

# **Internationalization of Higher Education, Education Loan and the Aspect of Equity**

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**CERTIFICATE**

Certified that the dissertation entitled **Internationalization of Higher Education: Education Loan and the Aspect of Equity** submitted by **Jinusha Panigrahi** is in partial fulfillment of eight credits out of a total requirement of twenty-four credits for the degree of **Master of Philosophy** of this University. This dissertation has not been submitted for any other degree of this or any others University. In our knowledge it is her own original work.

We recommend that this dissertation be placed before the examiner for evaluation.

  
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*Jinusha Panigrahi*  
(Jinusha Panigrahi)

*Dedicated*  
*To*  
*My Loving Husband*

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**CHAPTER 1**

**INTRODUCTION**



## **Introduction**

“Education is a great equalizer of opportunities between the rich and the poor, and between men and women. But the equalizing promise of education can be realized only if children from different backgrounds have equal opportunities to benefit from quality education.”

--- Millennium Development Goals,  
World Development Report, 2006.

Global competition and faster flow of information and communication technology has fastened the pace of change around the globe. One of the important aspects of such rapid change is, the flow of knowledge. It has been pointed out by World Development Report (1999) that, “for countries in the vanguard of the world economy, the balance between the knowledge and resources has shifted so far towards the former that knowledge has become perhaps the most important factor determining the standard of living more than land, than tools, than labour. Today’s most technologically advanced economies are truly knowledge based.” Knowledge has been internationalized after General Agreement in Trade and Services (GATS) and it has greater impact on the different strata of the people particularly in developing countries like India. India encapsulates people of different classes, where there is a wide gap between the rich and the poor. Education particularly higher education (HE) is not accessible by all due to financial constraints. And after internationalization, there are different arguments developed by different educationists, economists and academicians on internationalization and the financing of HE. Due to the new economic reform policies the financial constraints of the government for its varying social, economic and political activities, has raised the question of an alternative source of funding of higher education. The present paper deals with the study regarding the feasibility of education loans particularly in case of India, as an alternative source of funding HE, keeping in view the equity aspects in HE.

The perspectives of internationalization have opened the door for the market forces and thus private sectors all over the world. The welfare activities of the

government have taken a back seat. The advocates of welfarism have been criticized by the champions of market forces. The growing impact of market forces upon the economies and policies of the governments is quite significant and unavoidable. To get sufficient benefits out of the movement of the market forces the education sector has come to the forefront after the GATS. And the objective of internationalization of HE is a major issue to consider in today's world. The Chapter 2 deals with the impacts of such an international agreement on the HE sector that basically affects the financial activities of the government in this sector and require an alternative to finance HE.

There are a number of dimensions of internationalization which affect the policy objectives of the government. While on the one hand, it helps in the economic, social and knowledge growth of a country; on the other hand, it destroys the cultural heritage of a country. It interconnects the teaching, research, and knowledge programmes of different countries that come into an agreement to exchange knowledge with each other. Sometimes, the concept of internationalization is confused with the globalization concept. Many have argued upon this. While the former is the exchange of knowledge between the countries with the existing national system, the later is the merge of all the aspects of both the countries concerned whether political, economic, or social, or financial.

The exchange of knowledge is not a new concept. It was there from time immemorial. It is universal in nature since nobody can restrict its flow to different parts of the world. The idea behind an open society was to spread the knowledge from the prosperous areas to the deficient areas. The objectives of Internationalization can be different for different countries. Some would adopt it for a greater access of education and achieving equity in the society both educationally and economically. And some would adopt it for providing employment opportunities to all the unemployed youths. Some other would adopt it for a greater understanding of the political and economic conditions of the world, or improving the political and economic contacts. There is a paradigm shift in the concept and practice of internationalization in the modern world. Now it is considered as a tradable service which can give economic gains to the countries under agreement.

The GATS was negotiated in the Uruguay Round of World Trade Organization in 1995 under the initiatives of certain developed countries. It was the first agreement on

mutual rules for trade in services. The agreement is in line with the Heckscher-Ohlin factor endowment theorem where the country in abundance with a particular knowledge exports it in exchange of the knowledge in which it is scarce. The applicability of Comparative advantage theory of Ricardo shows that a country with an advantage of a particular knowledge exchange in which it has a disadvantage. The GATS agreement gives momentum to the internationalization process by making it possible for the member countries to engage themselves in educational trade such as the cross border movements of students, teachers, and educational programmes. It holds the objective of free market competition i.e. there is the absence of any barriers to educational trade.

The agreement works under certain rules, such as, request and offer rule, the rule of transparency, the most favoured nation treatment and the national treatment. All the countries have to follow the rules if they want to trade in services. Similarly, there are four modes of GATS under which the trade in services is done. So far as HE is concerned, there is the exchange of study materials through distance learning methods under mode 1 called “cross border supply” and the movement of students comes under the second mode known as “consumption abroad”. The third mode called “commercial presence” includes the supply of education services by the institutions in foreign countries and the “presence of natural persons” comes under last mode.

The next section of the chapter deals with the applicability of internationalization in Indian HE system. Internationalization is not a new concept for India. It is there since 1950's when India was held with regard for its cultural heritage and has welcomed the international students to study at the world famous institutes of high learning such as Nalanda and Takshila. The modern version of such international approach is the recent arguments on internationalization of HE. Such global exchange of knowledge programmes was there due to the association of India with international organizations such as UNESCO, SAARC, NAM, etc. The last decade saw many foreign universities being engaged in twinning programmes, franchising system and distance learning programmes between India and many foreign universities.

Many government policies have welcomed such international perspective of HE. The Association of Indian Universities (AIU) in the “Mysore Statement” stressed upon the promotion of Indian HE abroad. The National Institute of Education Planning And

administration (NIEPA) welcomed the international education system for the promotion and development of knowledge.

The opportunities for India due to internationalization are also discussed in the Second Chapter. The unequal education structure in India is a concern along with regional disparities in the higher educational institutions. The quality of education is mediocre and there is a growing demand for employment oriented professional education. The skewed growth pattern in certain courses provided by private institutions results in unequal distribution of education which is further aggravated by the lack of fund for HE. It restricts the benefits of education for selective few who can afford it due to high cost of professional courses. The lack of proactive policies under government initiative along with lower standard of education, and large scale economic inequality hinder to reap the benefits of internationalization. It may cause further socio-cultural inequality, income inequality and educational inequality.

There is a decline in public expenditure in HE. HE is considered as a private good or quasi-public good for which it is argued that public expenditure on HE should cut down. Though there is a growing enrolment in HE but the resource crunch of the government in fulfilling its other prior social expenses such as health, primary education etc. has led a decline in expenditure on HE. Many national and international organizations has talked of making it self financing. In fact the GATS agreement considers public financing and government subsidy to HE as 'unfair subsidy' and has distortion effect which restrict the quality of publicly financed institutions to compete with private institutions in terms of quality. Different foreign countries like European and South-East Asian countries are facing such problems.

Thus financing of HE has become an important concern. It suggests certain alternative sources of financing to meet the resource crunch of the government.

The chapter 3 deals with such financing matters for HE in detail with the arguments for and against public financing of HE.

Education is considered both as consumption and as an investment good due to the nature of benefits received by both the individual and the institutions. Between these two sides of educational expenditure the second one is of greater importance because it generates future human capital and physical capital as well. There are two important

theories dealt with the investment aspect of education. The human capital theory as developed by Schultz (1961) considers that, investment in education improves the productive capacity of the individuals and thus their earning capacity is increased. It increases ultimately the national capital. The neo-classical economists used the human capital model to measure the distributional effects of investment in education. The role of the government was given emphasis in the equal distribution of income by giving equal opportunity in educational attainment. The complementary relation between human capital and physical capital was recognized. The screening models by Arrow (1972) and Spence (1973) points out that education simply enable the individuals to identify their capability rather increasing their productivity. Productivity or returns to human capital is not strictly measurable.

But the financing of HE is a controversial issue. The following arguments are developed to judge the financing of HE determined by it's (HE's) characteristics. The consumption benefits of HE exceeds the societal benefits. The principle of exclusion is applicable in HE because those who fail to pay for it are not eligible to study. Thus there is the presence of both private and public sector in HE which is otherwise called as a quasi-public good (Benson, 1987 and Tilak, 1993). Some consider it as a privately provided public good (Atkinson & Stiglitz, 1980). But the externalities associated with HE require public financing of it. HE brings political stability, social harmony, skilled manpower, increase productivity (Creedy, 1995), social mobility, and overall economic growth of the country. It is argued that such external benefits declines with the increasing level of education and in turn there is an increasing individual benefits. Thus, HE is considered as a private good and is left for the market forces; the funds of the government should be diverted towards primary education.

Investment in education is a concern for the individuals and the private and public institutions because it has greater private and social benefits or direct and indirect benefits. Many studies (Woodhall, 1987 & Azad, 1998 etc.) reveal that the private returns goes on increasing and that of social returns declines with the increasing level of education. But there are difficulties in the measurement of the returns to education. The investment decisions of individuals and the institutions are different because it is a matter of domain associated with investment and time-horizons of the investment duration.

Calculating the costs and benefits of investment the individual domain considers the short term returns of investment whereas the institutional domain considers the long term returns of investment. Besides, there is the problem of social choice (Majumdar, 1983) where, the returns to education are dependent upon the general level of employment and equity in educational opportunities. The costs of education are difficult to measure because it covers the costs during and after the completion of the course.

Due to the uncertain returns of education for the individual, it is the government which takes the initiative to invest in education for the welfare of the society and to compete in the growing knowledge economy.

The market imperfections in case of human capital discourage the students to get any financial help for their education from any financial institution. There is no measuring rod of human capital and the characteristic of each individual occupied out of education is not transferable. Human capital is a metaphysical concept (Wiseman, 1987) and thus, non-marketable. The uncertainty in job guarantee and technical skill (Khadria, 1989) make the financial institutions hesitate to lend. In such case the market fails and thus public financing is the ultimatum. There is the lack of information among people about the benefits of HE. They hesitate to invest in it simply because; it has long time-horizon. Government should take the initiative to do so.

The next section of this chapter deals with the case for and against subsidies to HE which is a very controversial issue around the world. The demand argument requires, that to meet the growing demand for HE it should be subsidized. The manpower argument requires, that government should take the initiative to invest on HE otherwise, the country will fail to compete with the developed countries in terms of skilled manpower (Windham, 1976) and the social mobility will become stagnant. The equity argument considers education as a medium to provide equal opportunities to all the individuals irrespective of age, sex, and race. If it does not happen then the growth potential of the country is affected (Raza & Premi, 1987). The subsidization of post-secondary education is favoured to remove such inequality (Blaug & Woodhall, 1979) otherwise; the future generation will inherit the inequality of the present generation (Mehta, 1993). The efficiency argument requires the government intervention in terms of subsidy for achieving economic efficiency and reaching Pareto optimality.

This section of the chapter discusses, the case for private financing of HE. The resource constraints of the government require the interference of private educational institutions to meet the growing demand for HE. The subsidies to HE provides negative returns to the government because the revenues from taxation is not sufficient to compensate the total expenditure of the government (Creedy, 1995). It is said that the students must pay for it (Psacharopoulos et al, 1987). Secondly, subsidization of HE aggravate the unequal income distribution because it is the affluent and middle income people that participate in HE. Many studies reveal that subsidization of HE adds to the pockets of the affluent at the cost of the underprivileged (Denison 1970, & Psacharopoulos, 1977) and there is a positive correlation between income level and the size of per capita subsidy (Vredeveld, 1978). Subsidies lead to deferred fee that increases lifetime inequality (Creedy, 1995). For these results, some support education loans as an alternative to government subsidization (Wiseman, 1987) and some other argue for selective user charges (Kanyike, 1987). Thirdly, there are arguments for private financing to improve the quality, access, and efficiency of HE. Subsidy to educational institutions makes them lethargic in improving the quality of education and administration. Thus user charges are supported to match the ability of the students with their specialization (Kanyike, 1987) and greater cost recovery from the students makes them responsible for HE (Tilak, 2005). Even the operation of the dual sectors (both public and private) improves quality of education due to competition (Levy, 1993). And the higher fees can be substantiated by the provision of cheap loans, and selective grants and scholarships to the economically deserving sections of the society (Khadria, 1989).

The next section discuss about the alternative methods of financing HE to meet a growing demand for it. They are the graduate tax method, education vouchers, student loans, and student fees. It is followed by the section which discuss about financing matters of Indian HE sector. The resource crunch of the government in India in meeting the social objectives like the universalization of elementary education has gradually reduced its expenditure on HE. The public subsidies in India towards HE is declining relatively in each financial year. Even the scholarships to the meritorious students and the underprivileged sections (SC, ST, women etc.) are also declining relatively. The increasing privatization of HE has raised the tuition fees which restricts the low income

groups to pursue higher studies. There are very few government subsidized institutions which are not able to meet the growing demand of HE and private institutions which are basically professional or technical institutes charge very high fees. To meet the financial needs many alternative sources of financing are suggested. Among them education loan has gained more popularity.

The theoretical and practical significance of education loan as an alternative method to finance HE is discussed in the fourth chapter. Different developed and developing countries that have experimented with education loan as an alternative method to finance HE is discussed in this chapter. The first section deals with the concept and objectives of education loan. The immediate objective of loan is to meet the frequent need of funds for HE. It is an obligation for the future i.e. the student can repay the amount borrowed when he earns. The other objective is that the most talented student is not eliminated from higher studies due to the lack of funds.

The second section deals with the arguments for and against education loan as an alternative source to finance HE. Here, a comparison between loans and grants is done in the due process of argument. The increasing costs of HE is the first argument for education loan as a method of financing. The stress given on user charges by the World Bank and other international institutions has inclined the governments to cut down their expenses on grants and scholarships as HE is considered as a private good. To meet such high costs of HE education loan is considered as an alternative for it. Secondly, the burden on public funds is the reason for student loans (Woodhall, 1970, Johnstone, 2004, Gordon & Patrick, 1968, Merret, 1967). The governments can't spend more on HE (particularly on grants) due to the growing need of funds for the other important welfare activities. The benefit argument favours the loan schemes (Prest, 1960 & Woodhall, 1970). It is argued that those who benefit from higher studies must pay for it. The equity argument (Blaug, 1968, Mishan, 1969, Kanyike, 1987, Johnstone, 2004) states that the system of grants transfers the resources from the poor to the rich. It does not happen in case of loan. All the sections of the society should get equal opportunity in the access of HE. And it is the education loan which provides such an opportunity for all (but with limitations). The efficiency argument (Psacharopoulos et al 1987, Woodhall, 1970, Mingat & Tan, 1986) says that education loan incline the student to utilize his time more



efficiently to repay the loan in time. But on the other side, it may put psychological pressure upon the student due to the burden of repayment. Even, the institutions use the resources efficiently under competition to reduce the costs of education so that more students are attracted to them. The asymmetric information and market imperfections on the contrary, discourage loan method of financing (Akerlof, 1970, Nerlove, 1975, Accocela, 2005). The financial institutions while giving loans have to judge many things regarding the capability of the student. They feel uncertain about the future income of the student and his capability to utilize the loan money efficiently. Sometimes there may be adverse selection of students who fail to repay the loans due to many uncertain reasons. For such risk bearing work they ask for collateral securities or insurance policies and charge high rate of interest from the students (or their parents). The underprivileged sections of the society are deprived of HE due to such requirements of loan. The government grants or subsidies are preferred than loans due to such reasons particularly in developing countries. Even, the students are unaware of their potential and are risk averters. Besides, there are administrative problems involved with loan repayment. All those students that take loans do not repay them in time. The future income of the students is dependent on their specialization and the market value of the learned skill. Basically, the banks prefer the students of professional courses that have job guarantee and the terms of repayment is same for all. It may affect the students who earn less after the completion of their course. They do not payback the loan in time and some of them may default due to some other uncertain reasons. It causes problems for the lenders who are not in touch with the student. Even those who go abroad and settle over there default and the lenders fail to reach them. Even if, they try to reach they have to spend a lot. All these happen due to an underdeveloped banking system in the country concerned. There are some practical difficulties associated with loan scheme such as; the rate of interest charged is high enough and there are some other charges which restrict the low income families to borrow from financial institutions for HE. Due to the above difficulties in education loan the government grants are preferred than loans.

The next section deals with the two forms of loan such as the income contingent loans (ICL) and the conventional methods of loan and their applicability in different countries. While the former is a long term loan determined in terms of future source of

income of the student and carries a contractual rate of interest, the later is a short term loan with a fixed rate of interest. Conventional loan method has certain mode of repayment, i.e. the total amount of loan along with the rate of interest has to be paid in annual installment basis within the predetermined period. The ICL is a flexible method of loan which is less burdensome for the low income students because the annual repayment amount may vary according to the earnings of the borrower. Those who earn less repay less annually and get a longer duration of repayment. It increases the convenience and efficiency of the borrower who is certain about his loan repayment. ICL also leads to good cost recovery due to well developed tax collecting mechanism; it is the tax authority that collects the loans. But it is criticized due to its undetectability of underpayments which extends for years, there is loss to tax authority due to understatement of income or overstatement of expenditure and it discourage the parents to go for loans due to its long term repayment duration. Conventional loan method is superior in such instances.

The last section deals with the countries who have successfully applied loans as an alternative to finance HE. They are, USA, Scandinavian countries, European countries, Hong Kong, Australia etc.

The fifth chapter deals with the education loan schemes in India and the theoretical and practical difficulties associated with it. Different primary and secondary data are collected and certain statistical calculations are done to find out the significance of loan schemes as an alternative to meet the rising fees of HE in India.

The first section deals with the objectives of student loans and various government policies to fulfill those objectives. Education loan in India is basically given importance to meet the financial constraints of the government. India being a democratic society the egalitarian principle is followed by the government. Not a single capable individual can be left out of HE due to resource constraints. To meet the target of Universalization of elementary education along with other welfare activities like health, sanitation etc. the resources of the government is diverted from other activities towards these above mentioned welfare activities. Thus, expenditure on HE is gradually coming down. But to meet the growing demand of HE certain alternative sources of funding are coming forward. Among them, the education loan schemes are gaining popularity. Various committees set up by the government have given recommendations on the

significance of education loan. The Punnaya committee report, Swaminathan committee report, Ambani-Birla committee report, the Mysore statement and the mid-term appraisal of tenth plan have suggested for education loans as an alternative method of financing HE.

The second section deals with the recent student loan schemes of the banks in India. The kind of loan provided in India is one of conventional type where there is a loan amount to be sanctioned according to the course structure of the student and the expenses involved with it. The loan is provided for a fixed duration of time with certain mode of repayment, i.e. it is to be paid in an equal monthly installment (EMI) basis. There are a lots of eligibility criteria required by the banks while giving loans. All those students who pursue education in professional courses in certain recognized institutes are eligible to take loan. There is the age limit for both the student and his parents. They should be able to show their current income, properties, bank balances etc. and in exceptional cases the students expected future income is sufficient to determine his eligibility. The total amount of loan sanctioned is according to the study expenses of the student that may not cover his total expenses during the study period. There are certain criteria for the repayment of loans such as, a certain amount of fixed rate of interest charged which may be reduced if the student pays the loans before the completion of the repayment period, or the student tops in his academic performance, or the student's parents (any one of them) are in bank service. The repayment period is determined according to the loan amount.

But the banks fail to provide any special provisions to the low income group or the underprivileged sections of the society. Since they work on commercial basis all the students are treated equally. The information collected from different public and private sector banks reveal such facts. There is biasedness among the banks in favour of students in professional courses and who have high future income or lots of parental properties. They avoid risks, by not granting loans to the students who are in non-technical or general education, or who have less expected future earnings, or who have no parental property to show as security, because in these cases, they fail to repay the loan amount borrowed. The responses of the students in the questionnaire also reveal the same conditions. There is a positive correlation between the loan amount sanctioned and the

income level of the parents. Higher is the loan amount higher will be the rate of interest. On the contrary, higher is the rate of interest lower is the demand for loans.

