) as opposed to government schools.

The large number of students that the Budget Private Schools cater to - despite the availability of government schools which have better infrastructure, more trained teachers and charge no fee- exhibit the important role that these schools play in providing education to the poor.

The current literature maintain(s) a strong stand for better quality of education imparted in Budget Private Schools (which has been discussed further in the next section).

Mr. James Tooley, in his famous book "The Beautiful Tree" 2009 brings light to the fact that "The World Bank" itself "called public education a 'government failure' with 'services so defective that their opportunity costs outweigh the benefits for most poor people'". Mr. Tooley further added that Action Aid reported, "Government education in many of world's poorest countries' is 'a moral outrage and a gross violation of human rights.'" According to the World Bank, In India, the absenteeism rate for teachers in rural primary government schools is as high as 50%

Section 8, Clause (g) of The Right of Children to Free and Compulsory Education Act, 2009, mentions "Every local authority shall ensure **good quality elementary education** conforming to the standards and norms specified in the Schedule". The World Bank reports clearly prove that the government is failing miserably at it. In such a situation, what are the poor supposed to do?

Budget Private Schools are an alternate source for the poor kids to gain good education. They act as a bridging gap between free, but with bad quality of education in government schools and costly, but with good quality education in private schools. One cannot disprove the fact that these schools help boost the education sector of the country by contributing to the enrollment, retention, literacy rate, etc.

This paper suggests an alternative which involves giving The Budget Private Schools a fair chance to flourish, leading to fair competition between BPS and Government schools, thereby directly giving parents the choice of deciding where to send their children for their studies.

**"Money is the tool that allows range of thought without fear."**

For any organization to survive, ready access and availability of capital is a must, as money can be related to each and every transaction in the organization.

**"Money is a good servant, but a bad master".**

Modifying the meaning of the aforementioned quote and looking at it with the context of availability of money (here, capital) in mind, it is easy to say that the access and availability of capital should be such that the organization can control it.

Thus, keeping the necessity of finance as the starting point, this paper studies the current need, access and availability of capital to Budget Private Schools and aims to come up with a solution which would allow these schools to flourish.

The first section of the paper focuses on the available literature, bringing light to their key findings and underlining the section(s) where it lacks. The next part deals with the methodology used for this research, with the succeeding section concentrating on the reason of "why capital availability?" which includes the importance of capital for any organization and RTE's contribution in aggravating the already existing hindrance with access to finance for Budget Private School owners. The following sections pivot around the different sources of raising capital for the Budget Schools, chalking out the details of each, followed by their merits and demerits. The last section offers the conclusion of my study with policy recommendation(s) as a solution to the issue at hand.

### 3. LITERATURE REVIEW

A considerable amount of research has already been conducted on Budget Private Schools. James Tooley (2003, 2005), Karthik Murlidharan (2007), Geeta Gandhi Kingdon (1996), Pauline Dixon (2003, 2005), Grey Matters Capital (2012) and Pratham (2005) are among the many people or institutions who have extensively studied this sector.

The existing research mainly focuses on the extent of existence of Budget Private Schools and their comparison with Government Schools. For example, in the paper "Private Schools Serving the Poor Working Paper: A Study from Delhi, India", James Tooley and Pauline Dixon found out the following-

1. On "Visiting classrooms unannounced", they "found that only **38% of government teachers** were teaching, compared to around **70% of teachers in private unaided** schools".
2. "**Government schools had more playgrounds, tape recorders and separate toilet facilities** for boys and girls than private unaided schools, on a wide range of other inputs private unaided schools, including unrecognized ones, either had superior inputs (desks, chairs, fans, toilets for children, computers) or there was no statistical difference between school type in inputs (blackboards, drinking water and libraries)".
3. "Children in unrecognized **private schools** achieved **72% higher marks on average in mathematics** than government students, **83% higher in Hindi and 246% higher in English**."
4. On "asking pupils about their satisfaction with a range of school inputs, including the condition of school buildings, provision of facilities and extra-curricular activities, and teacher punctuality, it was found that **children in private unaided schools were more satisfied** than their government counterparts, often considerably so".

However, the ASER report (2012) found out that-

1. The standard 5<sup>th</sup> students who could not read standard 2 text was 49% in government schools and 35% in private schools.
2. The standard 5<sup>th</sup> students who could not perform division were 66% government schools compared to 55% in private schools.

One personal observation is that, though several studies have come up with the same conclusion of Budget Private Schools providing better quality education than government schools, there happens to be a considerable difference amongst their statistic which depicts the extent of difference in quality of education. The evidence could be found by merely comparing

the conclusion of James Tooley's study and ASER Report, both of which have been quoted above.

Quite a few number of papers have gone beyond this topic and highlighted the fact that these schools do face the hurdle of raising capital. Some have even listed a few sources for the school owners to do so. Yet, hardly anyone has gone into more details over the issue and solution for the same.

This paper hopes to fill this gap in the literature by addressing this particular issue of access and availability of capital faced by the owners.

## 4. METHODOLOGY

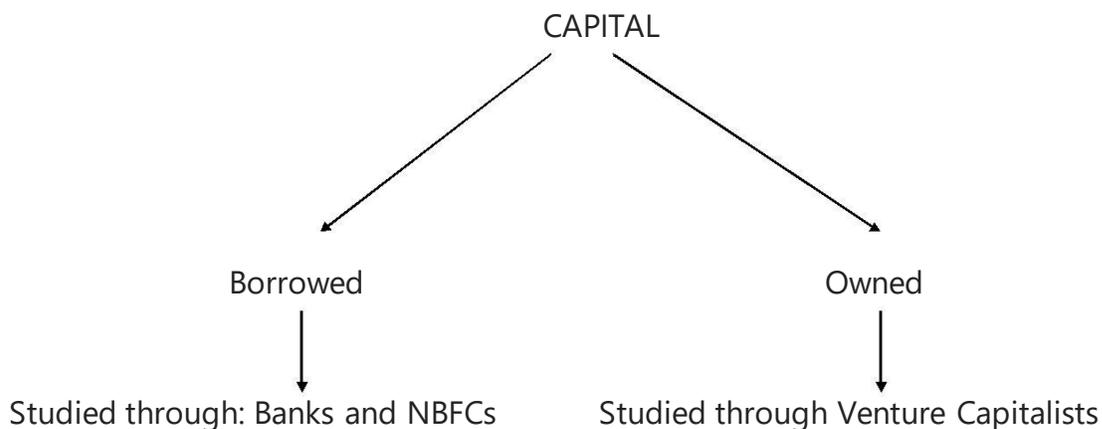
The methodology mainly involved primary research.

The first stage of my research included talking to ten school owners. The area chosen for this was Shahadara, as it has been reported to be one of the poorest areas of the city with 265 schools, of which two-thirds were private unaided, not receiving any state funding at all. Additionally, research over the availability of Budget Private Schools and their comparison with Government Schools has already been conducted there, without any mention of the access and availability of capital. This purpose of this research is to add on to that literature.

The aim of the interviews was to know:

1. The extent of the owner's need for loan capital
2. The options available to them to get access to the loan capital
3. The reason why or why didn't they opt a particular source.

It was realized that schools can raise capital either through borrowings or through selling out a share of their equity. To study the options available for borrowings, Banks and NBFCs were studied and to study the options for investment through equity sale, Venture Capitalists (specially, Social Venture Capitalists) were looked at.



Funds in a BPS can be required for

- a) Set up
- b) Expansion

After identifying the various sources of raising capital, my next step was to call or visit them so as to get more information about them.

The institutions visited were:

○ **3 Banks:** The aim of the interview was to know about the bank's lending policies towards schools and ask if there was any specific policy which requires them to pay special focus to the BPS.

The sample consisted of two nationalized and one private bank, so as to gauge the difference between the lending policies of the two types, assuming there was one.

○ **Non-Banking Finance Companies (NBFC):** This

included-○ NBFCs which solely lend to BPS

○ Microfinance institutions which lend to all type of business.

○ **Venture Capitalist Groups:** This was done to know whether investment of such kind is allowed in schools in India, despite them being a not-for-profit organization.

The last leg of my research involved analyzing the information brought forth in my research and come up with a policy recommendation to solve this widely spread issue.



## 5. WHY CAPITAL AVAILABILITY?

### 5.1) DIFFICULTY IN AVAILING A LOAN:

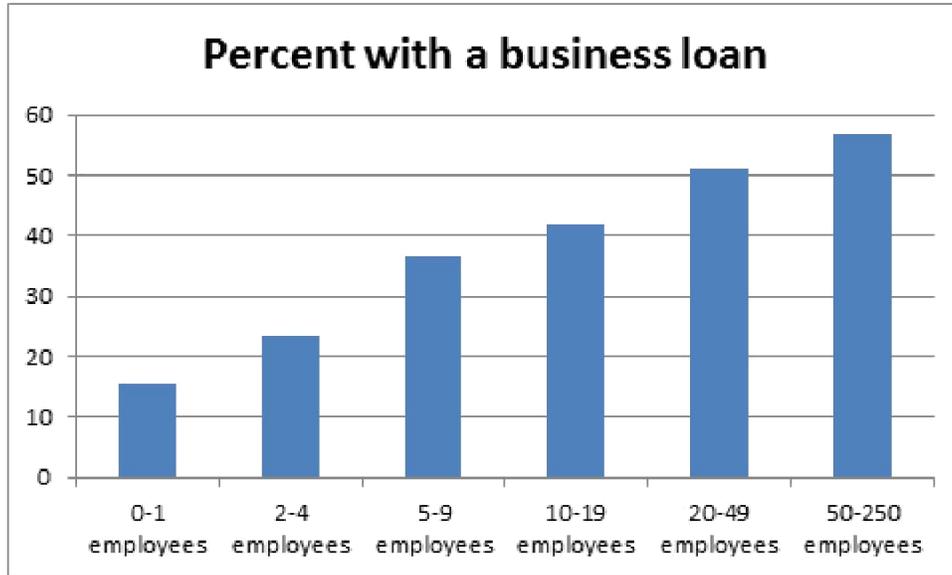
Benjamin Franklin once said, **"To understand the value of money, go and try to borrow some."**

A business deals in lakhs and crores of money. It is practically impossible for a proprietor to come up with that kind of amount himself/herself, thus he/she faces a need to either raise the money through equity or to borrow.