The subjects with greater job guarantee get more loans than others. It is not necessary that the future income of the student is very high but it should be sufficient to repay the loan. The total number of dependants in the family is not a big matter while sanctioning loan. The regression analysis is used as a method to analyze the significance of loan method of financing.

The negligence of the low income groups and the educationally, economically and socially backward sections of the society in the bank's loan scheme do not encourage the loan method of financing HE in India. Even, the government does not give interest subsidy to such students like certain other countries, who lack resources to meet their living expenses. The loan method of financing violates the egalitarian principle of Indian society. For its successful implementation as an alternative method of financing HE, the need of proper government initiative to make the loans available to such sections of the society cheaply is required.

**CHAPTER 2**

**INTERNATIONALIZATION OF HIGHER  
EDUCATION**

## **Internationalization of Higher Education**

The trends in the knowledge economy have brought about revolution in the new millennium after the widespread expansion of Information and Communication Technology (ICT). Such knowledge revolution has increased the impact of global interaction in the education system in general and HE in particular. Such impact is inevitable and essential because economic growth of any country is driven by the accumulation of knowledge. It is the generation and exploitation of knowledge which plays a predominant role in the creation of wealth. The interconnectedness among different countries around the globe has recognized the role of the market for the growth of education with greater quality and accessibility. For this, the importance of the private sector in the generation and expansion of knowledge has been recognised along with the public sector. There is an idea to maintain a balance in the availability of educational resources in different countries by means of mutual cooperation and exchange of knowledge elements, such as, students, teachers, educational institutions, etc. Such an idea is the core of the term “Internationalization” where two or more countries under certain commitments liberalize physical mobility, encourage academic cooperation and academic knowledge transfers among them. The concern for internationalization has been realized by many countries two-three decades back. And, finally, to fulfill such an idea of knowledge spread, the General Agreement in Trade in Services (GATS) came into international diasporas under the initiative of World Trade Organization (WTO). It viewed HE as a private good and as a commodity to be traded to earn foreign exchange and in the process the quality and efficiency of HE to be improved. Here the users of HE should pay for the service rendered to them. GATS provision invoke higher education sector to lead towards progressive liberalization. Such kind of agreement has unequal impact over developed and developing countries so far as the equity aspect is concerned. To improve efficiency and thereby competition among countries over supply and demand of HE, there will be curtailment of subsidies to HE and it will be more or less a self-financing education system.

Many countries like, USA, UK, Australia, Japan, New Zealand, etc, have adopted the internationalization perspective towards their HE system. But countries (the

developing countries) like India have to face competition under such a policy initiative when it conflicts with domestic policy of HE system particularly relating to financing of HE.

## 2.1 Why Market/ Private Sector?

Some decades before, government interventions were a commonly accepted principle. It was considered that both at micro and macro level, the market fails for which the planned government action was desirable. Supporters of government intervention on welfare grounds were criticized in certain context by the champions of market interventionists. On theoretical grounds, the significance of invisible hand has been realized. On practical grounds the impact of market forces in the new era of globalization is quite evident. It has greater impact upon the economies and policies of different societies. But the economic liberalization and its impact on the overall stand of an economy is very awesome for the governments' policy and programmes. It is argued by Acocella (2005), that globalization reduces the decision making independence of a country where any decision taken should be in accordance with associated countries concerned and thus it destroys the independence of the policy makers of a country. But, since globalization is a familiar term in modern world, the virtues of market forces could not be ignored. The role of the market and its efficient outcomes were realized three centuries back by Adam Smith, the founder of Economic Science. He realized the profound role of the invisible hand in maximizing social welfare by means of satisfying the preferences of the individuals.

The real world situation of imperfect market conditions violates the virtues of Pareto optimality.<sup>1</sup> The traditional concept of market failure due to economies of scale has been ruled out. Economists (Baumol, Panzar, Willig, 1982) argue that equilibrium in an imperfect market conditions like monopoly or oligopoly could be achieved if there is "contestability of Markets", i.e., free entry and exit of markets. It leads to increasing returns to scale.<sup>2</sup> Keeping in view the possible gains out of competition in a market, the

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<sup>1</sup> Pareto Optimality is achieved under conditions of perfect competition, when  $MC = \text{price}$ .

<sup>2</sup> It is assumed that the costs of entry and exit are less due to absence of barriers to trade. Further it is assumed that, the firms in any market are earning supernormal profits for which new firms will enter the market with possible price cuts to increase their sales. It results a price war between old and new firms which ultimately force the new entrants to exit the market by earning certain profits in the process of price war. The resulting price charged by the remaining firms is less than equal to the average cost (AC).

education sector of the world is also exploited to a larger extent to earn some profits via international education.

## **2.2 Internationalization of Higher Education**

2.2.1 The terminology: Internationalization is a complex process to define. It may imply many questionable elements such as destroying cultural heritage, diminishing language diversity, reducing variety of academic cultures and structures, quality decline or even supporting imperialist take-over (Teichler, p.6, 2004). On the other side, it may spurt many opportunities vital for knowledge growth, cultural development, economic and social development and overall growth of a country. It is the process of integrating an international dimension into the teaching, research and service functions of HE institutions (Knight, p.3, 2002). This definition of internationalization perhaps emphasize on the academic motives of international activities rather the economic motives of HE system.

If, narrowly defined then, internationalization, a policy of exporting students occurs when a country purposefully sends students to other countries to receive higher education (Vossensteyn, 2003). The other aspect of internationalization is the import of foreign students for economic and socio-political reasons (Erudice, 1999).

The UNESCO's position paper interprets that, "internationalization is one of the ways in which HE is responding to the opportunity and challenges of globalization. It includes a broad range of elements such as curriculum, teaching/learning, research, institutional agreements, student/faculty mobility, development, cooperation and many more (Anandkrishnan, p.4, 2004).

For GATS, internationalization is one process of developing/ implementing policies and programmes to integrate an international, intercultural or global dimension into the purpose, functions and provisions of post-secondary education (Anandkrishnan, 2004, p.7).

2.2.2 Internationalization vs. Globalization: If we talk of a trend or policy direction, then the two terms such as internationalization and Globalization are used interchangeably. Both are similar in the following accounts.

There is a certain kind of trend or policy direction, more or less far apart from any national system of HE, moving towards expansion of knowledge around the globe with



varying setting of the actors and reactors. Further, both deal with the changing context of HE system which challenges the HE system both internally and externally.

However, the core meaning of Globalization and internationalization are quite different.

It is defined by Teichler that, internationalization tends to address an increase of border-crossing activities amidst a more or less persistence of national system of higher education. On the other hand, Globalization tends to assume that borders and national systems as such get blurred or even might disappear (Teichler, p.7, 2004).

Dr. Jane Knight describes “globalization as, the flow of technology, economy, knowledge, people, values, ideas across the borders which affects each and every country in different ways depending upon the nation’s individual history, traditions, culture and priorities”, and “internationalization of higher education as one of the ways a country responds to the impact of globalization respecting the individuality of the nation” (Knight, 2002)

As pointed out by International Association of Universities (IAU), while “globalization tends to homogenize social, economic, cultural and academic process leading to marginalization of cultural and other social processes”, “Internationalization looks for participatory intervention among the equal partners where this partnership between the advanced and developing countries does not always ensure equal treatment among the partners” (IAU, 2000).

2.2.3 Internationalization; a brief history: The universities are long been considered as the society’s most international institutions. The creation of knowledge, its transfer and dissemination which are considered as the primary goal of the HE was always universal. Gathering of information from all over the world has been there from time immemorial. Knowledge for the famous philosopher Socrates is the only one good which is universal in value. It is rightly pointed out by Karr that, the flow of knowledge is like quicksilver traveling at the speed of light into every crevice and spreads like a gas into every vacuum, it is possible to stop the flow of facts and ideas associated with commercial revolution but not the flow of facts and ideas associated with the knowledge revolution (Karr, p.10, 1990).

The basic principle of internationalization is that, the more open a society is, the better informed the individuals are with a vast knowledge of world developments and literature.

The European countries have adopted the forthcoming knowledge era before the seed of internationalization was sown perhaps after the World War II. The major motive of such countries behind internationalization was of a greater access of HE to achieve equality of opportunity and creating employment for the youths. In case of Italy, the number of university places was tripled overnight to achieve equality of opportunity and to absorb the unemployed youths in the late 1960's. In Sweden, all the sections of HE (all the subjects) were given equal status to internationalize its HE system.

Apart from these important purposes the most significant factor of open learning was a better cooperation among nations in the field of education, i.e., to acquire the best knowledge of the world with assimilation of culture of different nations (e.g. Japan)<sup>3</sup>, reducing political isolation (e.g. USSR and China), providing more knowledgeable persons for political and economic contacts (e.g. U.S.A), and greater understanding of the developing world (e.g. Sweden) (Karr, p.9, 1990).

There was a paradigm shift in the concept and practice of internationalization of higher education system in the last decade. The growths of knowledge economy, changing demographics, and movement of professional learning programmes have caused a multiple increase in demand for higher education particularly the professional courses. There is a growing emphasis on market economy and privatization. Simultaneously, the new innovations in ICT, has welcomed certain virtual and alternative ways of higher education delivery. The public and private providers of HE are getting an opportunity to provide education across national borders for a greater access of HE. Franchising and twinning arrangements, branch campuses are gaining momentum in HE sector. Such emerging form of international HE system has provided a hope of commercial opportunities for the developed countries who took the initiative to form an agreement in education as a tradable service under WTO regulations. It gave birth to the General

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<sup>3</sup> Internationalization in Japanese dictionaries means, self change or self reform, i.e. they change something for themselves due to international influence (Horie, p.65, 2002). It generally implies a process of change for the better from an imperfect state that does not meet international needs as pointed out by Horie.

Agreement in trade in Services (GATS) which is hoped to be a vibrant medium to progress the virtues of internationalization.

2.2.4 The General Agreement in Trade in Services: The GATS was negotiated in the Uruguay Round of trade negotiations of WTO and came into force in 1995 with the cooperation of 144 member countries. The major powers behind this were USA, Japan, Canada and EU. It is a legally enforceable agreement to deregulate international markets in services. GATS is the first ever set of multilateral rules which covers international trade in services.<sup>4</sup> Before such an agreement, though there were some tradable services but there was the absence of a mechanism for such trades. But GATS works in line with the Heckscher-Ohlin's factor endowment theory of trade where a country endowed with a particular factor that is in plenty exports and imports the factor in which it has a scarcity. Likewise, a country being blessed with affluence of a particular service like, developed HE system for example (by means of achievements or else), could gain much by mutual exchange of such programme of study.

If, Ricardo's comparative advantage theory of trade is applied to such an agreement, a country with comparative advantage of a particular service, say technical education, it can gain some commercial benefits by exploring such a service and improving one in which it has comparative disadvantage. In such a process all the countries around the globe could benefit in monetary terms by means of mutual trade between themselves bound by certain agreement of trade in services like GATS.

(i)The Objectives of GATS: GATS has given momentum to the internationalization process by improving the movement of students, education providers and education programmes on some commercial or profits purpose following the given objectives.

According to the preamble of GATS, it is a "multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization and with a desire for the early achievement of progressively higher level of liberalization of trade in services through successive rounds of multilateral negotiations" (Sharma, 2002).

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<sup>4</sup> Within GATS, education is one among the other 11 primary services and there are five sub-sectors of education such as the primary education, secondary education, adult education, higher education and the others.

GATS framework is based on the competition policy which desires to foster of the competitive market and the removal of control. It is to expand export potentials of education services by internationalizing curricula, by making it relevant and through measures which promote the competitive strength of the education providers, colleges, universities and technical and professional institutions (NIEPA, 2004).

The services which are free or are provided by the government authority (or funded by the government) are out of the purview of the GATS.<sup>5</sup> But when the services are provided by the government partially or to be precise, some free/prices are charged (e.g. education), or it is provided by the private providers, it comes under GATS.<sup>6</sup>

(ii)The Rules of GATS: The Request and offer rule requires one member country to request for a particular service in which it wants to make an agreement. It is up to the member country, to decide the kind of service it wants to bring under the GATS. Till today only four countries (Australia, New Zealand, USA and Japan) have submitted such a negotiating proposal.

The Rule of Transparency is there to promote foreign direct investment in desirable areas of education services. The Article III of GATS deals with such a procedure which relates to providing all necessary information concerning domestic rules, regulations, and administrative guidelines (NIEPA, 2004). The most favoured nations (MFN) treatment implies the absence of any kind of discrimination among the member countries associated with the agreement. All the countries should be treated equally under GATS rule.

The National Treatment rule requires the absence of any discrimination between any member country and the domestic education provider. Any foreign supplier or buyer of HE should be treated at par with domestic supplier or buyer respectively. It is to provide greater access to international HE by inviting Multi- National Corporations into

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<sup>5</sup> According to WTO, the service is to be provided in a non-commercial basis in the absence of competition with other suppliers of such kind of service in particular.

<sup>6</sup> There are many controversies over these issues of "non-commercial basis" and "absence of competition" specially, the countries where a mixed system of HE exists (the public/private partnership) or where the major amount of funding of public institutions come from private sector, the problem of terminology arises. Even a public educational institution in developing countries turns to commercial motive when it crosses the border. Further, the mere existence of private providers puts the public educational institutions in competition.

the domestic markets. Any provider unable to compete will definitely leave the market in favor of improving the quality and access of international HE system.

To fructify such rules the GATS requires the mutual cooperation between the member countries, both developed and developing countries, to improve the competition in availing professional knowledge by means of the ICT.

To improve competition, GATS rule mentioned in its article (articles VIII and IX) implies the regulation and restraint of misuse of power by the monopoly or exclusive service suppliers. One of the most controversial roles played by GATS is by mentioning its rule on subsidy to education services. GATS require a reduction in subsidies to HE institution which is rather a complex matter for developing countries, to improve competition in HE system. The idea behind this is that though from social angle subsidy is desirable but too much protection to public supplier of education reduce their quality and efficiency. Such a view point has a greater impact upon the equity aspect of HE system which will be dealt with in the following paragraphs.

(iii)The modes of GATS/the forms of trade in services: The supply of a service from the territory of one member country to the other member country is termed as “Cross Border Supply” which is the first mode (Mode I) of service of GATS. Such form of trade in service includes any kind of course provided through distance learning method or through internet (e-learning) or any kind of educational material that could cross the boundaries of a nation or any type of testing service provided crossing the boundaries of the member countries.<sup>7</sup>

The second forms of trade is service is the kind (called Mode II under GATS) where there is the movement of the students from their home country to any foreign country to consume education. It is termed as “Consumption Abroad” under GATS.<sup>8</sup>

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<sup>7</sup> This mode is perceived to have a very high potential of growth across the globe. Such distance learning courses would increase the participation rate of working professional, homemakers and students from non-metro areas. For students in metro areas it is an added advantage. Growth of trade in this mode will give rise to much larger trade in books, CDs and other materials.

<sup>8</sup> Conventionally and also in present context this mode has the largest numbers, it has earned the maximum growth of foreign exchange. But the barriers to such kind of trade is the cost of the visas, recognized prior qualifications, quotas on the number of students and the restrictions on employment while studying. The students' loan programme is the main source of financing of such education method. Presently US is the leading exporter of educational services, followed by UK, Australia, Italy and Canada and in 2000, US export of educational services were estimated at \$10 billion, which made HE the country's fifth largest

The third kind of trade in services under GATS (Mode III) is that, the supplier of education service moves to any other member country to supply its service under certain regulation. In GATS terminology it is “Commercial Presence”. This kind of supply of education could be through twinning or franchising programmes or setting up branch campuses in collaboration with the host country or establishing offices or subsidiaries in overseas markets.<sup>9</sup>

The last but not the least, it is the movement of teacher or researchers abroad to provide their education service, termed in WTO jargon as the “presence of natural persons” (comes under Mode IV of GATS)<sup>10</sup>

### **2.3 Internationalization of Indian Higher Education:**

2.3.1 The proposal and onset of international education: The policy of international cooperation is there long before 1950's in India. At that time, by means of partnership India was sharing its technologies, cultural heritage, materials, etc. with other countries. From those days or it could be a century back; Indian HE system was universal in its outlook and international in its approach. The University of Nalanda and Takshila are the most prominent proofs to such an ideology. The culture of Indian HE has attracted many foreign scholars a century back. The twentieth century also realized such kind of international cooperation in higher studies but in a quite modern and developed way.

The Indian National Commission (INC), set up in 1949, is an apex advisory body for coordinating programmes at national and international levels in collaboration with UNESCO. Here India has a wider participation in the workshops, symposia and conferences organized at regional, national and international level (Madhusudanan & Manjunath, 2003). To give an impetus to such activities UNESCO has established certain ‘Chairs’ in India, in different areas of education. Besides UNESCO, India has been associated with other international organizations such as, SAARC, NAM etc. Many bilateral exchange programmes between India and other countries are underway. Till

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service sector export. UK and Australia are two other countries who attract foreign students particularly students from Asian countries (Sahni and Kale, Economic and Political weekly. p. 2176, 2004)

<sup>9</sup> This mode is the most complicated one which involves the issues of FDI, intellectual property rights and the market access.

<sup>10</sup> This is one of the emerging modes of GATS. But the problem in expansion of such kind of service lies in the migration policies of developed countries and there is the issue of the recognition of qualifications of the third world professionals.



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1996-97, 70 countries have initiated such programmes (Madhusudanan & Manjunath, 2003)

The international cooperation and collaboration in HE was also stressed upon by the ministry of Human Resources Developments in 1998 UNESCO World Conference in the paper entitled “Higher education in India” Vision and Action.

The last decade saw many foreign universities trying to market their HE programmes in India particularly in the areas of professional courses. The franchising system was under action where a part of the education is provided in India and the other part in the foreign countries. There were certain twinning programmes and distance learning programmes between Indian and foreign universities. The use of electronic mode, computer, print, television will in great use (the so called virtual universities). In 1999, about 20,000 students went abroad for HE mostly to USA, Australia, UK, Canada and France (Sharma, 2002).

Several foreign universities advertise their HE in India to gain some profits and expansion in HE via newspapers, magazines, television, Internet etc. The more prominent among them are UK, Australia, Canada and Austria. The programmes offered by such foreign universities in India are basically in professional areas of management and engineering. Besides in social sciences, law, arts and design, business administration, international business, banking and finance, students are invited to India for liberal arts, business and medicine (AnandaKrishnan, 2004).

India has a demographic advantage to undertake more vigorous steps to accelerate its knowledge creation and develop its human capital, and social capital. It is estimated that, India will have a surplus of 47 million working age people by 2020 (Bezborah, 2006).

Internationalization was welcomed by the Association of Indian Universities (AIU) in the form of round table organized at the University of Mysore on the topic “Internationalization of Indian Higher Education” (from 26 to 28 February 2001); it adopted the following “Mysore Statement” as follows:

“there was an emphasis upon the acceptance of higher education as a fact of life in the new knowledge era; an assurance for realizing the fact that internationalization would lead to an improvement in the quality of education, promote Indian culture

Abroad, generate understanding and yield financial benefits; to improve the quality of research and an enriched teaching-learning process, partnership and networking should be recognized as the medium; the government, academic institutions and the AIU should take steps to promote Indian higher education system internationally” (IAU, 2001).

National Institute of Education Planning and Administration (NIEPA) in its report on “policy perspective seminar on internationalization of higher education and operation of foreign universities in India” in 2000, has welcomed the international education system with the following words, “education should be for the promotion of knowledge and development of knowledge and skills among the people which are mutually beneficial and oriented towards development of mankind and also reducing the gap or the factors which cause the gap in knowledge and skills among the people... it is necessary to allow free flow of knowledge cutting across the geographical boundaries of nation states.”