For borrowings, the business lending institutions evaluate certain standards in order to determine whether or not they will lend to a business. The size of a company is an important factor when it comes to applying for business or corporate credit.

It has been found that large companies and corporations can access funding in many ways that are not available to smaller companies.

The National Federation of Independent Business survey shows that only 15.7 percent of businesses with one or fewer employees have a business loan and only 33.7 percent have a line of credit. By contrast, 56.8 percent of businesses with between 50 and 250 workers have a business loan and 65.4 percent have a line of credit.



*Source: National Federation of Independent Business, 2011 finance survey*

This is because the lending institutions happen to be profit-making entities with the aim of minimizing their risk. They see that the default risk is higher in the small business loan market. Small businesses fail at higher rates than big businesses and changes in the business cycle have a larger impact on their profits. Because lenders cannot always charge interest rates that are commensurate with a borrower's default risk, the most risky small business borrowers are often unable to get credit (Shane, 2013 ).

The present situation is one where the institutions which need the most finance are the last in line to get it.

A Budget Private School's investment level usually comes under the small enterprise limit. It faces even more problem in availing a loan due to the low fee that it charges. The low rate of collection, further limits the profit/surplus earned. The fee collection rate, in such schools is reported to be at most 90%. (Bhinder, 2013)

## **5.2) RIGHT TO EDUCATION ACT:**

The Right of Children to Free and Compulsory Education (2009) makes education a fundamental right of every child in India. In addition, the law also prescribes standards that must be adhered to by all the schools, failing to which, the schools will be shut down.

Some of these RTE stipulations include:

- Land (biggest item of expenditure) with a play ground
  - All weather building that includes: kitchen for mid-day meals (when the mid-day meal is cooked in the school), drinking water, separate toilets for girls and boys, at least one classroom for each teacher, an office-cum-store-cum-head teacher's room and boundary walls
  - Teacher salaries as per 6th Pay Commission
  - Pupil teacher ratios that do not exceed 30:1 up to 120 students; 40:1 thereafter
  - At the upper primary stage, at least one teacher per class, such that there is at least one teacher each for Science & Maths, Social Studies and Languages respectively
  - Full-time head teacher for a school with over a100 students
  - Part-time instructors (at a minimum), for Art, Health/Physical Fitness and Work education
  - Minimum working days/instructions hours: 200 days or 800 hours for primary,220 days or 1000 hours for upper primary;45-hour week for teachers
  - Minimum qualification of a Bachelor of Education for the teachers

The primary requirement for recognition is that the total land area for a primary school must be at least 800 sq. metres and for an upper primary school must be at least 1000 sq. metres. Most of these schools are built on an area of 200 to 300 sq. metres. To have an indication of the expenditure to be incurred on land alone we can take a look at the property rates prevailing currently in Delhi. The lowest rate found is Rs 40,000 per sq. metre and the highest Rs 60,000 per sq. metre. Certain areas of the northeast zone have land rates as high as Rs 100 thousand per sq. metre. (Bhinder, 2013)

According to one set of estimates made by R.C. Jain, the total pay for primary teachers as per sixth pay commission, inclusive of all allowances amounts to Rs. 23,346, and that for a TGT amounts to Rs. 25,286. My interviews revealed that these schools currently pay a fee of Rs.4000-5000 to their teachers.

Following Right To Education (RTE) Norms gives rise to a situation where the total average cost per school was estimated at Rs 24 lakhs (excluding the land cost). At an 18% interest rate, each school will have to pay an EMI of Rs 35,521 over 30 years. (Chowdhury, 2013)

A report mentioned that only eight per cent schools have complied with the RTE norms despite the deadline for their implementation coming to an end about a year ago. (DNA, 2014)

The failure to comply to the RTE Norms threatens the existence of such schools. National Independent Schools Alliance reports that **19,414** schools have been closed or issued notice across 17 states which has impacted over **34, 94,520** poor children.

Ironically, instead of promoting universal education, RTE is leading to closure of schools and affecting the education of lakhs of students.

Thus, we can see that due to the difficulty of availing a loan in itself and the rigid RTE Norms which gives rise to a situation where a school needs even more amount of money to get established and continue operating, the need of capital has never been more urgent.

## 6. RECOGNIZED SCHOOLS

### 6.1) BORROWINGS

According to 'The Law Dictionary', '**Borrowing**' is to solicit and receive from another any article of property or thing of value with the intention and promise to repay or return it or its equivalent.

Banks and Non-Bank Financial Companies (NBFCs) provide the service of giving loans. Both of these are profit making entities and give loan after weighing the risk involved in the payment of the amount lent with interest. They measure the degree of risk on the basis of credit worthiness of the individual and his finances through the earning capacity of a business/salary and other indirect sources of income.

According to the Manager at Kotak Mahindra Bank, "If the risk of having a non-performing asset (NPA) is more than 5%, we do not give the loan".

#### 6.1.1) BANKS

O **Priority Sector Lending** is an important role given by the Reserve Bank Of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture or small scale industries. This is essentially meant for an all round development of the economy as opposed to focusing only on the financial sector.