### 2.3.2 Opportunities under GATS and Domestic Regulations:

Internationalization has a multi-dimensional impact over the heterogeneous system of Indian HE. India has the second largest HE system in the world (UGC, 2002). By end of May, 2002, India had 293 universities and university level institutions, over 13,000 colleges, about 7.5 million students and over 3,50,000 teachers (UNESCO, 1980-95, Statistical Outlook).<sup>11</sup> 89.59% of total enrolment is in general education as compared to the advanced world where general education enrolment is in the range of 30-40%. The quality of education imparted in many institutions is mediocre. The HE is provided basically through public-private partnership or by private aided or unaided institutions. The pressure of demand for more HE with employment-orientation has changed the ownership pattern of Indian HE system. The share of private sector was 59% of the total institutions of HE in 1980's (Tilak, 2003). Such employment-oriented demand of HE also contributes to institutional/regional/ specialization disparities which is also the result of disparities in economic growth in those region and state policies.<sup>12</sup> Such concentration of

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<sup>11</sup> The UGC's estimation in its Report of 2002 shows that. India has 290 university level institutions, 13,150 colleges 88 lakh students and 4,27,00 teachers.

<sup>12</sup> The four southern states and Maharashtra account for 32% of India's population, but 46% of total general education colleges and 60% of professional institutions are situated over here (Sahni & Kale). In Orissa more than 50 government colleges are in urban centers and not a single in rural areas (Samal, 2003).



institutions leads to a large scale education migration within the country (Sahni & Kale, 2004).

Besides, there is a skewed growth pattern in certain courses due to the dominating role of private sector in international education system.<sup>13</sup> Such professional or employment orientation is viewed as income generating courses and thus gets more investment and the non-professional courses would get lesser investment. Such unequal distribution of education is further aggravated by a decline in government expenditure towards such higher and technical education. It restricts the benefits of internal gains of education to a selective few who can afford it, due to high cost of such professional courses.

The role of the government in India is shaping towards the global trend of HE around the world where government is more of a regulator and facilitator of economic activities rather a direct producer or provider of goods and services (University News, p.10, 2003).

There is a lack of proactive policies under government initiative to reform the traditional set up of rules; regulations etc. so that India could efficiently use the New ICT, distance learning programmes and training arrangements. Then quality of education imparted is not of World standard and large scale economic inequality is a hindrance to internationalization of HE systems via GATS.

Under the different modes of GATS, India has certain scope of achieving better access and quality of HE system. India has remarkable IT sector in the world. It has a booming domestic market and a growing export sector in IT. With its world competent human resources in IT sector India has an emerging opportunity to get strong position in the future negotiations under mode I of GATS. There are over 10 million internet users in India where the domestic computer users have a 9% growth per annum in the last decade and the number of PC users in education sector is 89, 852 in 2002 (Sahni & Kale, 2004). It is the students of the non-metro areas who use more internet facilities than the metro area students. This could provide a comparative advantage to India in e-learning programmes which could improve the access of HE and simultaneously improve the

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<sup>13</sup> By the year 2000, there were more than 12000 private engineering colleges in India and 720 private managements institutes, concentrated basically in certain cities and states (Sahni & Kale, p.2175, 2004).

equity level regionally and socio-economically. All the sections of students could avail such facilities and greater level of varying international knowledge with quite less cost in comparison to the private HE institutions.

Under the mode II of GATS, Indian students get an opportunity to consume knowledge from the world's best universities/ institutions in accordance with their choice. Indian students are 13% of total students availing HE in US which is the largest figure for India as a importing country of HE is any foreign country (Sahni & Kale, 2004). India does not have much benefit under this mode because we lack the international curricula and world class infrastructure like library, hostel and equipments. Even our world class institutions like IITs have inadequate hostel facilities, classrooms, and other infrastructural facilities. It is thus much beneficial for the developed countries that have a comparative advantage due to their world class institutions.

Establishment of branches, twinning programmes, franchising etc. could provide impetus to the growth of employment oriented institutions in metropolis and non-metropolis. It could provide quality education and varieties of education that has the frequent output of getting employment around the globe. But it has certain limitations in the area of the equity and prospects of guaranteed employment within India. It is suggested that we must open up where we have strengths so that we are not put to disadvantage when we open up (Bhusan, 2004). India has an export advantage in programmes like, ayurveda, yoga, philosophy, performing arts and Indian heritage and culture. The IIM Bangalore is planning to open an off-shore campus on Singapore, the first ever in India (The Economic Times, 23.03.06).

India has a comparative advantage in the movements of natural persons due to its varying skilled, professional and technical experts in the areas of IT, medicine, engineering, finance, education and hospitality industries. This could be possible when costs of movement are low and Indian qualifications are recognized abroad.<sup>14</sup> India has a firm stand in this mode to liberalize its service sector.

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<sup>14</sup> It is suggested that, there should be elaborate classification of workers on the basis of ILO list, the visa rule should be liberal and immigration procedures should be simple, Quantitative restrictions on work permits should remain as per the stated national interest, there should be a wage parity of natural persons, Remittances should not be put under limitation, the economic needs test (ENT) or labour market tests need to be rationalized (Bhusan, 2004).

To make Indian HE more competitive different government bodies put some proposals before the nation as a regulatory mechanism to control the international movement of education in a positive direction. India being a signatory of GATS had to make certain commitments in this direction.

NIEPA in its seminar on internationalization recommended for setting up of a national level mechanism for registering foreign universities in India and promote Indian HE abroad; clear guidelines and laws about visa, infrastructure facilities, social and welfare programmes and accommodation facilities for students coming to India and going abroad; an ordinance to pass allowing universities to open their campuses abroad; the acceptance of certification/credit given by the respective institutions, the credited Indian universities or institutes of HE should have “15-20% full payments seat for foreign students in every subject/programme without cutting available seats for Indian students the course content should focus on requirements of job market and should have provision for innovative and flexible programmes; Indian universities should be allowed to offer programmes through training, franchising and distance mode; foreign students studying in India should have work permit for a period of three months per academic year and total duration should not exceed one year six months (Sharma, 2002).

The Mysore statement recommended the government that, the UGC Act 1956 and the acts of other statutory councils need to be amended to allow universities to open off-shore campuses and open Indian education through the distance mode, regulate the operation of foreign institutions and there by, prevent commercialization; simplify procedures of registration, ENT, no objection certificate and visa extension, embassies and high commission abroad should establish education counseling and assistance units to simplify procedure of admission, entrance tests etc.; adopt an open door policy for self financing students, greater autonomy and flexibility to universities by UGC, to government and statutory bodies regarding admission of students and collaboration arrangements; government to establish a task force including representatives of different bodies like UGC, AICTE, MCI for admitting students to different professional courses; establishing a financial mechanism for international students and loan facilities for students both domestic and foreign, need to establish a National Quality Framework to monitor the standards of education; AIU to coordinate where the institute for

international education (IIE) and other similar agencies to identify programmes and undertake the placement of international students or groups (IAU, 2001).

The Tenth Plan proposal has also given serious attention to regulatory mechanism, the need to prepare the domestic sector before opening it up; extend the benefits of HE to the less privileged sections of the society, for this an Educational Development Bank is to be created, private relevant institutions are to be set up and encouraged provided they adhere to equity parameters determined by appropriate regulatory mechanism; optimum utilization of public infrastructure and manpower in the HE sector should be ensured; universities should also consider setting up of a cell for taking care of internationalization of HE, both for export and import, universities may divert their own means to mobilize their own resources through various means; deemed universities which are rapidly growing in number and receive no support from the government should be encouraged to admit higher percentage of foreign students.

In support of the above statements AICTE, AIU, UGC etc. the major governments bodies in India regulating different segments of HE system has seriously adopted them keeping in consideration the promotion of national policies relating to the access and equity and there is a need to protect the public HE system to satisfy the above national objectives, taking into account a healthy growth of the Indian HE system, through high quality collaborative and independent programmes in professional and socially relevant disciplines with private sector participation in education (Powar, 2004).

Since no country is obliged to make commitments in any service, India till today has not made any commitments in HE sector under GATS. India being a net importer rather exporter of HE services it is a controversial issue to adopt the progressive liberalization of education services in near futures. But being a signatory of GATS it could be so in near future looking at the gradual inflow and outflow of students and professionals which has a greater impact upon the national policy objectives of equity. It is evident from the fact that, when the foreign providers enforced the Indian HE market in the commercial presence mode on late 1990's their number was quite few but by early 2004, their number has reached to 61 (Powar, 2004). Such changes could have greater impact upon the public provision of HE due to the entrance of private providers and

thereby the equal provision of education as a social objective will be hampered with gradual commercialization of HE system.

## **2.4 Impact of Internationalization.**

2.4.1 The equity factor: The conventional thought of an improvement in the individual and society due to global expansion of education is not happening in reality. This is due to social, economic, political, ethnic and cultural variations among different countries and their political stability and position in global trading system. “Social structure shape and contain the impact of expanding of education” (Hannum and Buchman, p. 348, 2002). So far as quality of education is concerned and thus, if the quality of Human capital is taken into account it is pointed out that, “what kind of education is essential for a country’s economic development and for the growth of human capital is very much dependent upon its level of economic development; thus, while less developed countries need to give more attention to its primary and secondary education, the developed countries need more post-secondary education” (Petrakis & Stamakis, 2002).

If something happens in contradiction to above mentioned realities of any country then it results in conflict, mismanagement and inequality in the socio-economic structure of the country concerned.

An expansion in education does not help the masses rather it is the advantaged sections of the society who fetch the largest share of benefits of education (Mare, 1981). In the words of Raftery and Hout (1993) it leads to ‘Maximally Maintained Inequality.’

Making open to world competition with high cost of education might cause further socio-cultural problems. These may be unmanageable in the developing countries like India. Global competition, full or profit cost pricing of education has several socio-cultural implications and may adversely affect the constitutional obligations of equity (Sharma, 2002).<sup>15</sup>

Internationalization of HE poses threats to the public provision of HE by giving an opportunity to the non-organised private education suppliers (Sharma, 2002), the public education suppliers would be marginalized gradually in future due to unequal rule of the game. Education is first becoming a tradable service and there is an incensement in

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<sup>15</sup> The opinion is a gist from. National level meeting of vice-chairperson of state council of HE, vice chancellors and experts on “Trade in education Services under Regime”, organized by NIEPA, September 11, 2001.

private providers of HE in India. Due to commercial nature of their activities, their number and nationwide spread are likely to increase in the coming years (NIEPA, 2004).<sup>16</sup>

There was the mushrooming of universities in the state, Chattisgarh by private initiative to provide degrees, diplomas, certificates and other academic distinctions free from recognition and regulation from UGC; it was due to “the Chattisgarh Niji Khestra Vishwavidyalaya Adhiniyam 2002” (NIEPA, 2004).

NIEPA points out that the national regulation in India allows only registered societies, non-profit trusts or foundations who can run educational institutions under section 35 of the company’s act and the non-profit private initiatives are permitted to offer UGC specified degrees under the control of public authorities. Without proper domestic regulations, such private universities/institutions operated tremendously whose certificates would be recognized are doubtful. It hinders the basic objective of National Policy of achieving equity and access in HE.

Likewise, under national treatment clause of GATS, no foreign provider will be treated unequally in the country in providing their education service. It also raise danger to the country, because without proper domestic regulations if the foreign education institutions set up in India in collaboration with such expanding private education institutions whose ultimate goal is earning profit. NIEPA has also pointed out, that under section 35 of the company’s Act profit making cannot be the criteria of establishing educational institutions under private sector in India. Though domestic regulatory mechanisms are working under the initiative of UGC, NCTE, IGNOU, National Open School and AICTE, but still private universities are charging high cost of education which is too much in comparison to the public providers of education.

Indian HE system treats the education provision as socially desirable service. It is a generally accepted public consumption item. This is due to the fact that, the social structure of Indian HE desire discriminating protection to the SCs, STs, Girls and backward sections of the society in the form of reservations (Bhusan, 2004). Thus, it was provided (the HE) under the initiative of government authority. But, the existence of a

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<sup>16</sup> This view point is out of Draft Guidelines for the model Act. of UGC, in 2003.

large private HE segment in many developing countries (like India) and developed countries has converted it into a private consumption item (Powar, 2004).

Such diversion in the provision of HE in the country has restricted many knowledge seekers from the lower strata of the society to avail such a valuable service that can improve their social and economic conditions. The system of education has not been able to provide education relevant to the needs and aspirations of the ever increasing number of seekers of knowledge rather it has castigated as an exclusive preserve of the elitist groups, regardless of their capacity to benefit from higher education (Azad, 2004, p.53).

Such private institutions usually specialize in some profit oriented professional courses which does not necessarily meet the desirable areas of study in national interest. It further aggravates the unequal condition. It has been pointed out, that there is a distinct possibility that it might force countries with quite different academic needs and resources to conform to structures inevitably designed to service the interests of the most powerful academic systems and corporate educational providers breeding inequality and dependence (Azad, 2004).<sup>17</sup> If so happens then there will be flood of education credentials in a particular direction, i.e. in professional or technical education. Then the value of education will decline in the labour market leading to 'credential inflation' (Demetriades & Psacharopoulos, 1987).

2.4.2 The Financing Factor: Under the impact of international market forces in education, the public funding to HE is declining despite gradual increase of enrolments of students. There is a gradual shifting of the burden of funding to the shoulders of individuals who have to pay for their education in terms of higher fees and it is the donations raised from alumni, direct payment from business for the services provided by universities who fund even the public universities.<sup>18</sup>

There is a decline of government expenditure in India on post-secondary education on the ground that HE is private good or quasi-public good and it is basically consumed by elite groups of the society. The planning commission (1992-97), has talked of making higher education a self financing sector. Besides, there is the rate of return

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<sup>17</sup> The above mentioned view point is originally of Phillip Altbech, 2002.

<sup>18</sup> The reference is from International Review of Education, vol.49, No. 3-4, July 2003.

criterion which views HE a high cost level of schooling (costs are heavily towards non-teaching and non-research expenditures) and basic education as the relatively low cost of schooling (Azad, 2004). The World Bank's and IMF's lending criterion is also based upon such rate of return criterion which gives more emphasis upon primary education in its development agenda. Such arguments will be discussed in detail in the next chapter which deals with financing matters.

GATS consider government monopolies as a barrier to service trade; the subsidies provided to government institutions of HE hinders the GATS principle of full service liberalization leading the way to substantial privatization (Kaushik, 2004). If subsidies are provided to domestic institutions then the foreign affiliates will be barred from National Treatment of the GATS regulation under its Mode 3.<sup>19</sup>

According to GATS rules, public funding is rather an 'unfair subsidy'; the foreign provider of HE insist the government to decrease funding thereby jeopardizing the public funded domestic institutions (Madhusadan & Manjunath, p.4, 2003).

It is argued that, subsidies have distortion effects in terms of excessive protection and consequent inefficiency of public sector educational institutions. They fail to compete with the private domestic provider and foreign providers in terms of the quality of education.

In all European countries, at different points of time, the governments reduce their direct supervision and control of HE and try to shape HE more strongly through target setting and performance based funding (Teichler, 2004). Universities in Europe are funded on the basis of their performance in expanding quality education in HE sector using the most advanced techniques and the post doctoral education is mostly encouraged through federal government funding (Kerr, 1990). The western European countries like Britain and Netherlands had to face a reduction in the government funding of HE from the earlier period of 1980; it has blurred the virtues of welfare state in achieving the equity and accessibility for the masses in present generation (Neave, 1990). Various funding mechanisms are set up to evaluate the institution's funding on the basis of their

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<sup>19</sup> Under New Zealand's GATS obligation, the government cannot restrict the number of private universities or colleges. on the number of students enrolled. NZQA has the power to grant approval to local or foreign institutions to use the 'title' university, and once they are accredited by NZQA, they are eligible for the same level of tuition subsidy as the public universities get (NIEPA, 2004).



performance, output, and cost in spreading knowledge (Neave, 1990, p.106).<sup>20</sup> Britain during the same period opted for self-financing courses at under graduate and post-graduate level except few selective areas such as research and training.

Similarly, South East Asian countries have gradually adopted private investment in HE system. Hong Kong undermines the quality and costs of Transnational HE which is left before the market and Malaysian HE sector is regulated completely by open provision of private investment in HE due to the operation of international forces of education (Burnies & Zigural, 2001). Thus, they have a marketish approach for gradual reduction in public funding.

South Asian Countries like Singapore, Pakistan, and Bhutan are also facing such resource crunch of public authority in providing fund to HE institutions and for other research activities.<sup>21</sup>

It is pointed out that in case of India it is quite difficult to meet the requirements of a growing, quality oriented industry (the GATS rules of internationalization) due to its low level of enrolment ratio in HE, i.e., 6% whereas United Kingdom did cut its 'top-up' tuition fees only after its enrolment ratio was above 25% (Powar, 1998). It is viewed by many educationalists that a cut in subsidies to HE will reduce the enrolment further.

While on the one side, there is an increment in the fees of Indian Institute of Management (IIM), Ahmedabad (one of the premier business school of India) around 12%, to match the global demand for HE, in terms of quality and employability on the other side, in terms of quality not a single institute of higher learning has been positioned in the top 100 business school list of the world by a poll conducted by 'The Financial Times' (The Economic Times, 8<sup>th</sup> March 2006).

Such contradictions definitely call for an improvement in the quality and affordability of HE system due to rising fee structure and increasing privatization and internationalization of HE. The operation of international education system after the GATS regime has been quite vigorous and substantial upon the financial structure of any country. It is quite evident from the above analysis. Thus there is a need to discuss in

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<sup>20</sup> The move towards an open HE system in western European countries like Britain, Netherlands and France became a historical momentum when they desired a legal instrument to open their HE system to the market. Such process was termed as 'juridification of HE system' (Neave, 1990, p.107).

<sup>21</sup> The challenges faced by such South Asian countries were discussed in the "International Colloquium of South Asian Countries organized by Jawaharlal Nehru University, India, in 2005.

detail the financing aspect of HE system (whether it is to be funded by private or government authority) to meet the National policy objectives.

**CHAPTER 3**

**FINANCING OF HIGHER EDUCATION AND  
EQUITY CONCERNS**

## **Financing of Higher Education and Equity Concerns**

The financing of HE has become an important concern for the developing countries due to their new economic reform policies and such concern has become two fold after the arrival of the internationalization policy under the initiative of world trade organization. To compete in a global economy and to march along the path of the developed countries the developing countries are now in the process of transition. Traditionally the Human Capital Theory and the screening models have dealt with the necessity of investment in HE with relation to productivity, accessibility and equity. The externalities associated with HE and the returns expected from it has necessitated the role of the state in financing of HE. But the private good or quasi-public good nature of HE deprive it from the public support particularly in terms of subsidies to the students and the institutions. The role of the market forces is given importance to meet the growing demand for a quality HE. And for this the private financing of HE is encouraged. Besides, the resource crunch of the government in financing HE after meeting the requirements of important social sectors such as health and primary education has necessitated the alternative financing methods. Various developed countries have experimented with such alternatives in financing HE and India is now on the same path.

### **Investment in Education:**

Education is both consumption and an investment good. It is subject to immediate consumption by the individuals who acquire education for their own benefits and indirect benefits go to the society. On the other hand, expenditure on education is an investment which has greater socio-economic value from the individual and society's point of view.

### **3.1 The Theories on investment in education:**

There are two important theories which deal with the investment aspect of education. They are; Human Capital Theory and the screening models.

#### **a) Human Capital Theory:**

The theory says that education imparts skills to individuals which in turn increase their productive capacity. Higher the level of education higher will be the productivity of

the individuals.<sup>1</sup> The major proponent of Human Capital theory opines that, an investment in education increases the productivity and earnings of an individual which ultimately leads to a higher level of economic growth of a nation (T.W. Schultz, 1961). Thus, Human Capital has an important contribution for the economic growth of the country.