#### CATEGORIES OF PRIORITY SECTOR

- (i) Agriculture
- (ii) Small Scale Industries
- (iii) Small Business / Service Enterprises
- (iv) Micro Credit
- (v) Education loans
- (vi) Housing loans

As per the aforementioned list, a school is not a priority sector. Giving loan to a school by a bank is same as them giving loan for any other business.

○ Out of my sample 8 out of 10 owners felt that the process for taking a loan was very complicated. They felt that a lot of documents would be required to be filed by them, some of which, they feared, they would not even have. (See Appendix 2 for a list of the documents required).

The school owners specifically have a problem with the following segments of the loan making process -

- **Recognition Certificate:** Due to their non-recognition, most schools automatically lose out on the chance to get a loan from banks.
- **Audited Balance Sheet:** (if loan for expansion)- Generally, these BPS run on cash basis, the owners do not take out time to make a balance sheet and get it audited.
- **Collateral:** The Budget Private Schools are generally opened by local entrepreneurs who are not in a position to provide collateral to the banks.

○ **Credit Guarantee Fund For Micro and Small Enterprises (CGSME)**- CGSME provides credit guarantee cover to the collateral free credit provided to Micro & Small Enterprises by the bank.

New or existing Micro and Small Enterprises can avail the credit facilities up to Rs.100 lakhs without any collateral security or third party guarantee.

Though a BPS requires an investment comparable to the level of a micro or a small enterprise, it is still unable to avail the benefits of this scheme because technically, it is not a micro or small enterprise.

○ Banks are **hesitant to accept the land on which the school is built as collateral**. The reason for the same is the complexity of auctioning the land if the loan turns into a NPA. Thus, they generally ask for a personal property of the person taking the loan as collateral.

○ None of the banks which were approached during the course of the study had ever been contacted by a BPS owner for a loan. Out of the 10 school owners visited, 9 were vehement in their opposition of approaching banks. They were convinced that loan would not be available to them. The reason ranged from lack of collateral, large number of documents needed to complicated procedure.

<b>MERITS</b>	<b>DEMERITS</b>
<ul style="list-style-type: none"><li>• Low Rate Of Interest</li><li>• Loans for both set up and expansion.</li></ul>	<ul style="list-style-type: none"><li>• Collateral Required</li><li>• Recognition Required</li><li>• Audited Balance Sheet Required</li><li>• Complicated Process (large number of documents)</li></ul>

### 6.1.2) NON-BANKING FINANCIAL COMPANIES

Non-banking financial companies, or NBFCs, are financial institutions that provide banking services, but do not hold a banking license. These institutions are not allowed to take deposits from the public. Nonetheless, all operations of these institutions are still covered under banking regulations.

O There are some NBFCs like Indian School Finance Company and Varthana which cater specifically to 'Affordable Private School' (Budget Private School).

O NBFCs claim an easy and personalized loan taking process. (See Appendix 3 for details of loans offered by them).

O Among the documents asked, these institutions ask the owners to give a list of their expenses and income so as to know the cash flow of the organization.

O Generally, NBFCs gives loan to schools which have already been in existence for 2 years (the period might vary from company to company).

O The rate of interest charged differs from 20%-28% (depending upon the type of loan- unsecured and secured)

<b>MERITS</b>
<ul style="list-style-type: none"><li>• Personalized Service</li><li>• Minimal documents</li><li>• Easy loan making process</li></ul>

<b>DEMERITS</b>
<ul style="list-style-type: none"><li>• No loan for set up of school.</li><li>• Recognition Required</li><li>• High Rate Of Interest</li></ul>

**FINDINGS:**

- Both institutions provide loan facilities for recognized schools only. They have no scheme which caters to unrecognized schools.
- The land on which school is built is not easily accepted as collateral.
- NBFCs offer more of a personalized service, which probably makes them more approachable from school owners' point of view.
- A substantial gap between the owners and the banks exists from both ends. Banks do not give priority to educational institutions and owners are hesitant in approaching them due to the notion that loan would not be given to them
- NBFCs ask for list of expenses and average revenue. This is a merit because –
  - Most owners do not maintain a balance sheet.
  - Even if they do maintain one, schooling is technically not-for-profit in India and NBFCs do not particularly care where the profit is going but the appropriation gets revealed in the balance sheet.

## 6.2) EQUITY

Currently, the funds for setting up, expanding and running a school are brought forth by the proprietor from his savings or loans from friends and families.

External Equity Investment may be a source of raising capital for the school owners. The scope of this has been explored below:

### 6.2.1) VENTURE CAPITALISM

A **venture capitalist** is an investor who either provides capital to startup ventures or supports small companies that wish to expand but do not have access to public funding. Venture capitalists are willing to invest in such companies because they can earn a massive return on their investments if these companies are a success.