It is also said that, human beings invest in themselves by means of education, training or other activities, which raises their future income by increasing their lifetime earnings (Woodhall, p.21, 1987).

Since the days of Adam Smith, the investment in education has been considered to increase the productivity of the individuals. It also increases efficiency of the individuals in the market as well as in non-marketable activities. The theory of Human Capital is viewed as a theory of long-run labour supply that constitutes the changes in the quality of labour force over and above its number. And with each increase in the volume of investment, there will be subsequent increase in the educational capital acquired by a person (Shah, 1993).

The neoclassical economists carried forward the Human Capital theory in terms of its distributional perspective. They argue that, the following could be the implications of Human Capital theory on income distribution. They are; first, if the distribution of personal characteristics changes, the income distribution will change; and second, if the public policy can intervene in the market to change the distribution of personal characteristics, then income distribution will change (Carnoy et al, p.8,1979).

Such an argument clarifies the role of the government in the equal distribution of income in the economy by providing equal opportunity in education to the needy sections of the society. It will lead to the social, economic and political development of the nation.

The theory also points out the complementarity between Human Capital and physical capital. One kind of capital enhances the productive capacity of the other capital. Both are linked to each other.

b) Screening Models:

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<sup>1</sup> The Human Capital Theory is based on the assumption that, there is homogeneity in the labour market and the value of the work of the individuals in the production structure is determined by the amount they invested in income producing Human Capital investments.

The HC theory is criticized by the proponents of the screening model who argue that, since the returns from the investment in Human Capital or education is not measurable properly then how is it possible to judge that the productive capacity of an individual has increased. From Arrow's point of view, Human Capital in no way contributes to superior economic performance, it increases neither cognition nor socialization, instead; it serves as a screening device, in that it sorts out individuals of different abilities, thereby conveying information to the purchasers of labour (Arrow, pp.2-3,1972).

Some argue that, education does not increase the productive capacity of workers rather simply acts as a screening device which enables the employers to identify individuals with higher innate ability or personal characteristics which make them more productive (Woodhall, p.21, 1987).

Spence talked about the job market signaling when education helps the student to signal his personal characteristics to the potential employers in the job market; the credentials reflect the student's capability in the market (Spence, 1973).

The capability of the individuals to learn the skills for producing something is considered as the major criteria for the employers to employ the educated individuals. Here, the productivity is considered as an attribute to the job rather the individuals. The changes in the structure of the economy not changes in the distribution of education or other worker characteristics would be the principal variable affecting earnings distribution (Carnoy, p.11, 1979).

### **3.2. Why Public Financing of Higher Education?**

HE is the most important socio-economic indicator for any country whether developed or developing. Thus its financing occupies an important place for the development of such needed sector for the welfare of the society and for competing in the growing knowledge economy of the world. But the public financing of HE is a controversial issue. The arguments for and against public financing of HE are discussed below.

### 3.2.1 Higher Education, a quasi-public good.

The pricing of any good is determined by its demand and supply in the market but its financing is determined by its characteristics; whether it is a private good or a public good.

Any good which is provided by the state whose benefits are equally available for all and those who cannot pay for them are not excluded from receiving the benefits from it is a public good or social good. For example; public hospitals, parks and bridges, etc. Such kinds of goods are characterized by two features such as non-exclusion and non-rivalry. These goods are indivisible and difficult to price because of the above mentioned characteristics. Thus they are provided by the government out of its tax revenue.

On the contrary, a private good is one, which is accessible only when a price is paid for it in the market. Thus, any one who can't pay the price, is excluded from the benefits of the good. Here, the consumers reveal their preferences and the producers maximize their profit by producing such goods at least cost. If one consumer is able to compete for getting the good the other is automatically excluded from the opportunity; e.g., food, furniture, car, instruments, private hospitals, private schools etc. The society's consumption is said to be in optimum level which do not require the government's intervention.

Apart from these two categories, there are certain goods which lie in between these two goods. Such kinds of goods arise when the market is imperfect and the consumers lack information. They are the mixed goods as they have beneficial external effects which spill over the society around the person who consumes it, e.g., education. In case of education, the principle of exclusion is applied. Those students who fail to pay the minimum fees for education are not able to acquire it (excluding the case of students who get scholarships for their education). R.A. Musgrave on merit good opines that, it is a good which has external benefits and is considered meritorious for the welfare of the society; there is the need of public subsidies for an equal distribution of the benefits accrued out of it (Musgrave & Musgrave, 1989). But it is argued that the spill over benefits of HE is lesser than primary and secondary education for which primary education is a merit good and HE is a quasi-public good (Benson, 1987, Tilak, 1993).

Some argue that HE is a publicly provided private good due to the presence of externalities (Atkinson & Stiglitz, 1980).

### 3.2.2. Returns to HE and Externalities:

The returns to HE could be private or social. The individuals when invest in HE get the benefits directly such as, they increase their possibility of earnings and employability and consume the benefits of earnings throughout their lifetime. From such benefits when we exclude the costs of education such as their expenditure on study materials, the annual fees of education and the opportunity cost of not earning during the study period, we get the private returns to investment in education. In other words, private benefits amounts to what a more educated individual earns (after taxes), above a control group of individuals with less education (Psacharopoulos & Patrinos, p.4, 2004).

Likewise, the indirect benefits of higher studies to the society due to the educated individuals in terms of national harmony, privileges of earnings enjoyed by the family and relatives of the educated person, social cohesion etc. are the social returns to investment in HE. In such case those who do not purchase education are far more benefited than those who purchase it. Besides the indirect returns occurred to HE, there are a lots of external benefits of HE. The existence of a longer proportion of skilled workers raised the productivity of all workers (Creedy, 1995). It provides income gains to the persons associated with the educated person in the present generation and also transfers to people in the future generation. It provides skilled manpower to the growing economy. Besides, HE brings social mobility in the society. It is considered as a powerful instrument of social, economic and political transformation (Singh, p.25, 1982). It contributes towards the development of the nation and modernizes the society. Make people mobile in the social strata and upliftment of the weaker sections in the society by improving their earning capacity and status.

It has been studied that the social returns to education declines with the increment in the level of education and the amount of the country's income (Psacharopoulos, 1994). The study undertaken by Psacharopoulos to estimate the returns to educational investment revealed the following (Woodhall, p.22, 1987):

- (i) The returns to primary education (whether social or private are the highest among all educational levels.



- (ii) Private returns are in excess of social returns, especially at the university level.
- (iii) All rates of return to investment in education are well above the 10% common yard stick of the opportunity cost of capital.
- (iv) The returns to education in Less Developed Countries are higher relative to the corresponding returns in most advanced countries.<sup>2</sup>

The study undertaken by Azad to find out the returns expected from HE in developing countries (in particular India) revealed that, the social rates of return from HE varies in between 10.4% (in case of graduates in Humanities and Social Sciences) to 12% (for medical graduates) and private returns exceeds social returns. (Azad, p.34, 1998)

HE also contributes to economic growth. It is argued that tomorrow's Human Capital is a product of today's Human Capital; the increasing returns to scale leads to economic growth (Becker & Murphy, 1992). It is evident that the present day growth of all the developed economy is due to the growth of the technology. Such technological growth is an output of Human Capital and that is activated by skilled manpower only. It is pointed out that education is needed to survive in a technologically advanced society where the knowledge gained out of education helps in benefiting from new technologies on the one hand and contributing towards the development of the new technologies on the other (Stevens & Weale, 2004).

Due to the presence of the above-discussed external benefits of education, it is argued that education should be publicly financed. In fact the optimum social investment cannot be achieved with respect to private market. Besides, the market fails to access the external benefits associated with education. The potential for market failure is greater in compulsory primary education than in HE because students are in a position to assess their own benefits to an extent and they are the decision makers unlike the school going students (Chattopadhyay, p.6, 2006).

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<sup>2</sup> Psacharopoulos took the estimates of social and private rate of return to educational investment based on surveys of the earnings of workers of different educational levels in 44 countries in the period from 1958-1978. For detail also refer, G. Psacharopoulos. Returns to education, an international comparison; "Comparative Education", vol.17, pp.321-341.

### 3.2.3 Difficulties in measuring returns to education:

The returns to HE or the external benefits to HE is not properly measurable. Many researches have been done on this issue but since the direct and indirect benefits to HE is a matter of psychological perception it varies from person to person.

It is argued that, the investment decision of the individuals is uncertain. Since the returns expected from education is a psychological prediction from an individual point of view, they cannot compare the returns expected from the different levels of education, whether it is, primary, secondary or HE (Majumdar, 1983).

Besides, the return expected by the individuals is different from the institutions. Such difference is dependent upon the domains associated with investment and time horizons of the investment duration. When the individual calculates the returns from its investment in education after calculating the costs and benefits out of it, it is an individual domain which predicts a short period of time in its life. But when an institution invests in education for the individuals it has a long time-horizon which is for the betterment of the whole society. This is a case of institutional domain.<sup>3</sup>

The measurement of returns to education is a complicated issue. It is said that the returns to education can't be properly estimated due to the interdependence between the individuals and institutions in their investment. There is the problem of social choice where the returns expected from the investment in education are dependent upon the general level of employment and equity in opportunities in the economy (Majumdar, 1983). Such mutual dependence implies that, the individuals are dependent upon the opportunities available in educational institutions and the educational institutions in turn are dependent upon the students who can spend for their education in such institutions.

There is the difficulty to measure the returns expected from educational investment due the costs involved in it. The maintenance costs of education is difficult to find out which arises during the investment period and continues throughout after the completion of HE in terms of qualitative consumption demands of the individuals due to higher studies or higher income or both.

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<sup>3</sup> Such an argument on the individuals and society/institutions is called domain-distinction argument by Majumdar, who developed the argument to calculate the returns expected from education.

If properly estimated, then the returns to education could be a useful guideline for private and public educational investment decisions. If resources are diversified to areas that have highest returns, such activities would contribute more to development. Such estimates may also reflect the most profitable stream of investment within particular levels of education (i.e., general vs., technical education), and repeated estimates will enable the comparison of the returns over time within the countries give a direction to the investment priorities in education (Duraismy and Duraismy, pp.57-58, 1995).

#### 3.2.4. Market Imperfections:

There is no market for Human Capital. There is no measuring rod to measure the characteristics acquired out of the investments in education by the individuals. Human Capital is not transferable. It is a metaphysical concept which makes it intrinsically different from the other kinds of capital (Wiseman, p.436, 1987). Because of the non-marketability of HC, the financial institutions hesitate to provide education loan to the students who need support for education due to the shortage of financial avenues. The institutions do not know, whether the student will get a guaranteed job after the completion of his/her course of study and there is the risk of dropout during the period of study. The skill acquired by the student may become technologically obsolete and thus he/she will not be able to earn to repay back the loan amount sanctioned to him/her by any financial institution (Khadria, 1989).

Thus the market can not help to the student in HE under such instances. It is the state which should take the initiative to provide HE (since the costs in HE is more) to correct such imperfections in the market.

#### 3.2.5. Lack of information:

There is ignorance among people about the benefits of HE. They simply hesitate to spend on HE their valuable time and money which can be used for any other purpose, which gives immediate returns. Due to the long time-horizon involved in HE, many students are deprived of HE (particularly in developing countries) though they are potential and capable for higher studies as they lack resources.

Since HE is an important instrument for social mobility and thus quite necessary for the growth and development of the society and individuals by achieving socio-

economic equity, there is the need of the government to take the responsibility to provide HE for the welfare of the society.

Besides, it is said that to adopt technological advancements and cope with the fast changing social and economic changes, the society needs healthy and prosperous HE system which could be provided under government initiative only (Panchamukhi, p.29, 1998). Thus public financing of HE is a complicated policy issue.

### **3.3. Subsidies to Higher Education:**

Subsidy is a special kind of grant by the government whose promotion is desirable for the greater intense of the society. It is basically given in terms of kind rather money which is confined to the subject who is given the subsidy. Creedy defines subsidy as “an unconditional grant to all individuals wishing (and able) to invest in HE financed by an increment in personal income tax” (Creedy, p.6, 1995).

Education is subsidized because; an individual is unable to market his education rights in exchange of other goods or services he might really prefer (Windham, p.240, 1976) Since education is the most important asset for any country, and it benefits the individual as well the society at large, there is the need of subsidy to education. It is said that, subsidies are justified if there are positive externalities in the public provision of non-public goods and the welfare of the society is improved by indicating a higher level of demand through subsidies that lower relative prices (Favaro & Lahiri, p.149, 2006).

The subsidy to education results in both the private costs and the institutional costs. The subsidies to the students cover such items like, the provision of low-rent hostel accommodation, low priced meals, free-medical care, low priced books, equipments, transport, stipends, scholarships, etc. and the subsidies to the institutions on the other hand covers the expenses such as, the fixed and recurring costs of buildings, libraries, furniture, equipments etc. and salaries of teachers and other personnel.

#### **3.3.1 Demand:**

Subsidization of HE is a major concern in recent days due to a paradigm shift in the demand for HE to meet the global competition. There is an increasing participation of students in HE in almost all the developing countries. With the number of students increasing the demand for subsidies is also increasing simultaneously.

### 3.3.2 Manpower Argument:

HE is already mentioned as a medium for achieving social status by means of social mobility and social change. It is pointed out that, the major basis of subsidization behavior in developing countries is the unqualified acceptance of the early Schultz-Denison thesis that educational expansion could operate as a primary agent for economic and social change; since most Developed Countries rationalized the rapid expansion of their own education systems in 1950's and 1960's by similar policy justifications (Windham, pp.237-38, 1976).

There is a strong argument for subsidization of post-secondary education particularly in developing countries since it is an important means of social mobility. Skilled manpower particularly in the field of science and engineering is required to meet the demand of the country (any developing country) because its development plan incorporates wide scale evaluation of developed countries (Windham, 1976).

### 3.3.3 The Equity Argument:

Education is considered as a medium to provide equal opportunities to all individuals irrespective of age, sex and race. As pointed out by World Development Report (2006), "Education is of great intrinsic importance when assessing equalities of opportunity. It is also an important determinant of individual's income, health and capacity to interact and communicate with others. Inequalities in education thus, contribute to inequalities in other important dimensions of well-being (World Development Report, p.34, 2006).

The Report has emphasized upon affirmative actions in education. It says that, the living standards of the poor can be accomplished by pro-growth policies that do not require resources but simply improve the ability of the poor to profit from the economy and its growth, e.g., education.

In fact, the strategy of the Human Resource Development is the optimum utilization of all segments of the population and education is considered as an important input for the development of the human resources. It is viewed that, in developing countries growth without equity leads to accentuation of structural disequilibrium and chronic persistence of low purchasing power of the mass of the toiling people which constraints growth itself (Raza & Premi, p.1., 1987).

HE is considered as a major indicator of social economic equality. There are a number of arguments for distributional objectives in the provision of HE by means of government subsidies. It is said that, it is necessary to subsidize students living expenses in post-secondary schooling so as to guarantee 'equality of educational opportunity' (Blaug & Woodhall, p.352, 1979). The inequality in the present generation is said to be inherited by the future generations. Education, particularly HE occupies an important place in the determination of the future stratification of the society (Mehta, 1993).

#### 3.3.4 The Efficiency Argument:

It is also argued that due to the existence of market imperfections, lack of information, higher social returns to education due to externalities etc. it can not make the parents to reach optimality and economic efficiency without the government intervention. Thus the government must subsidize HE.

Besides, subsidization of HE is thought to be justified as a higher tax receipts are expected from the graduates over their life time<sup>4</sup> (Windham, pp.247-48, 1976).

#### **3.4 Why Private Financing?**

In the twenty first century with the growth of the knowledge economy and rapid demand for HE, the role of the state in financing of HE is redefined. The traditional democratic role of the government to subsidize the education sector for a greater welfare is questionable. Marketization is now a buzzword which is thought to substantiate the resource crunch of the government due to the increasing number of educational institutions and growing enrolments in HE. Efficiency and quality in education is given more importance to meet the requirements of the globe. Several documents have articulated the rationale for privatization of HE.

There is a shift in the general conception of subsidization of HE due to the changing economic reform policies of the developing countries. Such policies require drastic cut in public expenditure and promotion of market in HE. The idea is to recover the costs from the students and raising resources from non-government sources such as industry and forming a linkage between industry and university. The following are the arguments in favour of private financing of HE.

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<sup>4</sup> Such market imperfection is the major concern of the paper which deals with problems involved in education loan.

#### 3.4.1 Resource Constraints of the Government:

The developing countries are said to face difficulties in financing for HE due to the shortage of resources after meeting the most urgent need of the society such as health and mass primary education. It is argued that the equity in the access of education particularly in developing countries can be greatly improved by increment in financing for primary education not HE (Mingat & Tan, 1985). It increases the enrollments in primary education and greater equality in the society. Due to the adoption of new economic reform policies, the funds available to spend on HE is insufficient.

If subsidies to HE is said to provide negative returns to the government in terms of fiscal returns the extra tax revenue arising from the increment in tax base, that results from the associated increase in the number of individuals investing in HE is not usually thought to compensate for the investment expenditure or government subsidy (Creedy, p.5, 1995).

The budget constraints of public authority require the interference of the private educational institutions to fill the gap in the provision of HE. But the students must pay higher fees, since private institutions receive little or no subsidies (Psacharopoulos, et al, p.283,1987).

#### 3.4.2 Effects on Distribution:

It is argued that, the major recipients of subsidies to HE in developing countries are basically the middle class people and the affluent sections of the society who dominate the HE sector in such countries. The matter of argument is that, the percentage of population of the poor in HE is quite low because they rarely prefer HE due to the lack of resources at their disposal.

Traditionally subsidies to HE have been justified on the ground that they remove economic barriers and increase egalitarianism. But subsidies to HE as pointed out by Henry George, after his empirical studies in the University of California at Berkeley has found that, using the taxes of the poor to subsidize HE, educated rich men's sons, and in the same way Denison study showed that HE is run by academically gifted for the academically gifted<sup>5</sup> (Denison, 1970).

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<sup>5</sup> Hansen and Weisbrod estimated the distribution effects of subsidies in California's 3 kinds of institutions such as junior college, State College and University of California and found it regressive because the

The study of Vredeveld found that, there is a positive correlation between income level and the size of per capita subsidy. This occurred primarily because students from higher income classes tend to enroll for higher studies<sup>6</sup> (Vredeveld, pp.54-55, 1978).

Psacharopoulos also found the same results and argued that subsidies to education accrue more to the rich than to the poor (Psacharopoulos, 1977).

The study undertaken in capitalist less developed countries revealed the hypothesis that for each class of education, the state will subsidize the cost of education, the benefits of these subsidies will accrue disproportionately less to the poorer groups at each level of education; the higher the educational level being considered, the higher will be the average income level of the groups into which the students belong; and the rate of government subsidization to HE will be greater than that to primary education<sup>7</sup> (Bhagwati, p.86,2002).

The unequal distribution of income due to subsidy was also recognized by some who supported the loan method of financing of HE to achieve equity in HE (Wiseman, 1987).

To avoid such unequal income distribution it is suggested that, selective user charges should be demanded from the secondary and higher education particularly in those countries where school enrolment is low. This method is thought to encourage social equality because the social returns are greater than private returns in case of primary education (Kanyike, 1987).

It is also argued that subsidy to HE results in deferred fee in terms of higher streams of taxes throughout the lifetime of the individual who receive the subsidy and

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amount of subsidy and average income of the person receiving it was positively correlated. Using the same data Joseph Pechman classified the beneficiaries of subsidies by income class rather than the type of institutions attended. He found the subsidization a bit progressive where the low income classes' net subsidies were positive and that of high income classes negative.

<sup>6</sup> The study was undertaken from Indiana's public institutions of HE for undergraduate students during the academic year 1969-70, United States.

<sup>7</sup> The hypothesis is based on the assumption that no proper estimation is done of the vast asymmetries in the costs and benefits facing different classes and groups of people in capitalist Less Developed Countries (like India) for which the effect of education subsidy upon different classes and groups and the rate of return there is not easy to find out. And further the hypothesis supported the idea that, how the capitalist governments subsidization help the big farmers in terms of cheap credit and fertilizers. Likewise, the income levels of the recipients of state subsidy via education would be increasing for those attending HE than those attending primary education, given the political dominance of the higher income groups.



even for those who do not invest in HE; it increases the life time inequality (Creedy, 1995).

#### 3.4.4 Improving Access, Quality and Efficiency:

The public subsidization thought to reduce efficiency of the institutions that are subsidized as they are not responsible to impart quality education and improve their administration. Institutions thus become vulnerable to government control.

Thus privatization of HE is said to provide more incentives for efficiencies. It is viewed that, when public subsidies are substituted with user charges it will result in greater efficiencies in case of HE and secondary education, because, "it will discourage students unlikely to succeed from enrolling when the charges lead to a better match between student ability and selected field of specialization" (Kanyike, p.277).

With the belief that HE may not be price elastic, it is said than cost recovery measures in HE would improve access and improve the quality of education, making students more diligent about studies (Tilak, p.4031, 2005). The quality of education is thought to improve with privatization. In the Asian countries there are instances that the private sector institutions impart more qualitative education in the presence of public sector educational institutions. Such dual sector operation improves the growth of private institutions where public sector tries to maintain high standard and thus fails to accommodate society's demand for HE<sup>8</sup> (Levy, 1993).

The World Bank suggested for an introduction of user charge principle which would be applicable in almost all the HE institutions in developing countries, under the assumption that it will equalize private costs and benefits which will ultimately bring out for an efficient allocation of the resources in the private sector.

Simultaneously, with the full cost tuition fees, a greater access to HE can be met by supplementary arrangements like the formation of education credit market for easy and cheap availability of education loan and selective grant of scholarships to the economically deserving sections of the society and differential tuition fees for various socio-economic groups of population (Khadria, p.46, 1989).

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<sup>8</sup> Such a view point is based on the argument that there is a "Public failure" which is responsible for a rise of private and non-profit organisation to take the initiatives for HE. The term failure implies, the lack of any distinctive type of education one desires, while public sectors typically responds more to mainstream demands. the private institutions meet the particular demands such as. the need of the elites.

The World Bank and IMF formulated the structural adjustment policy for the debtor countries. The policy required the debtor countries to reduce their fiscal deficits by cutting down the public expenditure on less urgent requirements. For this education is chosen as the sector, particularly HE, where public subsidies can be reduced as it is argued as a quasi public good.

There is a shift in the financial resource requirements. From government to non-government bodies who get a chair in the governing body of the institutes of higher learning. The courses which are delivered in such private institutions are marketable courses which are linked with industries that require specific skills in particular fields<sup>9</sup> (Tilak, 2005).

All the above arguments along with the greater social returns and externalities accrued to HE call for its private financing.

### **3.5 Alternatives to Finance Higher Education:**

Besides, the private financing of HE, there are certain alternative sources of financing of HE to meet the growing need of financial resources for education particularly HE which lacks resources due to all the above arguments or discussed sometimes before. Many countries (OECD countries in particular) have adopted such alternatives methods of financing HE. The Developing Countries are trying somehow to such methods to substantiate their lack of funds for HE sector.

#### **3.5.1 The graduate tax method:**

This is a method of taxation where the employers are the ultimate bearer of the tax burden who employ the graduates in their company or elsewhere for future production. It is a tax supplement which applies only to graduates rather being a levy on all taxpayers and it taps additional resources from primary beneficiaries to finance HE (Greenaway & Heynes, p.314, 2004). Such a method is thought to be quite convenient because the tax falls upon the employers only and not on all the tax payers. Further education remains

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<sup>9</sup> Varying degrees of privatization has been depicted by Tilak which are particularly relevant for developing countries. Such as (i) an extreme privatization, where the colleges and universities are funded completely by private sector. (ii) a strong degree of privatization, where the full costs of education are recovered from students (in terms of loans) or through graduate tax or both means. (iii) a moderate privatization, public provision of education funded by non-governmental agencies (iv) pseudo-privatization, funded by government but managed by private bodies (Tilak, 2005).

free at the point of consumption. The costs of administration are also low because the tax collection is quite simple and direct and collected annually.

The rate of graduate tax varies depending on the graduates or their total costs or education. Take for example an employer of an engineering graduate has to pay more tax than an employer of a simple commerce graduate.

But the method is said to be inefficient because, the graduate tax acts as a disincentive for the employers. They compensate the requirements of good quality graduates with the low quality (less skilled) graduates to relieve them from the tax burden. This may aggravate the problem of educated unemployment, unless education productivity relationship becomes very strong and the elasticity of substitution between several types of HE becomes less (Tilak et. al, 1991). Even it is unlikely to deliver significant additional resources and not conducive to a more flexible and competitive system and social exclusion. (Johnes and Johnes, p.315, 2004)

#### 3.5.2 Education Vouchers:

Those potential students who satisfy the requirements of a university are given vouchers of certain amount to spend on their education.<sup>10</sup> The value of the voucher is determined on the basis of the kind of course (to encourage students in a particular course) or the family background of the student or the cost structure of the course of study.

Such a method is thought to empower the students to a greater extent than at present and universities would have to compete more directly to attract the best students (Johnes & Johnes, 2004). Even the quality of education will increase under competition. The university administration will improve to a greater extent and the students will compete among themselves by giving their best performance to study in the best universities.

#### 3.5.3 Student Loans:

The idea behind the student loan schemes is to shift the burden of financing from the government to the students and from the present generation to the future generation. All those students who are bright and need money to invest on their education due to lack

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<sup>10</sup> Though such voucher system is most appropriate for the primary and secondary education, many argue for its relevance in HE too. e.g., Jones & Jones, 2004.

of resources at their disposal are given the opportunities via the financial institutions or the government to spend on their education. Education remains free at the point of consumption and the expenses are transferred to the future which is to be paid back by means of loan installments at annual basis or whatever the condition may be.

Such a system is helpful in those countries where the credit market is well developed and the costs of administration are less.

This method is the major area of concern which will be discussed in detail in the following two chapters.

#### 3.5.4 Student Fees:

There is the argument that the fees should be increased in the HE institutions and thus the students who are direct beneficiaries should pay for their education. The argument behind this is that, the private returns are greater than social returns and the students will enjoy a growing income through out their life if they complete higher studies. Thus, they should contribute for their education.

Secondly, the universities or different institutions have their autonomy to manage their costs structure on administration, teaching research etc. for their own convenience. Thus if students will contribute for their education, the quality of education will improve with world class infrastructure. Thirdly, it is said that such a method will bring greater market discipline and there is lesser need for costly regulation (Jones & Jones, p.316, 2004).

It is also argued that this method of cost recovery from the students is equitable because, only the beneficiaries of education has to pay for it and all will not be taxed for this (Tilak & Verghese, 1991).

But such a method will deprive some students from the lower income families to opt for higher studies. It will be reflected in their gradual decline in enrolments.

Some suggest for differential increment in fees for HE because uniform increment in fees has unequal effects on the lower strata of the society. So those from low-income background pay lesser fees and those from high income background pay higher fees for the same level of education. Even there is the need of discrimination between the general and professional education in terms of fees because the costs of education, the benefits and the student's composition differ in both types of education (Tilak & Verghese, 1991

and Tilak, 1993). Besides these discriminations, some suggest for different fees for the meritorious and non meritorious students (Azad, 1976).<sup>11</sup>

### **3.6. The Case of India:**

Higher education in India is mostly a state funded activity. But the gradual increase in demand for HE due to growing enrolments in the primary and secondary levels of education and due to the greater emphasis upon the knowledge expansion around the world, the financing of HE in India has become a matter of concern for the government body. The resource crunch of the government due to its increasing role on universalization of elementary education or mass education, some alternatives on financing of HE is discussed among the reformists. Besides privatization of HE, various alternative methods of financing of HE in particular the education loan schemes is becoming popular in India.

Since independence HE in India is thought to achieve equality for the masses. India being a diversified nation, where a varieties of religions, castes, class exists access and equity has always remained as the major concern for the government. During the later part of twentieth century HE in India occupied an egalitarian character with the massification of education occupying as the major goal of the government.

Keeping this idea under view, the national policy on education (NPE, 1986) talked about quality for those sections of the society who are deprived from it, in particular the SC, ST, and women, such sections of the society are given reservations in the government institutions. They receive scholarships and free-ships by the government to carry on their education in the higher studies as most of them lack financial resources and thus to reach the upper strata of the society.

Besides, equity the quality of education has given stress to compete in the knowledge era. India has very few quality institutions which are government recognized and has world significance such as Indian Institute of Technology (IIT) and Indian Institute of management (IIM). Thus for a healthy economic growth, the quality of education need to be improved while dealing with the equality in the society simultaneously. Most of the institutes in India are mediocre type. Thus it is the

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<sup>11</sup> But such kind of discrimination differentiates in the quality of education which is not justified for any democratic society where 'equality' is the buzzword for all the aspects of life.

responsibility of the government to undertake the risk to finance of HE so that the country can stand in front of the other developed countries of the world. To improve the quality of education the government went for the open learning system in 1980s. This also met the growing demand for HE.

### 3.6.1 The Returns to Higher Education:

There are good numbers of studies in India on the returns to HE. Some has studied returns in terms of different areas of HE. Such as, graduate level, post-graduate level, and undergraduate level and among those levels, segregation is also made in terms of general and professional levels.<sup>12</sup>

The most common result from the above studies revealed that, the returns to HE is quite high in comparison to the other levels of education. It is said that the investment in HE is economically efficient (Tilak & Verhgese, 1991) and (Tilak, 1993). Secondly, the opportunity costs of HE is quite high and the benefits are lower, whereas for primary education the case is just reverse of HE (Bhagwati, 1973). Thirdly, the private returns to HE is greater in comparison to the social returns, which is found to be due to larger subsidies to HE in India. Fourthly, within HE, the second degree education (degree) fields higher rates of return than the first degree education (undergraduate and intermediate) both in case of general education and professional education (Tilak & Vergese, 1991). Fifthly, returns to professional education are greater in comparison to the general education, because there is greater security of job after the completion of the course in case of the former. Such instance is clear from the growing enrolments in the management and engineering colleges and the increasing number of technical institutes in India (Tilak, 1993). Finally, it was concluded that the returns to HE increases over time for which there is the need of public investment on HE along with the investment by the individuals themselves. Even some argue that, HE in Developing Countries must be treated as a merit good because; HE has greater social returns in Developing Countries like India in comparison to the developed countries like UK and USA thus, it should be allocated public funds (Muzammil, 1998).

### 3.6.2 Expenditure on Higher Education:

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<sup>12</sup> For details please look on. Tilak & Verhgese (1991). Tilak (1993). Bhagwati (1973), etc.

The public expenditure on HE is declining in absolute terms due to the acceptance of Structural Adjustment Policy of IMF and World Bank. The new economic policy of India required a drastic cut in public expenditure where HE expenditure is considered as the most convenient to start with. Thus there is a gradual decline in HE expenditure in the subsequent five year plans of the government of India.

The public expenditure as a percentage of GNP has declined as evident from the following table.<sup>13</sup>

**Table A: Expenditure on Higher Education as Percentage of GNP**

Year	Percent
1989-90	0.55
1990-91	0.49
1991-92	0.45
1992-93	0.44
1993-94	0.40
1994-95	0.39
1995-96	0.37
1996-97	0.35
1997-98	0.35
1998-99	0.39
1999-00 RE( Revised Estimate)	0.47
2000-01 BE (Budgetary Estimate)	0.46

Source: Based on Analysis of Budget Expenditure on Education (various years), MHRD, New Delhi.

The table shows the government budgetary expenditure on HE as a percentage of GDP at each subsequent year which is gradually declining.

A decline in public expenditure also reduces per student expenditure on HE in terms of real prices, that affects the quality and equity in HE (Tilak, 2004).

The share of HE in five year plans also shows the same trend as shown in the table B.<sup>14</sup>

<sup>13</sup> Originally, the table is collected from Tilak, 2004. Economic and Political Weekly.

<sup>14</sup> Originally the Table is collected fro Tilak, 2004. Economic and Political Weekly.

**Table B: Higher education in Fiver Year Plans (in Rupees Crore)**

Plan	In current prices	% to total education expenditure
Sixth Five Year Plan	530	18
Seventh Five Year Plan (1985-90)	1201	14
Annual Plans (1990-92)	595	11
Eighth Five Year Plan(1992-97)	1516	7
Ninth Five Year Plan(1997-2002)	4350	8

Source: Tilak (1995) and Planning Commission (1999-2001).

The table B shows the declining government expenditure on HE in subsequent plan period starting from sixth five year plan.

### 3.6.3 Subsidies to Higher Education:

When there is a decline in public expenditure on HE automatically it is obvious that public subsidies to HE may be declining. Just like a decline on expenditure on HE in general the subsidies meant for the institutions and the students is also declining subsequently. Even the subsidies to HE is not very significant as it is in the developed countries (though it is declining in those countries too due to gradual privatization of HE).

In Indian context, the declining government subsidy in terms of scholarships to the students is indicative of the growing inequality picture in HE because scholarships are basically meant for the weaker sections of the society. Besides, the amount of scholarship determines the choice of the student whether to pursue or opt for the job market (Chattopadhyay, p.10, 2006).<sup>15</sup> Whereas the scholarships have always been a small fragment of the total government expenditure, its further decline along with the rising fees of HE aggravate the inequality in HE. The table given below shows the true picture of inequality in HE.<sup>16</sup>

<sup>15</sup> It is also argued that the initiatives undertaken by the government to provide scholarships only to meritorious students may come on the way of social equality (Chattopadhyay, 2006).

<sup>16</sup> Originally the table is derived from, Tilak, 2004. Economic and Political Weekly.



**Table C: Public Expenditure on Scholarships in Higher Education (in Rupees Crore)**

	In current prices	In 1993-94 prices	Percent of total expenditure on higher education
1990-91	11.30	15.35	0.49
1991-92	13.00	15.52	0.53
1992-93	12.60	13.83	0.47
1993-94	13.40	13.40	0.43
1994-95	14.00	12.77	0.40
1995-96	14.70	12.30	0.38
1996-97	17.10	13.33	0.40
1997-98	13.40	9.79	0.28
1998-99	20.30	13.73	0.33
1999-2000	8.99	5.85	0.15
2000-01 RE	19.36	12.09	0.25
2001-02 BE	20.69	12.50	0.30

Source: Based on Analysis of Budgeted Expenditure on Education (Various years).

The table above shows the declining trend in the public expenditure on scholarships for the students in HE.

Out of these subsidies the major part is taken by the institutes of national importance and the lesser part is taken by the degree colleges (Tilak & Verghese, 1991).

The total subsidies provided by the government reach very few students in the low socio-economic strata because of their lower participation in HE. Their participation is low because of social conditioning and value differences among the different income groups and the lesser benefits from HE for the lower income group though they get higher opportunity costs from HE (Bhagwati, 1973). The subsidies in India is said to be politically motivated where the upper class of the society pressurize the government for the expansion of more higher educational institutions. Here degree matters a lot to get a job and thus there is greater competition among the individuals for more and more qualifications. The over qualified people fill the vacancies in the job market. The educational subsidies is no more considered as an egalitarian instrument what it was thought before because the benefits of state subsidization accrue predominantly to the

higher income groups (Bhagawati, p.95, 2004). The women students are not thus encouraged much for higher studies.

Further, the professional courses are heavily subsidized where the proportion of students is skewed towards the better socio-economic groups of population and the general education is less subsidized (Tilak & Verghese, 1991).<sup>17</sup> Area of studies which have higher social returns like research is ignored while providing subsidies which affect the efficiency in HE along with equity. The constitutional commitment of the government towards Universalization of elementary education also inclines the government to reduce subsidies to HE as elementary education has greater social returns.

Thus, India like the other countries is gradually cutting down its subsidies to HE education and opting for the alternatives of financing this important section of education.

#### 3.6.4. Alternative methods of financing Higher Education in India:

(a) Student Fees:- the fees are quite important source of funding HE in many countries. The financial constraints of the government are met out of increment in fees in the institutions. Some argue that a selective increment in fees can be an important mechanism to influence the demand for different areas of education. Since higher education is an area of the privileged sector there should be an increment in the student fees in Indian institutions to tap the resources from those who have abilities to pay (Tilak & Verghese, 1991).

But the cost recovery in terms of fees from the students is not significant due to the pressure from the economically and politically influential sections of the society. Even the share of fees is gradually decreasing according to different empirical evidences<sup>18</sup> (Mundle & Rao, 1991). UGC and AICTE in 1993 have also suggested for an increment in cost recovery rate from the student fees about 20 percent (Tilak, 2004). The fee increment at equal proportion may affect the enrollments from the low income groups in the society. Thus some suggest for a discriminatory pricing of different HE institutions

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<sup>17</sup> Such instances discourage the students to pursue general education or non-technical education. Even they are already discouraged before to pursue higher studies in general education line where there is no job guarantee like technical or professional education.

<sup>18</sup> The rate of cost recovery defined as income from students' fees as a proportion of total recurring income declined from 37% in 1950-51 to 12% in 1986-87 and such decline is due to government policy after independence to increase the skilled manpower besides democratizing HE (Tilak, 2004).

where the high income groups should pay more in comparison to the low income groups (Tilak, 1993) & (Tilak & Verghese, 1991).

The above studies reveal that an increment in the fee level for higher studies from an egalitarian point of view where large sections of the society are underprivileged.

(b) Education loan -: to substantiate the resource constraints of the government education loan is thought to be a better option than fee increment to finance HE. Various commercial banks have taken initiatives to provide loans to the students for higher studies keeping their market concerns. Different policies and programmes of the government have given emphasis upon the revitalization of the student loan programmes like many developed and developing countries.

But student loan is not a popular method of financing in India due to many varying factors. People do not hesitate to borrow for physical capital investments, social and cultural expenses like marriage and other family ceremonies but, when a question of spending on human capital investment comes they simply hesitate due to the uncertainty involved in the returns of human capital. The future job prospects after study, the repayment burden of loan after the completion of the course, and sometimes the debt burden of loan restrict many parents in Indian family to invest on HE. The situation is more pathetic for the female students in the society those desire for higher studies. Thus loans may affect equity in the access of HE. For these factors some suggest for student loans accompanied by carefully formulated policies regarding fees and scholarships (Tilak, 1993).

Thus the financial crunch of the government along with the growing enrollments in HE require an alternative to finance HE in India and looking at the growing popularity of loan method in comparison to the other methods of financing the loan schemes can be undertaken more effectively with certain check on the difficulties associated with it to finance HE. The following chapter deals with this loan method of financing HE.

## **CHAPTER 4**

# **EDUCATION LOANS IN DIFFERENT COUNTRIES**

## **Education Loan in different Countries**

Education loan is considered as an effective alternative source of financing for HE with its own shortcomings which is the major part of discussion of this chapter. The resource constraints of the government, the efficiency and equity arguments desire an alternative source of funding for HE in all the developed and developing countries. As a social concern, while HE is desirable for the greater social welfare and development of a country, its funding has become a controversial issue among the countries in particular in developing countries where they have alternative social goals like, health, primary and secondary education. Thus many developing countries in Latin America, Africa and Asia have considered student loan as an alternative option to finance HE following the path of many successful developed countries who have successful loan schemes under operation, such as, Canada, Sweden, USA, Hong Kong, Britain, France, Germany etc.