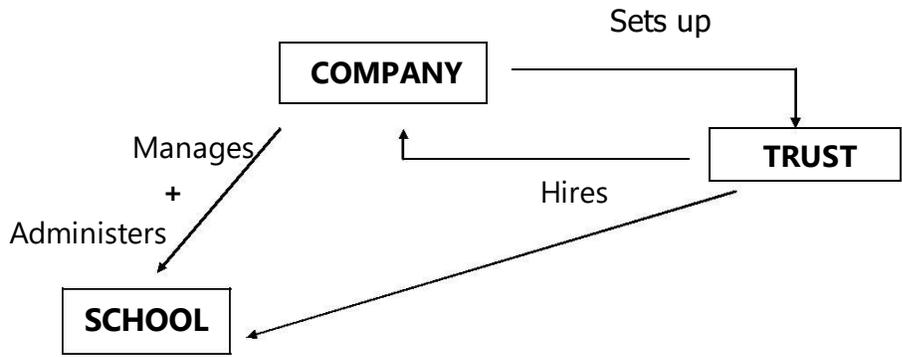
**Acumen Fund**, a non-profit global fund, reported, 'We do not currently invest in Budget Private Schools due to schooling being a not-for-profit sector. Though, we are looking for a legal way to take an active part in investing in such schools.'

This depicts that there is a need in the market for equity investment in schools and even the suppliers are ready to feed the demand but Section 15, clause (1), sub-clause (b) RTE which states that: **"The school is not run for profit to any individual, group or association of individuals or any other persons."** is holding this growth back.

However, there are companies which have found a loophole in the policy and got around the non-profit constraint. Mallika Chawla mentions the following model in her paper, "Venture Capital and Micro-finance Instituted Business Plan for a School Edupreneur" in 2010.

- Company sets up a trust and donates some money to the trust
- The trust establishes a school, runs it and earns money by charging fees and tapping other possible sources of income
- In this set up, the trust is not meant to earn profits
- It asks the company to take over the operational responsibility of running the school and pays the company a fixed fee for the same

The fixed fee paid to the company has a built in cost along with a margin for the company, so that the company makes a profit "



MERITS
<ul style="list-style-type: none"><li>• Builds a stable and sustainable model</li></ul>

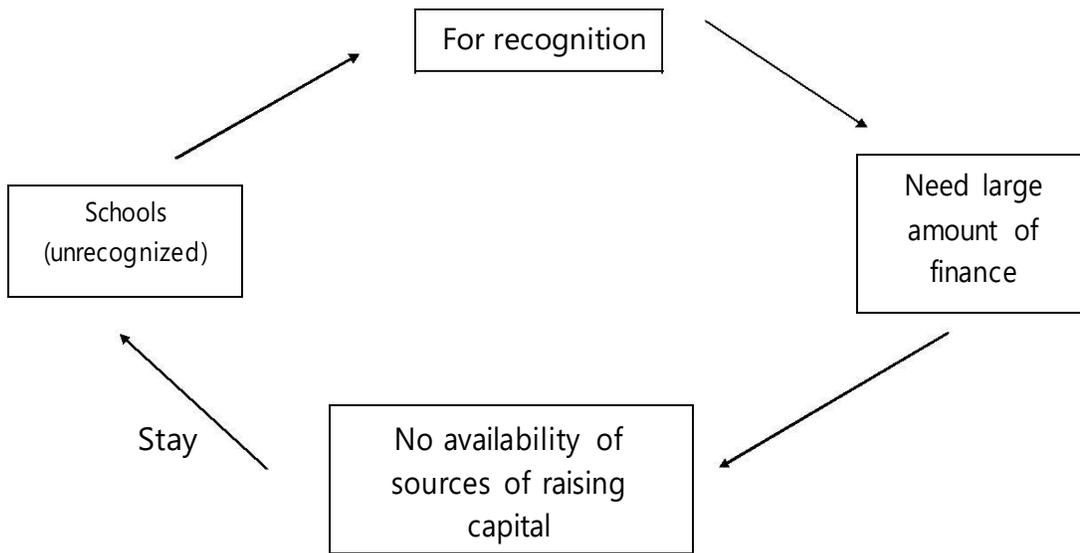
DEMERITS
<ul style="list-style-type: none"><li>• Legality limited*</li><li>• Might lead to problems in power distribution among the owner and investor</li></ul>

\*One interviewee commented, "This model is legal only as long as it is not illegal. When the authorities get wind of this model, it would cease to become legal".

## 7. UNRECOGNIZED SCHOOLS

The research came up with a blank when it tried to find out formal sources of raising capital for unrecognized schools.

No formal institution lends/invests in unrecognized schools as they are technically, illegal.



The owners of unrecognized schools get caught up in a vicious cycle due to the unavailability of financial capital with the only exit point through the closure of the school, affecting the education of the poor kids.

Thus, more than any group, it is the unrecognized schools which require some source of raising capital so that they could have some chance of survival.

## 8. CONCLUSION AND POLICY RECOMMENDATION

The hypothesis for this study was that access and availability of capital is a major problem for the Budget Private School owners. My study finds evidence to support the hypothesis. The access and availability of capital for Budget Private Schools is limited and needs to be revamped in order to ensure their survival.

The study shows that though there is availability of finance in the market, the owners are skeptical about borrowing from formal financial institutions as they believe that they would not be able to avail the loan facilities. The research with banks corroborates with the fact that in most situations, the owners are right in their belief. Therefore, there is a need to make financing easily accessible.

The study came up with a blank when it tried to look for financing options for unrecognized schools. This shows that unrecognized school owners have absolutely no access or availability of finance.