### **4.1 The Concept and objectives**

Education loan is to meet the expenses of an individual during his study period, whether the expense could be of tuition fees, daily living expenses, library, instruments, registration (annual) fees, travel expenses, hostel accommodation or fooding, clothing, lodging etc. It is an unconditional grant, counting full living expenses for the whole academic year based on actual studies of student expenditures, rather than notional estimates of living costs<sup>1</sup> (Woodhall, 1970).

The essential feature of loan as a method of financing university education is, that the student who is provided with financial aid incurs a direct obligation to pay for this, out of his future income. The payment may take the form of direct repayment of the sum involved either with or without interest in which case, the loan resembles a mortgage, or it may mean a graduate paying a specified proportion of future income in which case, the loan resembles income tax.

The basic objective of loan system is to ensure that the most talented students are able to enter HE, without deterred by its cost. There are much class segregation in terms

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<sup>1</sup> The definition is with regard to the loan grants provided by the government to the students of post-secondary education.

of finance and Social backgrounds among students who opt for higher studies. It is necessary to provide financial opportunities to all such students who have potential to get HE. The reasons behind such deficiency in finance can be many which will be discussed in detail in the following sections.

## **4.2 Arguments on loan as a method of financing**

As it has already been mentioned in the previous chapters that there are a number of arguments regarding the gradual decline in the government grants to HE, it has become a controversy, whether to go for loans or grants as a method of financing HE. Even some argue (Woodhal, 1970) for a combination of both in financing for HE. The arguments are as follows.

### **4.2.1 Increasing costs of Higher education:-**

In the recent years, a greater stress upon the user charges (by World Bank and other international organizations) in HE and secondary education implies a desirable reduction in the public grants and scholarships. The institutions of higher learning compete among themselves for efficiency and quality whereas students compete for the best institutions (though they charge higher costs in most instances) to improve their own quality (competitiveness) in the job market. Thus, there is the need of alternative financial facilities like loans for such competent students to enroll themselves in the so called efficient but costly institutes of higher learning.

### **4.2.2 Burden on public funds:-**

Resources for education are limited due to many competing claims on those resources. Education has to compete for government funds with health, social services and within education; HE has to compete with primary and secondary education. Education loan would help to increase the supply of finance for HE without causing long term sacrifices for the other objects of expenditure.

Further, loan repayments are considered as an alternative to general taxation, which would be otherwise collected if, government provided grants to HE. As argued by woodhall, "The subsidy of students through loans ultimately imposes a smaller burden on the general tax payer than subsidy through outright grants (Woodhall, p.21, 1970).

A part of cost sharing of HE is shifted from the government to the tax payer or parents or students due to the operation of loan scheme (Johnstone, 2004). It helps the government to use its funds for the other important expenses.

The opponents of loans argue that, the subsidization of loans for grants would bring relatively small economies, since the government would in any case have to provide money for students, but would receive repayments only after a time-lag, and even, at extended period. Thus, in the short term, no saving of public expenditures would result from the substitution of loan for grants (Gordon Walker, Patrick, 1968). But the advocates of education loans argue that, public subsidies of HE would be financed either by loan repayments of past students, or graduate taxes, or by general taxation. Loans and taxation of graduates are, therefore, advocated as an alternative or addition to general taxation, as a means of providing private funds to be used for public subsidy of HE (Merrett, 1967).

Since in some countries loans are provided to the students under the initiative of the government, loan programme or the government provides interest subsidy on the education loans, the loan system can be an effective alternative to finance HE but under limitations.

#### 4.2.3 The Benefit argument:-

It is under discussion that, the students should finance for themselves in HE because of a higher level of economic benefits in the form of high income level, greater variety of occupations, and lesser risk of employment due to greater mobility options etc. which are profitable private investments for the individuals.

The case for loans by virtue of the “benefit principle” is, one who benefits should pay for it. As pointed out by Prest (1960), a loan scheme would forge a link between benefit and contribution<sup>2</sup>

The benefit principle, as argued by the opponents of education loans justifies the need of public subsidy or grants to desirable students. The private benefits of education which is frequently received after completion of education i.e. in terms of earnings it's considered uncertain, due to its dependence on the ability and education of the student

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<sup>2</sup> Here, contribution is the total real resource cost of HE, including the value of student's time and not simply money outlay.

and his social class. If the earning of an individual is high, then that is ultimately made average due to the payment of income tax. The magnitudes of private and social benefits are the determining factor to judge the feasibility of education loans (Woodhal, 1970).

Thus the degree of disagreement between the opponents and supporters of education loans is therefore essentially, due degree of subsidy needed to ensure optimum levels of achievements in HE.

#### 4.2.4 The equity Argument:-

The distribution of educational opportunity and the costs and benefits of HE, is an important aspect of HE. A provision of social justice and efficiency requires an equitable financing of HE, without any discrimination against the poor people in the society. It is a matter of ethics to bring out equal opportunity in HE, irrespective of the purchasing power of the educated individuals. The relative income of the country could be increased with an equal distribution of educational opportunities in the society.

The advocates of loan accept the principle, that no one with the ability to benefit from university education should be debarred from it on personal financial grounds, but, a system of direct grants which provides the necessary finance for HE out of general taxation, involves a transfer of income from the uneducated to the educated. In terms of higher life time income, the graduates enjoy greater financial benefits and thus, grants add more to their income than to the others in the community. In the process there will be a transfer of income from the community to these graduates in the society.

As pointed out by Blaug, “without splitting hairs it is fair to say that half of the grants system simply gives to those who already have” (Blaug, 1968)<sup>3</sup>

Similarly, Mishan concluded out of his study of the British education system, that the under privileged working class are compelled to finance the education of the well – off majority of students (Mishan, 1969).

Among these two important methods of financing HE, such as grants and loans, the question of deciding between these two as a better method of financing in terms justice is mere value judgments. Since HE is becoming costly day by day and is supposed to be more after opening it to Global forces (following the policy of internationalization), this is of course a matter of concern. There are few potential students who can finance

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<sup>3</sup> Quoted from Woodhall, p.25, 1970.



their education by themselves or with the help of their parents and the rest will be left out of HE. In such case, the frequent need of finance can't be met out of grants but loans keeping in view the equality of opportunity. It is said that, "a system of grants redistributes the burden of cost of education between educated and uneducated, and a system of loans redistributes this cost over time, rather between people" (Woodhall, p.26, 1970)

Woodhall (1970) points out that, because of the variation between different countries in terms of social class composition and the income raising capacity of HE in different students, the question of equality in HE is also confined to that country who has applied education loans as a method of financing HE.

The opponents of loan argue against the financing of HE, through loan because, if it happens then, gradually there will be a wider gap between the rich and the poor due to the hesitance of small income groups to aspire for HE. Loan method has disincentive effect on the working class people who fear the burden of debt in the early days of earnings of their children and thus they hesitate to make their children highly educated via loans (Mumper & Ark, 1991). A loan scheme would act to encourage the creation of small university elite (Woodhall, p.26, 1970).<sup>4</sup>

Students from the disadvantaged background with the hope of higher income (high paid jobs) and greater socio-economic mobility opt for elite institutes (or so called efficient institutes) in place of the less prestigious institutes or programmes. They charge higher fees which can be paid with the help of loans. If the student loaner is from traditional kinship system of society then he has to meet the needs of his aging parents and sponsor the upward socio-economic mobility of his relatives; on the contrary, the graduates from the modern, well to do families move upward in the ladder of socio-economic strata (Kanyike, 1987). Such happenings further widen inequality.

It is suggested that, the adverse implications of increasing fees in private educational institutions upon the disadvantaged groups (reducing access to HE) can be

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<sup>4</sup> But, after reviewing the experience on student loans in various developed and developing countries, Woodhall concluded that, the contribution of loans towards equality of opportunity widely depends on terms and conditions of loans and general educational and economic situations within which the loan scheme operates. There is no evidence that loan scheme operates. There is no evidence that loan deter the working class students or women Woodhall. 1987.

removed by greater availability of scholarships and student loans (Psacharopoulos et al, 1987).

The student loan is less effective than grants in encouraging low-income students to continue their education, since the fear of debt may discourage poor students, particularly women (due to negative dowry concept and the risk of wastage and dropout) (Woodhall, p.448, 1987).

Thus, a system of loan is more equitable than grants because, those who directly benefit from HE will pay for it while repaying the loans. But its disincentive effects on the poor favour the grant system of financing HE. As pointed out by Johnstone (2004), the loan method of financing as a protection for low life time earners and improve their accessibility to HE. This is applicable even for students who do not have any parental support.

#### 4.2.5. The efficiency Argument:-

Since, resources are scarce and there are many alternative areas requiring immediate financing like, health, elementary education etc. for greater welfare of the people any method of financing HE should be efficient. Student loans are efficient and equitable as they raise more resources for education, because it is the beneficiaries who pay for their schooling not the population at large (Psacharopoulos et al, 1987, p.283).

Further, there are arguments for and against education loans on the ground of time spent on HE by the student. For Woodhal (1970), time of the student is one of the valuable scarce resources involved in education process. An efficient use of student time comes out with education loans. The advocates of loan argue that, the student becomes more responsible towards education and most efficiently uses his time of study to get more out of it so that, he/she can pay back the loans taken in time.

The opponents on the contrary, argue for a greater wastage of time and money of the student due to psychological burden of paying back loans. They argue for grants as a method of financing HE because it gives an encouragement to the student for better utilization of time without any psychological pressure or any job to carry out expenditure (Trevor, *ibid*)<sup>5</sup>

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<sup>5</sup> Originally referred from Woodhall, 1970.

Another argument in favour of education loans is for an efficient administration of universities. Loans will promote greater competition among universities to efficiently utilize the resources by reducing costs to attract more students. Loans to students rather subsidy to universities with higher fee levels will increase independence of universities (Woodhall, p.109, 1970).<sup>6</sup>

Loans can be an effective mechanism of cost recovery which can be possible by linking a policy of cost recovery with the student loans, especially in developing countries like Asia, Africa, Latin America (Mingat & Tan, 1986). Such process will be efficient as well as equitable as it brings social and private returns to education closer to each other.

Thus in the efficiency print of view education loan is considered as a better method of financing HE in comparison to grants. But there can be reverse effects of loan upon the students on the universities or the other individuals in general if the loan amount is quite large.

#### 4.2.6 Asymmetric Information's and Market Imperfections:-

There is the problem in the provision of complete information about the two parties who are busy in transactions, one party is the principal (the party without full information) and the other, is the agent (who have full information).<sup>7</sup> Asymmetric information gives rise to adverse selections and moral hazard (Acocella, 2005).

Adverse selection results, when the principal is unable to observe the situation of the agent or important endogenous characteristics of the agent or the good involved in the transaction (Acocella, 2005). Akerlof for the first time recognized the problem of adverse selection in case of the market of used cars, where the buyers have no knowledge of the conditions of the cars. There may be resulting unequal standardization of cars living the lemons (bad cars) in the market at the end of bargaining or a complete disappearance of the market (Akerlof, 1970).<sup>8</sup>

Likewise, the banks while giving loans (for education) charge a standard rate of interest along with certain premium (if they so desire) on the total amount of loan

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<sup>6</sup> The view point is an extract by the author from the Robbins Report, Committee on Higher Education, London.

<sup>7</sup> The problem of Asymmetric information is also known as Agency problems.

<sup>8</sup> Such a situation is Pareto inefficient because. it would happen that some people may have purchased a car with certain characteristics at a price that was higher than its supply price/selling price.

because, the risk involved in the loan reimbursed is unknown for the bankers. In fact, the potential borrowers who take loans always look at the risk factor, their future source of income which could provide some additional benefits (income) after repaying installments on the loans taken during the period of repayment. In the words of Acocella, each rise in the interest rate discourages loan demand from less risky customers; to make a balance between such demand and supply factors, the loans are given by the banks after an evaluation of the economic conditions of the customers, and those who are risky customers were encouraged to take loans and those less risky customers are discouraged or deprived of loans (Acocella, p.34, 2005).

The Market imperfections does not provide good investment opportunities particularly in case of Human Capital because, the decisions about investing on Human Capital is made by many parties like the individuals (or parents of the student) and the institutions of learning. There is a gap between the decision makers and the actual receivers of Human Capital which results in market failure (World Development Report, 2006). Such instances particularly in developing countries discourage education loan as a method of financing HE and encourage the educational subsidy and grants as alternative to meet the requirements of the low income groups. Even the students do not know their potential, where to invest, (in which area of HE) (Nerlove, 1975).

Further, market imperfections results in hidden action problem, or incentive problem, or moral hazard problem (Acocella, 2005). Such kind of problem comes out when the banks fail to get proper media to keep vigil on the actions of the borrower who has taken the loan. To protect itself from such kind of uncertain situations (the defaults of the borrower) the bank prefers to lend to those borrowers who can provide some collateral securities or insurance policies (Acocella, 2005, World Development Report, 2006, Nerlove, 1975).

Such happenings discard the under privileged sections of the society who have potential and want to pursue higher studies but lack the collateral security. Thus, it is always the government who has to take recourse of such activities to solve the principal-agent problem, for example there are government guaranteed student loan schemes which provide loans to the needy students at subsidized rate of interest or low rate of interest without any security demanded.

#### 4.2.7 Arguments on Administrative and Practical Problems:-

A system of financing HE in principle and its practical feasibility are two separate issues. It is said that, among all the alternative methods of financing HE, practical difficulties are the reasons for abandoning the idea of a student loan scheme (Woodhall, p.29, 1970).

Such practical difficulties come out, because students' lifetime earnings vary according to the job prospects and their field of education. Generally, students of technical education e.g. engineering, medical and management students earn more than the students from general or non-technical streams. Thus, the banks prefer to provide loans to such high earners. The terms of repayment determined by the loan authorities are not always justified for all the sections of students, which is very much dependent upon the financial commitments of the highly educated individuals. But, there is the problem of repayment of loans for the low earners in future who are not able to pay back the loans in time. The situation is more critical in case of women students who fail to earn after the completion of their course coming under family pressure. Many times, the problem of 'negative dowry' comes when the in-laws or the husband has to payback the loans on behalf of the women student after her marriage.

The problems of repayment arise, due to the underdeveloped banking system in the developing countries in particular. The banking facilities are not so healthy at all the regions, basically the interior regions are deprived of a bank. The students from all such regions have to take loans from the nearby bank, or the main branch of any bank, that fails to keep track of the students, his/her progress in study and possibility of getting a job.

Sometimes, loan system of financing HE provides the students to choose their area of study so that they could earn their living by getting through the profession of their interest. Students desirous to go for higher studies in certain reputed institutions in the country, or abroad could go for the same if, they are provided appropriate amount of funds through loan system. It is viewed that the loan system provides a convenient and flexible means of varying incentives to students to choose particular subjects or particular occupations (Woodhall, 1970).<sup>9</sup>

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<sup>9</sup> But the banking authority to fulfill their commercial objectives and profit motive provide loans in those subjects or streams of education which have job guarantee.

But, it is argued that the loan facilities in certain subjects of study which have greater life-time income would divert the country from socially desirable areas of study and favours more and more earnings without any balance between different segments of education in the society. Take for example, if, MBA, engineering, medical education etc. will provide greater life-time incomes in terms of handsome salaries, then more students will pursue such courses of study which will ultimately result in more MBA's, engineers, doctors etc. in the society. Thus, the low salary occupations would suffer because of the burden of repaying the cost of education after the completion of the courses.

Besides, there is the problem of defaulters in loan method of financing. Those students who study abroad and get a job over their, may not pay back the loans because the banks in the home country fail to keep track of their settlements in the foreign countries. Even, those students who dropout during the course period due to various uncertain reasons like illness, accidents, psychological burden of debt etc. the banks fail to get the payments. Some students delay in repaying the loans in time, due to seek ness, or some related factors or due to earning less because of getting a low paid job. If, it happens, then, it will reduce the potential savings of the banking system, and thus, of the Country (Woodhall, 1987).

Apart from the above discussed administrative and practical problems, there are certain associated factors which discourage students to take loan to finance their education. The rate of interest charged by the banks is quite high which is, if added to the principal increases the total amount of loan. Even, certain banks charge certain margin money which has to be paid by the parents or family members, i.e. the banks do not provide the whole study expenses which may be up to 90% of the total expenses of the student, and the rest has to be paid by the student in his own convenience. Certain processing charges and application fees are asked to pay. There is the need of third party guarantee and the security equal to the loan amount sanctioned, to be eligible to take loans. The practical evidences connected out of the primary sources reveal certain other problems associated with the above mentioned practical difficulties that are discussed in the next chapter in detail.

Thus education loan as a method of financing HE has its own limitations when practically applied. Its controversial areas require the need of government grants for the

underprivileged sections of the society who would otherwise, be deprived of higher studies due to lack of funds (as they avoid loans for education due to the fear of debt). Particularly in developing countries, there are certain socio-cultural factors which hinder the applicability of loan scheme in such countries. Such factors raise the rate of default in such countries, though the defaulter rate is quite low in many developed countries due to their well developed banking system.

Due to the difficulties associated with the loan method of financing, it is suggested that a combination of loans and grants is more flexible and equitable system of student aid than any one of them, because the use of student loans can release government funds in the long run for alternative uses (Woodhall, p.449, 1987).<sup>10</sup>

#### **4.3 Conventional Loan vs. Income Contingent Loan (ICL)**

Student loan occupies two important forms subject to their applicability in different developed and developing countries due to their own specific characteristics. The developed countries are generally successful users of ICL schemes in comparison to developing countries who are still following the conventional loan schemes. The most successful users of ICL schemes are Australia, New Zealand, Sweden, Scotland, South Africa etc.

The conventional loan scheme is a mortgage type of loan system which has three important elements such as; a rate of interest, a repayment period and a mode of repayment. The rate of interest is fixed according to the amount of loan borrowed, which is an annual percentage of this total amount. It may vary under certain conditions as decided by the financial institutions or the government, what ever the case may be. There is a fixed repayment period which is of duration up to maximum, 10 years, or less than that depending upon the amount of loan sanctioned. There is the mode of repayment of the principal and interest at the monthly installment basis or as decided under contracts with the student. Every thing is fixed with the student under contract who has to give an application or any signature to follow the rules of the institution from which loan is borrowed.

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<sup>10</sup> The idea behind such view point is that, though there will not be any immediate savings out of loans but in the long run, the gradual repayment of loans will fulfill the shortages in potential savings.

On the other hand, ICL is a long term loan whose amount is determined according to the predicted income streams in the future of the student concerned. It carries a rate of interest which is predetermined. According to Johnstone, an ICL, carries a contractual obligation to repay some percentage of future earnings until the loan is repaid at the contractual rate of interest. Whether subsidized, unsubsidized or premium that has repaid for a maximum number of years (Johnstone, p162, 2004). The major elements of ICL are, an annual payment burden which is very less in comparison to conventional loan, there is the provision of adjustive repayment according to the level of income. Those who earn less, pay less monthly or annual basis whatever the contract may be and get a longer duration of repayment compared to those who earn more.

#### 4.3.1 Superiority of Income Contingent Loan:-

It is always perceived that ICL is less costly in comparison to conventional loan, because the burden of repayment is less in relation to the current earnings of the loaner. If, the income of the loaner changes or fluctuates then accordingly, the loan amount to be paid annually or monthly also varies. It becomes less burdensome for the student to repay. Even the psychological pressure of repaying the fixed amount annually like conventional loan is reduced.

There is a shift in the responsibility of paying for HE from the government to the parents or students. In some instances, the burden of tuition fees if paid in income contingent form is shifted to the student who has to pay a certain amount of his income annually to the loan authority. In the process, he can take the responsibility of financing his own education without parental obligations.