After identifying the major flaws in access and availability of capital, the paper proposes the following recommendations:

### ○ **Impart Financial Literacy-**

**If you find it difficult, then you probably don't understand it.**

The Financial institutions should tie up with NGOs and impart financial literacy to its potential clients which would help the institutions in their dealing as well as the owners in understanding what is going on.

○ **Personalized service-** Just like NBFCs, banks should also offer personalized service to their clients in order to ensure easy and relaxed communication in future dealings.

○ **Minimal documents-** Banks should simplify its loan making process and ask only for the minimal documents needed. For example, they should not ask for Audited Balance Sheet and instead look at the list of expenses and revenues just like NBFCs do.

○ **Collateral Free Loans-** Government should recognize the importance of Budget Private Schools and make policies which enable them to avail collateral free loans.

○ **Loans for recognition of schools:** One particular type of loan should also cater to the unrecognized schools which as the paper proves, have no source of raising capital. This loan should be given to help the schools gain recognition.

These recommendations are targeted at providing NBFC like services by formal banks to Budget Private Schools at an affordable rate of interest.

○ **'Schooling' a priority sector-** Another recommendation would be to make schooling a priority sector which includes making sure that a percentage of bank's total loans are towards the set up or expansion of schools followed by a low rate of interest.

○ **Make schooling a for-profit organization:**

Though there happens to be a way for schools to legally earn profit but this method is legal as long as it is undiscovered. Many venture capitalists do not invest in schools through this circuitous process as they know that the legality of the same is bound to end when the method comes to the attention of authorities. Making schooling a for-profit institution would not require the investment to take place in a tortuous manner and boost more equity investment into this sector.

Pearson Affordable Learning Fund (PALF) is known to do the same. It invests in a chain of low cost schools internationally (Omega Schools). It hasn't been able to do the same in India due to schools being not-for-profit.

○ **Strategic Philanthropic Fund:** The 2013 Companies Act in India requires corporations to spend "at least 2 percent of the average net profits of the company made during the three immediately preceding financial years" on corporate social responsibility (CSR) activities.

A pool of the funds coming from CSR could be created, the management of which could be outsourced with proper accountability in place. Different pools can be set up in different geographical locations with an objective of providing grants to unrecognized or recognized schools through a proper assessment model which stresses on learning outcomes and processes.

Investing in education is beneficial to both Indian business and society. A recent study shows for every \$1 invested in a child's education, there is a \$53 return to a company at the start of employment. Investing in education promotes economic growth, leads to more stable

societies, fosters healthy communities and makes it easier to do business – all critical for India's sustainable development.

If 2% of the \$2 billion was applied to education in India, companies could enroll India's 17.8 million out of school children (ages 5 – 13) into school. By using 0.14% of available CSR funds, companies could help enroll 50,000 girls in school. Only 16% of CSR funds would be required to enroll 100,000 children at risk of child labor all 28 states. And by spending 0.25% of available CSR funds, companies could lead the way and enroll 100,000 children with disabilities in school. (Kalra, 2014)

O **Incubation Fund:** RTE is right in its belief that quality infrastructure is an integral part to be present in a school. Quality of education and quality of infrastructure are two separate things, of which, only the latter is recognized in RTE.

To solve the flagrant issue of closure of unrecognized schools, the paper recommends that the government forms an 'incubation fund'. Through the fund, the government assesses the quality of education in an unrecognized school and if the quality imparted in a particular school is above a benchmark level, the government funds the school so as to improve its quality of infrastructure and recognizes it. This way, the learning outcomes, the process and the inputs (infrastructure) are all taken care of.

The assessment model should be one which focuses on providing weightage to several factors like enrollment, retention, learning outcomes, class room participation, teacher accountability, etc.

All in all, fostering better practices for access and availability of capital would provide a boost to Budget Private Schools which would, in the end, roll down and boost the enrollment, retention and literacy rate of our nation and complement the main aim of RTE which is to provide education to all.

## 9. REFERENCES

- Bank, World. "World Development Report 2004: Making services work for poor people." *Book World Development Report 2004: Making services work for poor people* (2004).
- Bhinder, Jasraj. Who Pays For RTE? 2013 Accessed at 27<sup>th</sup> June at [http://ccs.in/internship\\_papers/2011/246\\_jasraj-singh-bhinder\\_who-pays-for-rte\\_third.pdf](http://ccs.in/internship_papers/2011/246_jasraj-singh-bhinder_who-pays-for-rte_third.pdf). Pg8, 10
- Chowdhury, Shreya, 2013. Unrecognized schools need fee hike to apply RTE rules. Accessed on 11<sup>th</sup> July at <http://timesofindia.indiatimes.com/city/delhi/Unrecognized-schools-need-fee-hike-to-apply-RTE-rules/articleshow/27744104.cms>
- DNA: Only 8% have complied with RTE Norms. Accessed on 12<sup>th</sup> July at <http://www.dnaindia.com/mumbai/report-only-8-schools-have-complied-with-rte-norms-1969172>
- Farrington, Camille and Small, Margaret 2008. A New Model of Student Assessment for the 21st Century. Accessed on 23<sup>rd</sup> June at <http://www.aypf.org/documents/ANewModelofStudentAssessmentforthe21stCentury.pdf>
- Karopady, D. D. and Giridhar, S. Azim Premji Foundation 2009, Bangalore. School Quality Assessment: Multiple Matrix Model as a Viable Alternative For Large Scale Assessment of Learning Achievement. Accessed on 24<sup>th</sup> June at <http://www.azimpremjifoundation.org/pdf/School-Quality-Assessment.pdf>
- Kevin Kalra 2014, Senior Project Coordinator, Global Business Coalition for Education. Accelerating investment in Indian Education. Accessed on 28<sup>th</sup> June at <http://gbc-education.org/accelerating-investment-in-indian-education/>
- Pearson Affordable Learning Fund, Accessed on 13<sup>th</sup> July at <http://www.affordable-learning.com/the-fund.html#sthash.bbhNJDlc.dpbs>
- Shane, Scott "Why Small Businesses Have Trouble Getting Credit" Accessed on 15<sup>th</sup> June at <http://smallbiztrends.com/2013/05/why-small-businesses-have-trouble-getting-credit.html>
- The UN Secretary- General's Global Initiative on Education, accessed on 18<sup>th</sup> July
- Tooley, James, and Pauline Dixon. 2012. "Private education is good for the poor: A study of private schools serving the poor in low-income countries."
- Tooley, James, Pauline Dixon, and S. V. Gomathi. 2007. "Private schools and the millennium development goal of universal primary education: a census and comparative survey in Hyderabad, India." *OXFORD REVIEW OF EDUCATION* 33, no. 5: 539-560.

- Tooley, James; Dixon, Pauline "Private Schools Serving the Poor Working Paper: A Study from Delhi, India" Accessed on 10<sup>th</sup> July at <http://schoolchoice.in/research/viewpoint8.pdf>

## 10. APPENDIX 1

THE SCHEDULE																
(See sections 19 and 25)																
NORMS AND STANDARDS FOR A SCHOOL																
Sl. No.	Item	Norms and Standards														
1.	Number of teachers:															
	(a) For first class to fifth class	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Admitted children</td> <td style="width: 50%;">Number of teachers</td> </tr> <tr> <td>Up to Sixty</td> <td>Two</td> </tr> <tr> <td>Between sixty-one to ninety</td> <td>Three</td> </tr> <tr> <td>Between Ninety-one to one hundred and twenty</td> <td>Four</td> </tr> <tr> <td>Between One hundred and twenty-one to two hundred</td> <td>Five</td> </tr> <tr> <td>Above One hundred and fifty children</td> <td>Five plus one Head-teacher</td> </tr> <tr> <td>Above Two hundred children</td> <td>Pupil-Teacher Ratio (excluding Head-teacher) shall not exceed forty.</td> </tr> </table>	Admitted children	Number of teachers	Up to Sixty	Two	Between sixty-one to ninety	Three	Between Ninety-one to one hundred and twenty	Four	Between One hundred and twenty-one to two hundred	Five	Above One hundred and fifty children	Five plus one Head-teacher	Above Two hundred children	Pupil-Teacher Ratio (excluding Head-teacher) shall not exceed forty.
Admitted children	Number of teachers															
Up to Sixty	Two															
Between sixty-one to ninety	Three															
Between Ninety-one to one hundred and twenty	Four															
Between One hundred and twenty-one to two hundred	Five															
Above One hundred and fifty children	Five plus one Head-teacher															
Above Two hundred children	Pupil-Teacher Ratio (excluding Head-teacher) shall not exceed forty.															
	(b) For sixth class to eighth class	<p>(1) At least one teacher per class so that there shall be at least one teacher each for—</p> <p>(i) Science and Mathematics;</p> <p>(ii) Social Studies;</p> <p>(iii) Languages.</p> <p>(2) At least one teacher for every thirty-five children.</p> <p>(3) Where admission of children is above one hundred—</p> <p>(i) a full time head-teacher;</p> <p>(ii) part time instructors for—</p> <p>(A) Art Education;</p> <p>(B) Health and Physical Education;</p> <p>(C) Work Education.</p>														
2.	Building	<p>All-weather building consisting of—</p> <p>(i) at least one class-room for every teacher and an office-cum-store-cum-Head teacher's room;</p> <p>(ii) barrier-free access;</p> <p>(iii) separate toilets for boys and girls;</p> <p>(iv) safe and adequate drinking water facility to all children;</p> <p>(v) a kitchen where mid-day meal is cooked in the school;</p> <p>(vi) Playground;</p>														

	(vii) arrangements for securing the school building by boundary wall or fencing.
3. Minimum number of working days/instructional hours in an academic year	<p>(i) two hundred working days for first class to fifth class;</p> <p>(ii) two hundred and twenty working days for sixth class to eighth class;</p> <p>(iii) eight hundred instructional hours per academic year for first class to fifth class;</p> <p>(iv) one thousand instructional hours per academic year for sixth class to eighth class.</p>
4. Minimum number of working hours per week for the teacher	forty-five teaching plus preparation hours.
5. Teaching learning equipment	Shall be provided to each class as required.
6. Library	There shall be a library in each school providing newspaper, magazines and books on all subjects, including story-books.
7. Play material, games and sports equipment	Shall be provided to each class as required.