ICL is quite convenient to the borrower to repay the loans in time because there is a greater certainty of repayment. The students who borrow know their duties, rules of the loan scheme and accordingly, they manage their expenditure and pay the low without much burden or disincentive. Besides, there are lesser defaulters in case of ICL, in comparison to conventional loan because of certainly in loan repayment and governments insurance and income tax policies that relief the borrower while repaying their loans after the completion of their course of study.<sup>11</sup>

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<sup>11</sup> But the effective applicability of ICL scheme very much depends upon the government initiatives in collecting the loan in time.



Finally it is viewed that, ICL has greater cost recovery rate due to successful income tax and pension contribution machinery. Such fact is particularly true for those developed and developing countries that have well developed tax – collecting mechanism and recover the loans with greater incentive. This can't be true for developing countries which perhaps stay with the conventional loan system that have less efficient tax and insurance mechanisms. This results in fewer defaulters, unlike the conventional loan system.

Due to the above mentioned advantages of ICL, it is applicable in all those countries which have well developed banking system and tax-collecting mechanism but it is not much convenient for those countries that lack the above mentioned base to start up ICL schemes.

#### 4.3.2 Short Comings of Income Contingent Loan Schemes:-

Though the conventional loan system results in wastage from the potential savings due to the non-repayment factor, greater defaults, late repayments attributed to illness, accident, unemployment etc, and there is wastage due to lack of any efficient collecting mechanism; in the ICL schemes, the borrower has to report his received income or any variations in it from time to time to the tax authority so that the amount of repayment will be calculated accordingly. But, many understate their income or overstate their expenditures though they have multiple income source or increment in income. It acts as loss for the income-tax department (Johnstone, 2004).

Secondly, it is not possible to detect the underpayments in case of ICL because it extends for years. If the number of years of underpayments goes on increasing, there will be difficulty in keeping record of all those students who have not repaid the loans in time. On the other hand, the conventional loan is of short-duration and thus the non-repayments are easily detectable; and there is the presence of co-borrower or third party guarantee, depending upon the loan amount sanctioned which helps to detect the true future income of the student during sanctioning of loan or after the completion of the course. It is easy to record as much of anticipated repayments as required in comparison to the ICL plan (Johnston, 2004).

Thirdly, it is argued by many that, since the repayment of income intends over many years in ICL method, it pressurize on the borrowers mind and discourage for HE. It

is pointed out that, the loan obligations should not be of such duration that individuals are still paying when their own children reach college age (Simpson, p.707, 1987). It will reduce the interest of the parents to invest on HE, and borrowing by each succeeding generation will have to be greater. For these factors, the short term conventional loan is preferred than the ICL scheme to finance higher studies.

Thus, ICL is discouraged due to its wastage for income tax authority, its undetectability and its long term nature of repayment which discourage the parents to go for loans for their children for higher studies.

The ICL program is not applicable in the developing countries due to the following reasons. There is the lack of reliable collecting mechanism that has to collect the loan amounts (during the wage or salary payments) along with the income tax and pension contributions. Such a method of collection miss out the self employed and private job holders, who may be big entrepreneurs or in highly profitable organization; it widens inequality in the society and market distortions because the low income earners (though they are in government jobs) have to repay the loans (Johnstone, 2004). The study undertaken by Johnstone (2004) in Australia revealed that the ICL is not a solution for the immediate revenue for the expansion of HE. or its quality, or to help the underprivileged who would otherwise be excluded from HE because the loan repayment period is of quite a longer duration.

For a greater equity some suggest for a mutualized approach to overcome the difficulties associated with loan repayment. People are reluctant to borrow due to the burden of repayment if they are not through a high paid job. This happens basically with the students from low income family who are risk averters and in the process they are eliminated from HE. To encourage such students who hesitate to borrow for higher studies the mutualized approach is suggested which requires that, all the borrowers repay the loans with reference to their level of income. Those borrowers with better than-average income would pay enough in excess of the principal and interest of their own loans to offset the less repayment by borrowers with deficient income (Simpson, p.709, 1987). Even, charging high tuition fees (or differential fees) from the students of well-to-

do families has the same idea like mutualized approach.<sup>12</sup> Nerlove (1975), criticized the mutualized approach with the arguments that, due to the absence of an insurance premium (particularly in case of ICL program) even the students from the well-off families hesitate to borrow because they have to substantiate the low earners.<sup>13</sup>

Thus, the both kinds of loan programmes for education have their own shortcomings and their applicability in different developed and developing countries is very much dependent upon the social, economic and political conditions of the country concerned.

#### **4.4 Student loan programmes in different countries**

The pattern of education loan varies from country to country. Even, the loan providing mechanism is also different in different countries, i.e. in some countries it is the central or the state government that takes the initiative of providing loans to the students (e.g. Canada, Sweden, Denmark, Norway etc.). In some other countries, it is the commercial banks or the universities or the private agencies which provide loans to the students but under government guarantees and interest subsidies (e.g. USA, Finland, Japan etc.). The first kind of student loan programme financed from public funds or backed by government guarantees, was found in Japan, Scandinavia, and USA in 1940's and 1950's (Woodhall, 1970). Canada and various European countries set up loan programmes in 1960's and the first developing country to establish a student loan programme was Colombia in 1953 followed by Latin American countries in 1960's (Woodhall, 1988). The conditions of repayment may vary from country to country and there may be ICL or conventional loan scheme based on the convenience of applicability. The duration of loan may be seven, ten, or twenty years or more in different countries. Some loans cover only the tuition fees and some other cover living expenses and some other the whole study expenses. All these variations are discussed one by one.

4.4.1 United States of America - Both the ICL scheme and the Conventional loan scheme are under operation in USA. It is the only country which has a choice between the two kinds of programmes. The idea of student aid came out in 1956 with the

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<sup>12</sup> But the application of such an approach may discourage students who suppose to earn more in future to go for loans from any institution.

<sup>13</sup> To avoid such risk aversion he has suggested for stabilization policy by the government to stabilize the economy (control inflationary situations etc.).

recommendations of the Eisenhower Commission. The committee recommended that there should be federal student aid program to recover the costs of education by providing allowance to institutions and stipends to the students (Wolk, p.23, 1968). The first U.S. federal programme, the student war loan programme was a temporary emergency measure set up during the Second World War to encourage recruitment to shortage subjects such as medicine and engineering and encourage graduates to enter war related employment. The National Defense Student Loan Program established in 1958 was an emergency defense measure to encourage recruitment in science, mathematics and engineering (Woodhall, 1988). The National Direct Student Loan Program (NDSL) in 1964 and the Guaranteed Student Loan Program (GSLP) in 1965 replaced the above mentioned temporary measures to finance HE. The major objective of these programmes were to provide financial aid for low-income and middle-income students, who could not otherwise afford to finance tuition fees and living expenses on their own, or their parent's resources. The GSLP later known as Stafford Loan Program (SLP) was modified which committed the federal government to insure loans made by private lenders to students and to subsidize interest on such loans (Mumper and Ark, 1991). It did not serve the purpose of the low income groups. The objective behind this was to provide a convenient source of aid to middle income students at a very low cost and increasing the ability of the students to borrow from private lenders under federal government guarantee.<sup>14</sup>

To provide equal opportunity to all the students with special emphasis for the needy students the programme since 1987, is relying upon a need based test which is determined by the financial status of the student's family each year when the loan is needed.<sup>15</sup> The rising cost of federal government due to interest subsidy has gradually discouraged the programme. The market rate of interest has increased gradually, whereas the amount of aid has remained the same; it is a loss for the federal government. There is a growing case of defaulter which adds more to the cost. Even, the institutions with the hope of benefiting more from the easy availability of loans increase their fees for higher

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<sup>14</sup> The motive behind this was to encourage the banks to lend money to students, as banks will be ready to lend because government guarantee is there.

<sup>15</sup> It was estimated by Mumper & Ark (1991) that a student attending a public college can qualify for a Stafford loan if his/her family income is less than \$33,000 and the family income of a student attending private institution is about \$50,000 but a cut off of well over \$100,000 is possible if a student is attending a high priced college, has few family assets, or another child in college.

studies. There is also a skewed distribution of federal aid funds which gradually discourage the disadvantaged students encouraging the middle and high income groups (Mumper & Ark, 1991). Thus the low income students are discouraged to participate in HE.

In U.S. the students prefer the Conventional loan method because they find it more easy and convenient method of deferrment and relief to them for refinancing in case of financial hardships like unemployment, seekness etc. It is found more flexible and manageable in comparison to ICL method (Johnstone, 2004). The ICL method of student financing is more complicated and lack convenience due to its association with income tax and insurance authority. ICL scheme is also not helpful to the low earners.

4.4.2 The Scandinavian countries- All the countries in Scandinavia provide direct subsidies to the institutions of HE, which cover all or the major part of their capital or current expenditure, so that fees are either very low or non-existent. In addition, the governments provide direct financial aid to the students in the form of grants and loans to cover living expenses, as well as indirect aid in the form of subsidies for such welfare services as housing, travel, and health facilities. The actual form of aid to students varies between the countries, but some combination of outright grants or scholarships and repayable loans is a feature common to Denmark, Norway, Sweden, and Finland. There is the tendency to provide identical or similar types and levels of financial aid for students in different types of institutions. The student aid schemes rarely distinguish between university students and those attending technical, agricultural or teacher training colleges, and use the age of the student or the length of the course as the criterion for determining the level of aid rather the type of the institution he attends. Democratization of HE is also the major objective of such countries like the others. Efficiency and social equality in education (all those who have potential and needy) rather economic benefits (increasing demand of education) are the important factors determining the loan schemes in such countries. As pointed out by Woodhall, projections of student numbers, and provision of HE facilities have been based on a “social demand” approach to educational planning, rather than explicit manpower and cost-benefit considerations (Woodhall, p.54, 1970). Later on, some changes are made due to the rapid expansion of HE and reforms recommended by various government established committees during 1960’s. Means

tested financing is ignored in such countries because students are considered as financially independent and they do not depend upon their parent's income. It distinguished the countries in terms of aid to the students.<sup>16</sup>

In Denmark, the level of grants and loans provided to the students is based on observed differences in the cost of living in different regions. The Dansk Studiefond (Danish study fund) set up in 1913, is a charitable foundation providing small number of loans to the underprivileged students who have the talent. Later on, the government introduced its own system which operated with 50% grant and 50% interest free loan basis. Those students engaged in short vocational courses leading to low income are given more grants than loans and all the students are required to repay the half of the total study aid. In 1964, a system of government guarantees for loans from private banks was introduced for those students who fail to qualify for government subsidized loans. Even if, they qualify, they can take additional money from the banks. To be eligible to take loans, the students must demonstrate their capability to pursue further studies and their need of finance. Even they have to show their spouse's income while filling the forms.

The Norwegian government provide special scholarships or larger than average loans where the private cost of education is higher than average. Such cost equalization initiative is the major objective of loan schemes in Norway rather giving special provisions for the underprivileged. A special government committee on student aid in 1967 recommended for a special grant for the students living away from home irrespective of their parental income because they have to face greater expenses than those living at home.<sup>17</sup> There are no instances of special grants in the Scandinavian countries except the special aid to the medical students in Norway. Those underprivileged students in secondary schools are given means-tested grants and those who are outside the country (or studying in some other Nordic county) are given Nordic scholarships. Low interest loans operate over there. The student's academic performance and progress in the continuing course of study is also taken into account yearly wise before sanctioning loans each year. The parental income level has a limit to be eligible to take loans.

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<sup>16</sup> All the information on the student loans in Scandinavian countries are collected from Woodhall's work in 1970.

<sup>17</sup> But such a method may encourage economic inequality further because those that are already well off add to their affluence due to the special grants provided by the government.

In Sweden, the objective of the student aid is to improve access of HE and the living conditions of the students. The total amount of aid available to the students is calculated on the basis of a “base amount” which acts as a social security linked with the cost-of living index. Part of the student aid is in the form of grants and the rest are in terms of loans to be repaid in terms of constant purchasing power. With the increment in the cost-of living index the grants amount declines. The students are provided interest free loans which have to be paid by the government. There is an insurance element in Swedish education loan system which ensures that a graduate whose income falls below a stipulated income is excused automatically from repayment for that year.

In case of Finland, there is the Ministry of Education which provides grants to the students and the University of Helsinki operate a loan fund to provide loans to the students in all the institutions of HE. Certain new reforms have brought more grants to the students from low income background but with ability. And the commercial banks provide loans at low rate of interest under government guarantees. The students are given a fixed amount of grants that are above average in their academic performance. Students who receive a state grant have the opportunity to show their brilliance in the final examination and all the loans are converted to grants.

4.4.3 European countries- like the other countries the European countries also work out loan programmes to help the needy students encouraging equality of opportunity. Most of the countries in Europe subsidize the HE heavily and make use of both the grants and loans to finance HE except UK, where students receive only grants, there is no provision of loans. Both the public and private institutions are heavily subsidized, particularly in Netherlands, France and Germany. There are no fees for HE in Sweden and Germany. In France a certain minimum registration fee is charged and in Netherlands it is very low. The parents are eligible for tax relief and family allowances while their children are in full time education and the loans are means tested except in Sweden.

Besides, the above mentioned facilities along with the student loans, France government provides additional subsidies to the students such as low cost accommodations, travel expenses, free medical care etc. <sup>18</sup> and student loans and

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<sup>18</sup> The study carried out by Blaug and Woodhall (1978) found that among all the European countries France is an exception which provides subsidies in the form of low cost housing and meals for the students, family

scholarships occupy a very small proportion of total aid, e.g., only 15 percent of students benefit from such aid (Blaug & Woodhall, 1978).<sup>19</sup>

4.4.4 Colombia- It has a well developed student credit system due to the institutionalization of the system through ICETEX (instituto colombiano de credito y estudios tecnicos en el exterior).<sup>20</sup> There are some private credit and banking systems that fill the remaining requirements of credit for HE. Franco (1991), in his study from the Colombian education credit system suggested, that though there are enough credit facilities in Colombia but it should be widespread so that those who have the potential but are not able to get much out of it, be subsidized so that the credits do not become a burden for the low income families.

4.4.5 Australia- It is the world's first broad based adopter of ICL scheme. Its programme is popularly known as Higher Education Contribution Scheme (HECS), started in 1989. With well developed tax collecting mechanism the administrative costs are quite low i.e. around 3 percent and it has provided greater returns to the government; further it has increased accessibility to HE for all the sections of the society and thus the enrolments in Australia has increased more than 50 percent since the introduction of HECS (Johnes & Johnes, 2004).

4.4.6 Hong Kong- This country has taken greater initiative towards financing HE with the help of all the sources but particularly through education loans. It is argued, that an increment in fees is justified only when there is greater cost recovery from the students by providing them proper loan facilities and it will improve equity in HE because those students who will earn more in the later life finance for their own education not using the resources of general tax payer (Bray, 1991).<sup>21</sup>

Thus from the above analysis it is quite clear, that how student loan is becoming popular day by day and it is increasing its significance as an alternative source of financing HE. But the equity concerns are there which can be overcome by selective

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allowances for their parents, pre-employment contracts to certain students who intend to become teachers or public servants with the objective of providing occupations in the areas where there is shortage of manpower (rather assisting the low income groups).

<sup>19</sup> Such fact reveals that the pattern of aid in France favours the high income groups.

<sup>20</sup> Some 60000 professionals benefited out of the scheme starting from 1952 till 1989 and the private credit and banking system added 10000 to it (Franco, p.175, 1991).

<sup>21</sup> But it may act as a disincentive for the students from low income families who aspire for higher income to enjoy their later life.



subsidies to the students from the underprivileged family as argued by many. How much practicable the student loan schemes in India can be analyzed with the help of primary information in the following chapter.

**CHAPTER 5**

**EDUCATION LOAN IN INDIA AND THE EQUITY  
ASPECT**

## **Education Loan in India and the Equity Aspect**

Looking at the rising costs of higher education and the limitations in government financing of higher education, India, like other developed countries and the developing countries has turned its face towards sharing of such costs of HE with the students or their parents. Various government policies and programmes have stressed upon the education loans as an alternative method of financing HE. The major objective of student loan is to ensure that no able student is prevented to pursue HE due to financial difficulties. From time to time the government is providing its guidelines to the financial institutions (or commercial banks) to provide loans liberally to all the students irrespective of their socio-economic status and their course of study. This chapter deals with the objectives of loan facilities, the loan schemes of various commercial banks (both public sector and private sector banks) in India and their attitudes towards the students of the different sections of the society, regions, area of study. All these facts are substantiated with some empirical evidences. The chapter also deals with the attitude of the students towards education loans and the variability of the loan amount sanctioned to the students who finance their education through loans partly or wholly. Certain statistical analysis of the findings is worked out. Further a brief comparison is made between the national capital Delhi and state capital of one of the poorest states.

### **A. Objectives of Education loans And Government Policies**

An education loan in India is viewed from the angle of meeting the financial constraints of the government. The talented but economically unsound students who desire for higher studies to meet the obligations of their parents personally or meeting the society's need for a high level of cultural and educational achievement ideologically are given an opportunity to finance their education via loans.

From an egalitarian point of view, a democratic society like India has always demanded for an equitable access HE. All the sections of the society should get equal opportunities in higher education to empower themselves economically and socially. Various needy students are provided financial assistance in terms of loans to meet the increasing costs of HE in different universities and private institutes in India and abroad.

Following the path of the other countries the requirement of education loans as an alternative source of financing HE has been realized. Its importance has been greatly realized in 1990's. The K. Punnaya Committee Report on central universities (UGC, 1993) and D. Swaminathan Committee Report (AICTE, 1994) have outlined various methods of mobilizing resources for HE among which, the raising of fee levels in HE, offering self-financing courses and revitalization of student loans took important place. Following the recommendations, education loan schemes started operating vigorously in various public and private sector banks. But these loan schemes operated on commercial basis without any concern for the background of the students whether academic or socio-economic.

The Ambani-Birla Committee (GOI, 2000) suggested user pay principles in HE and support for the economically and socially backward sections of the society through education loans and grants.

The UGC Committee for the promotion of Indian HE abroad (PIHEAD) also emphasized on education loans to uplift the underprivileged students. The Mysore Statement (AIU, 2001) stressed upon the emerging benefits of internationalization of HE. It thus recommended for the establishment of a financing mechanism for international education which will provide loans to Indian students going abroad and foreign students coming to India.

The Tenth Plan agenda for the 21<sup>st</sup> Century has also stressed upon the need to attract the bright students from disadvantaged sections of the society to the mainstream of HE and it could be possible through financial support particularly education loans with a sustainable increase in fee structure without burdening the poor.

The Mid-term Appraisal (MTA) document of the Tenth Plan has also pointed out the need for a substantial increment of university fees to make the university globally competitive combined with effective scholarship for deserving students and loan programmes by the public sector banks.

## **B. The Current Student Loan Schemes in India**

Matching the Government's emphasis on universalization of primary education and self-financing of HE, various public and private commercial banks particularly the

public sector banks have taken the responsibility to make the funds available to those who want to go beyond school.

Though education loans are just about 3% of the total retail advances in the country today, the offtake has been growing rapidly in the last few years, as per the banking sources (the New Indian Express, p.13, 2005). With the increment in finance seekers for education day by day in various professional courses, there is also an increment in the provision of education loans due to competition among the banks. The awareness about the availability of bank loans is reaching the masses particularly in the urban and the semi-urban areas through the advertisements of the banks via print media, television, and banks personal initiatives like counselling on the spot of admission etc. Thus the demand for education loans is increasing day by day. The government policy guidelines to the banks emphasize upon the availability of education loans to the low income groups. Thus student loan is growing each year.

### **5.1 The form of loan :**

The kind of loan available in India for education is of conventional or mortgage type, i.e., the loan carries a rate of interest expressed as an annual percentage of the amount borrowed and there is a repayment period within which the borrower has to repay the loan and there is a repayment mode which indicates that with small or large installments the total loan amount is to be paid back.