## 11. APPENDIX 2

Broadly, the documents required by the bank are:

- 1) **KYC NORMS:** ID and Address Proof of the individual who applies for the loan (the loan is given in the individual's name but certified by the school board) or the ID and address proof of the board members in case of a school applying for a loan in its name. The board members would then be held personally accountable for the loan.
- 2) **Projections/ Audited Balance Sheet :** Projections are needed in case of a loan for the set up of a school. Audited Balance Sheet is needed in case of an already existing school.
- 3) **6 month bank statement** of the school owner/board member/school
- 4) **Collateral Security-** Worth more than 100% of the loan amount
  - Water and Electricity Bill (to check no dues left)
  - Municipal Taxes Bill (to check no dues left)
  - Permission to mortgage (in case of lease hold property)
- 5) **Recognition Certificate and Affiliation** with the Board
- 6) Banks give loan of **60-70%** of total cost of the project and usually give loan amount in installments as per different stages of the project.

## 12. APPENDIX 3

### VARTHANA:

Terms and Conditions:

<p><b>We extend support for the purchase / development of the following and more:</b></p> <ul style="list-style-type: none"> <li>• Computers, printers, other related hardware</li> <li>• Benches, tables, chairs, other furniture</li> <li>• Didactic materials and/or learning solutions</li> <li>• Library Books</li> <li>• Laboratory Equipment</li> <li>• Construction of additional classrooms/infrastructure</li> <li>• Renovation</li> <li>• Smart Classrooms</li> <li>• Purchase of a playground &amp; play equipment</li> <li>• Purchase of a new or used school buses</li> </ul>	<p><b>Secured</b></p> <p><b>Loan Amount: Greater than Rs. 5 lac</b> <b>Tenor: Up to 5 years</b></p>	<p><b>Unsecured</b></p> <p><b>Loan Amount: Up to Rs. 5 lac</b> <b>Tenor: Up to 3 years</b></p>
	<p><b>Eligibility:</b></p> <ul style="list-style-type: none"> <li>• Enrollment of at least 500 children</li> <li>• At least 2 years of existence</li> <li>• Proven ability to repay the loan EMI</li> <li>• Pass percentage of at least 80% in class X (or the highest class in the school)</li> <li>• Acceptable security</li> <li>• 85% of the project cost can be funded</li> </ul>	<p><b>Eligibility:</b></p> <ul style="list-style-type: none"> <li>• Enrollment of at least 300 children</li> <li>• At least 2 years of existence</li> <li>• Proven ability to repay the loan EMI</li> <li>• Pass percentage of at least 80% in class X (or the highest class in the school)</li> <li>• Proper quotations/estimates will be required as proof, loans will be given up to 75% of the invoice price.</li> </ul>

### INDIAN SCHOOL FINANCE COMPANY:

#### SECURED TERM LOAN:

PRODUCT

**Ticket Size:** Upto 100 Lakhs

**Tenure:** Up to 5 years

**Security :** Immovable properties of School Owners / Schools, with LTV of ~70-80%

- Easy documentation and fast processing
- Transparent Dealings
- 25% free limit on prepayment/foreclosure on outstanding balance
- Step Down Interest: Reduction in interest rate after every 12 consecutive EMI repayments on time

PURPOSE:

- Purchase of Shool Land and Building
- Construction of School Building and additional class rooms

- Renovation of School Building and existing infrastructure
- Purchase of Equipments and Furniture
- Purchase of Hardware or Software contents such as Projectors, Digi-classes etc
- Financial planning of your existing loan liabilities

#### ELIGIBILITY:

- Recognized by State or Central Education Board
- Minimum Monthly Fee of Rs 400 per student
- Minimum student enrolment of 400
- Strong operational income and Committed Management

#### DOCUMENTATION:

- Duly filled Loan application
- A valid School Recognition Certificate
- Class wise enrolment and Fee structure
- Society registration certificate & Bylaws
- Address Proof of the School
- Project Report
- School income and expenditure statement
- Last six months bank statement
- Photo, address, ID and signature proof of both applicant and co applicant
- Collateral security

#### **Unsecured Xpress Loan:**

**Ticket Size :** Up to Rs. 5 Lacs

**Tenure :** Up to 3 years

**Security :** Unsecured

- Easy documentation and fast processing
- Transparent dealings
- 25% free limit on prepayment/foreclosure on outstanding balance
- Step Down Interest: Reduction in interest rate after every 12 consecutive EMI repayments on time

#### PURPOSE:

- Renovation of School Building and existing infrastructure



- Purchase of Equipments and Furniture
- Purchase of Hardware or Software contents such as Projectors, Digi-classes etc
- Financial planning of your existing loan liabilities

#### ELIGIBILITY:

- Recognized by State or Central Education Board
- Minimum Monthly Fee of Rs 400 per student
- Minimum student enrolment of 400
- Strong operational income and Committed Management

#### DOCUMENTATION:

- Duly filled loan application
- A valid School Recognition Certificate
- Class wise enrolment and Fee structure
- Society registration certificate & Bylaws
- Address Proof of the School
- Project Report
- School income and expenditure statement
- Last six months bank statement
- Photo, address, ID and signature proof of both applicant and co applicant