A term loan is granted to meritorious Indian nationals to pursue HE in India and abroad after getting admission in a certain university or institute under different conditions which may vary from bank to bank. The loan is sanctioned to the student after checking the required documents by the concerned bank from which loan is desired. The loan amount is sent to the institute of study in terms of cheque or draft in which the student has taken admission. The cheque / draft is not sent at a time to the institute but sent from time to time according to the fee structure of the institute and their semester or year wise readmission or reregistration schedule. Looking at the class performance of the student, if he/she fails in any one semester, then loan may be stopped if not requested.

## 5.2 Eligibility criteria:

The eligibility criteria to get loans for higher studies is more or less same for all the banks with minute differences.<sup>1</sup>

5.2.1 Merit, Programme of studies, and The Universities :- All those meritorious indian students who intend to pursue professional or technical courses in a recognised university/institute in India or abroad are eligible to avail themselves of the loan facilities.

A consistent career of the student is given prior importance. Because, it is usually found that a student without a good academic record is not allowed to sit in the campus undertaken by the institute (in which the student is pursuing education) for the students selection in different profession after the completion of the course . If the student is not able to get a job after the completion of the course he/she may not be eligible to repay the loan sanctioned to him/her. It may affect the banks financial position. All those programmes which have job guarantee are getting education loans in general. Professional courses like MBA, MCA, medical, engineering, teachers training etc. are eligible to borrow loans easily from the banks because they have employment prospects. Thus students pursuing these kind of courses with assured job prospects will be able to pay back the loans. Therefore, the non-professional or general streams (like Humanities and Social Sciences) students though are meritorious and needy are not able to take loans in the absence of a job guarantee.<sup>2</sup>

Only those students who intend to pursue higher studies in institutes/universities recognised by government and government bodies like All India Council for Technical Education (AICTE), University Grants Commission (UGC), Medical Council of India (MCI), etc. are eligible to take loans. No On-line education student is eligible though the distance education students are eligible if they fulfil the above mentioned criterion.

5.2.2 Foreign Universities:- There are certain foreign universities like Oxford, Cambridge, Harvard which are popular enough with respect to their job securities. Those

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<sup>1</sup> Please refer the table -I in the Appendix for details on eligibility criteria.

<sup>2</sup> It is evident from the table-I in the Appendix that though the official brochures of certain banks such as state bank of India, Allahabad bank, Canara bank, Punjab national bank, Idbi bank limited show the availability of loans to social science and natural science courses, it is not happening in reality. The table 4 & 5 reveal this.

Indian students who study in these widely known universities are eligible to borrow from Indian banks. And those students who pursue education in certain unreputed foreign universities are not eligible on account of low credibility or poor job prospects. Their certificates are not recognised by the Government of India. The banks do not give loans to such students due to uncertainty in their future activities. Even those students who pursue education in any franchised university or branches of those unrecognised foreign universities are not eligible for loans because they take admission in such universities without any selection process based on merit and competition but through financial capabilities.

5.2.3 The income security:- Government banks look upon the security or the income of the parents as an eligibility criterion for loan if the student is pursuing education in any recognised university with partial job guarantee.

The banks in general look upon two more important criteria while lending education loans of larger amount (i.e. more than Rs. one lakh). They are, (a) the income stream of the student after the completion of the course, (b) the stability of income stream i.e., the stability of the company / institute in which the student intends to get after the completion of the course in terms of its popularity, growth and capital. Repayment of loans depends on the future income streams of the student.

5.2.4 Loans for the rich :- The very rich students do not desire loans in general. But, even if they desire they are not provided in certain instances. They get admission into various technical/ management institute on management quota.<sup>3</sup> Such students do not have job guarantee due to poor academic record.

5.2.5 Regional loan :- The students who intend to take loan generally prefer banks in the proximity to their native place. For example, students staying in the hostel away from home can not avail the loan from the bank nearer to the institute where they are studying.

5.2.6 Other criterion:- Age and property, apart from all the above mentioned common eligibility criterion for all the banks there are certain other criterion which are desired by

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<sup>3</sup> 75% of seats in any management institute are on merit basis and 25% is reserved for the students who have money to finance but could not compete with the other students due to poor standards.

certain banks officially in brochures and even if desired but not mentioned by certain banks.

For Punjab National Bank (a public sector bank) a student to be eligible for loans should be, apart from the common criteria must be between the age group of 16 -30 years and the aggregate income of parents/ guardian should not exceed three lakhs per annum (p.a.). For Dena Bank and Union Bank Of India, the age group should be 15-25 years. For United Bank the minimum age of the students applying for loan should be 18 or above. In the Birla Global Finance limited (a private sector bank) the parents of the students desiring loan should be a professionals or salarised, trader or engaged in business, own firm or company in existence for at least two years.<sup>4</sup> The IDBI Bank desire the age of the applicant for loan to be within 30 years for education in Indian universities and 35 years for education abroad. The age of the parents/guardian need to be below 55 years in addition. Bank of India requires 18-30 years age limit for education loan for post graduate courses and 15-28 years for vocational and job oriented courses.

5.2.7 Special provisions:- Though Constitutionally certain categories of Indian nationals such as schedule castes (SC), schedule tribes (ST), and women students enjoy certain special provisions in HE,<sup>5</sup> but while giving loans such a criterion is not considered by almost all the banks except few.

So far as age is concerned, the Central Bank of India relaxes two years for SC and ST in comparison to the general category students as mentioned in the brochures of the bank. Similarly the academic performance is reduced to 50% in comparison to 60% required for the general category students. For Dena Bank, the passing mark is enough for the SC/ST students to make them eligible for education loans. UCO Bank requires the age of the SC & ST students to be 18-30 years in comparison to 18-25 years for the general category students in vocational training/ job oriented diploma and graduate courses. For Post Graduate and Research the age limit is 21-33 years (for general category students it is 21-28 years).

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<sup>4</sup> Please refer the table-1 in the Appendix.

<sup>5</sup> 33% seats are reserved for women students in engineering colleges.



5.2.8 Security demanded: - A student to be eligible to borrow loans for education from the banks must along with the above mentioned criteria should be able to show certain security in case demanded by the banks. This security is demanded to avoid the risk and uncertainty involved in lending money to the student.<sup>6</sup> Generally, for a certain amount of loan the banks do not demand any kind of security from the students. Banks such as Allahabad Bank, Andhra Bank, Bank of Baroda, State Bank of India, Union Bank of India, Central bank of India, Corporation Bank, Dena Bank do not insist on any security up to Rupees four lakh of loans for studies in India. They only require the parents/guardian as the co-applicant/ co-borrower with the student and compulsory Life Insurance Policy (LIC) of the student. But above Rupees four Lakh the banks demand collateral security of suitable value or full value of the loan amount or co-obligation of parents/guardian/third party guarantee only with assignment of future income of the student for the payment of installments. The security could be in the form of land, property, LIC policies etc. Some banks demand collateral security equivalent to the loan amount in the form of National Savings Certificates (NSC), Bonds, Shares, Property, Gold, etc. For certain banks such as Bank of India and IDBI Bank Limited the collateral security demanded is 150% of the loan amount. For UTI Bank, there are certain other conditions of eligibility along with the collateral security such as, the parents of the student desiring loan are (if father or mother or both) in government service should have minimum salary of Rs.75,00 per month and for others it should be Rs.10,000 per month. For self-employed persons the income should be Rs.2, 00,000 annually.

For loans above Rs.7.5 Lakhs, tangible collateral security of suitable value of loan is demanded with third party guarantee. For loans above Rs.15 Lakh tangible collateral security of full value of loan is demanded.

Under the State Bank of India Scholar Scheme<sup>7</sup>, applicants for loans are not required to give any security, collateral guarantee, and co-borrower. They are even eligible for a second education loan which is not possible in general case.

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<sup>6</sup> For a complete view on security please refer the Table-2 in the Appendix.

<sup>7</sup> This is the scheme undertaken by State Bank of India, a public sector bank which provides special facilities for scholars. According to the scheme these scholars are those who study in the country's best Engineering colleges, elite Medical colleges, and top B-schools like IIT, IIM, AIIMS, XIMB, JIPMER etc.

5.2.9 Documents required: - An agreement with the student, proof of identity, age and residence, parent's income proof, income tax returns, electricity bill, phone bill, last 3-6 months bank account statement, resume of the student, mark sheet of the last qualifying exam, proof of admission, scholarship, studentship etc., schedule of expenses of the specified course, brief statement of assets and liability of the co-borrower are, the common documents required by the banks while lending education loans.

5.2.10 Processing charges: - Some commercial banks who provide education loans charge certain amount of money for the processing of the applications and documentation.<sup>8</sup> The IDBI Bank Limited demand Rs.1000 and other charges while sanctioning educational loan. Further its processing fee is Rs.500 per year till the loan is repaid completely. The Punjab and Sind Bank charge Rs.5000 for the provision of loan and Rs.250 for documentation. The UCO Bank charge 15% of the loan amount as the processing fee for loans up to Rs.4 Lakhs.

### **5.3 The amount of loan.**

The total amount of loan that is to be sanctioned to the students after fulfilling all the eligibility criteria is not determined by the students or their parents rather than by the banks. It is determined on the basis of two important aspects. First, the loan amount should cover a reasonable proportion of the average living expenses of the student and second, they should be able to finance a minimum proportion of their study expenses so that they need not borrow a larger amount and face the consequences of unnecessary debt in future.

The banks even look upon the repaying capacity of a student in future while lending. His/her expected salary and parent's assets and liabilities matters a lot. If the parents are already under debt, or, they have taken loan for any other child then they can't avail loan for this child.

Whatever amount of loan asked by the student is not always provided by the bank. Rather, the bank looks upon the repaying capacity of the student in future or his/her parents. The banks do not want to take risk in this matter as it may affect their financial position. The banks operate on a commercial motive.

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<sup>8</sup> For details please refer the Table-3 in the Appendix.

It is basically the length of the course, the region of study, and the fee structure of the institute of study (i.e. the costs of the course, books, equipments etc.) which determines the amount of loan to be sanctioned.

The majority of banks (the public sector banks) sanction up to Rs.7.5 lakh for studies in India. The private sector banks that are not much active in the line of education loan provide loans up to Rs.5 lakh. For studies abroad, loan amount may be up to Rs.15-20 lakh (the public sector banks).<sup>9</sup>

That part of study expenses which are not covered by the loan amount is paid by the parents themselves. These expenses come under the margin requirements of the banks concerned. This margin money is not required by certain banks. And some who desire may vary from 5%- 25% depending upon the banks own policy requirements, the job profile of the applicant and parent's paying capacity. The Dena Bank waives the margin completely for the SC & ST students. It bears their total study expenses. Under certain special circumstances the poor students need not meet the margin requirements.<sup>10</sup>

#### **5.4 Repayment of Study Loans.**

As it is already mentioned, the loan disbursed to the students carries specific repayment tenure, mode of repayment, and certain rate of interest. All these factors are determined by the banks according to their policy variables and the guidelines of the Reserve Bank of India.<sup>11</sup>

5.4.1 Rate of Interest: - A student who borrows money from a commercial bank to finance his education must repay not only the amount borrowed (i.e. the principal amount) but also the rate of interest charged on the total amount of loan. The interest rate is calculated on the basis of the duration of loan sanctioned, the risk and uncertainty associated with the repayment of loan, and the expected changes in the value of money.<sup>12</sup> Because of the difficulties of the students providing sufficient security for the loan amount, the duration of the repayment period, and the risk involved in lending money to students with uncertain future income loan to students from commercial banks normally

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<sup>9</sup> For detail information please look on the Table-3 in the Appendix.

<sup>10</sup> For more ideas on variation in margin requirements please refer the Table-3 in the Appendix.

<sup>11</sup> Reserved Bank of India is the central bank of the Government of India which regulates the banking system in the country according to the guidelines of the Government.

<sup>12</sup> Some banks include in the interest charges their advertising and marketing expenses.

carry high rate of interest. It compensates the lenders (the banks) for risks and uncertainties.

There is a positive correlation between the loan amount and the rate of interest.<sup>13</sup> Both the supply and demand factors determine the rate of interest. From the supply side, higher is the loan amount higher will be the rate of interest charged by the banks in view of the high risks. From demand side perspective loan amounts applied for would vary negatively with rate of interest because higher rate of interest raises the cost of borrowing and therefore, it becomes more burdensome for the applicants. As discussed later, regression exercise carried out based on survey results indicate loan amount varies negatively with rate of interest. Overall, because of the observed negative relationship, demand side factors dominate.

Almost all the banks charge 10%-13% of rate of interest for studies in India if the loan amount is within rupees four lakh and for loans above four lakh it may vary between 12%-15% depending upon the loan amount. But there are certain banks who charge a very high rate of interest for a certain amount of loan. For example, for studies in India, the Birla Global Finance Limited (a private sector bank) charges 18.50% and 19% of rate of interest for loans up to two lakh and more than two lakh respectively. Similarly, for studies in India, the IDBI Bank and HDFC Bank Limited charge 16% and 21% rate of interest respectively for loans up to five lakh.

The rate of interest is simple during the study period. After the completion of the course if, the interest rate is not serviced by time then, it is compounded every year. Even a penal interest rate of 2% is charged on overdue amount if the loan exceeds two lakh (e.g. Bank of Baroda). The accrued interest rate during the repayment holiday period is added to the principal. All the banks give an interest rate concession of 1% if, the interest rate is serviced during the study period.

There are no special provisions for poor, SC, ST, or girl student. However, on the recommendations of the general manager of the bank based on the request of the applicant it can be reduced by 1%. The Union Bank of India waives the rate of interest payment for the toppers in any entrance examination. There are concessions in the rate of interest for students whose parents are bank employees.

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<sup>13</sup> For a detail idea on rate of interest please refer Table-3 in the Appendix.

5.4.2 Period of repayment: - The repayment tenure in all Indian banks is fixed unlike the other countries where income contingent loan system is in operation. The period commences one year after completion of the course or six months after getting a job whichever is earlier. The repayment tenure may vary from four years to seven years depending upon the amount of loan sanctioned, repaying capacity of the student, and the banks' own policy guidelines.<sup>14</sup> The repaying capacity of the student is judged on the basis of the expected income of the student, i.e., the stream of income he/she expects to receive after the completion of the course.<sup>15</sup>

Besides, the banks provide certain repayment holiday/moratorium period to the student borrower which may vary from 2 months- 2 years depending on the loan amount sanctioned and the job prospects of the student.<sup>16</sup> The repayment holiday begins from the day of sanctioning loan till the completion of the duration of sanctioning of loan determined by the banks or till getting a job, whichever is earlier.

Some banks do not provide any repayment holiday after the completion of the course such as Birla Global Finance Limited, IDBI Bank Limited.

5.4.3 Levels of installments: - The levels of installments are calculated taking into account the students own convenience which in turn is determined by his/her own financial circumstances and the size of the loan. The banks fix the installments which is usually equal for all months (Equated Monthly Installments or EMI). The loaner can have flexible installments if he/she is working in any stable company (judged in terms of its profits and total amount of capital invested)<sup>17</sup>. The intention of the loaner is also taken into account while providing access to easy installments and repayments. It is completely a matter of morality and ethics.

5.4.4 Provisions for non-repayment: - There are provisions of postponement of repayment and complete waiving of loans under the following circumstances. First, due to financial difficulties the student may not be able to repay the loans. It may, so happen that after the completion of the course the student remains unemployed, or he/she has

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<sup>14</sup> The variations in the years of repayment among the banks can be judged from the Table-3 in the Appendix.

<sup>15</sup> The expected income is a speculation of the future income usually fetched by the students in a country or abroad (whatever the case may be) after the completion of a particular course.

<sup>16</sup> The variations in repayment holiday are evident from the Table-3 in the Appendix.

<sup>17</sup> The loaner while on the job is provided the benefits of tax rebates when he starts paying back the loans.

unusually heavy financial commitments for his/her family. In these situations, the loan repayments in a particular year may be reduced or waived entirely but, only after giving a special application to the loan authority.

Secondly, the women student is not excused from loan if, she gets married during the study period (and leaves the institute) or after the completion of the course or after doing a job for some months (and resigns from service). She can apply to the loan authority for the postponement of repayment which is to be borne by her parents or ultimately by her husband. Such instance of negative dowry restricts the female students to take loan from the banks for their higher studies.

Thirdly, the repayment of study loans may be deferred indefinitely, or waived entirely in case of severe illness or death of the student who permanently loses his ability to repay. The loan of the student is written off from the banks record. If the loan amount is high enough some banks ask for repayment to the parents of the deceased. But such instances are rarely found.

Fourthly, if the institute of study where the student is pursuing his education suddenly stops functioning due to certain unexpected happenings (like financial difficulties) then the loan of the student may be written off from the record looking upon the repaying capacity of his parents/ guardian.

Finally, there is no excuse for the students who default the loan amount sanctioned to them. There are 5%-20% defaulters each year which may vary from bank to bank. The major reason of default is due to the lack of communication of the bank with the company/ institute or else where the student work after the completion of the course for which the loan had taken. If the student gets job abroad, the problem aggravated more. The bank fails to keep track of the student.

The majority of the students who fail to honour the commitment to repay loan are the well to do families; according to the banking authority. The middle class students rarely default and the case of economically challenged students is very few. This is basically a matter of morality and ethics. In rare circumstances, if the student defaults despite owning enough property, the final recourse for such an act is to approach the civil courts.

### C. Consequences of Loan Schemes on Equity.

#### 5.5 Empirical findings from the Banks

To find out the role of education loans towards equality in HE, certain data is collected from the banks' unpublished sources by means of a direct personal interview with the bank's manager.<sup>18</sup> The data pertains to the following factors. They are, the total amount of loan sanctioned from the bank in that particular region in the year 2004 and 2005, the number of male and female students who have taken loans, the number of General category students and SC and ST students among them, the various streams of study for which loan is sanctioned, and the variation among the students who have taken loans in terms of their parents income. The data reveals the facts about equality in the provision of loan for different sections of the society based on their stream of study, gender, social status and economic status. The region wise variation is also evident from the data on education loans.<sup>19</sup>

**Table: A**

**Loan amounts: variation due to discipline (in Rupees Lakh)**

	<b>Engineering</b>	<b>Management</b>	<b>Others</b>
Mean	1.92	4.41	1.50
max	3.00	15.00	2.00
min	1.00	0.50	1.00
standard dev	0.62	4.88	0.71
No. of Observations	12	8	2

Note: the calculations are to compare the difference between bank A and bank B in terms of streams of education and the loan amount sanctioned to the management students is higher.

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<sup>18</sup> The name of the banks from which the data are collected will remain confidential according to the bank manager's request. Thus the banks from which the data are collected are named as Bank-A, Bank-B, Bank-C etc.

<sup>19</sup> The regional variation is shown by making a comparison between the data from India's National Capital Delhi and India's poorest state Orissa's capital Bhubaneswar.

**Table: B**  
**Loan Amounts: Variation due to Parent's Occupation (in Rupees Lakh)**

	Government job		Private job & property	
	Bank A	Bank B	Bank A	Bank B
Mean	2.56	1.64	2.85	0.75
max	4.00	2.50	4.00	1.00
min	2.00	1.00	2.25	0.50
standard dev	0.90	0.77	0.70	0.35
No. of Observations	8	3	5	2

Note: There is one student who obtained Rs 15 Lakh for studying abroad who has not been considered. Cultivators and pensioners who have very small size of sample for which no clear pattern emerges & thus are excluded from calculations

**Table: C**  
**Loan amounts: variation due to parent's income (in Rupees Lakh)**

The income Groups (in Rupees)	5000-1000	10100-20000	20100 & onwards
Mean	2.08	1.70	6.25
max	3.00	4.00	15.00
min	1.40	0.50	2.00
standard dev	0.58	1.15	5.91
No. of Observations	6	10	6

Note: the calculations are to find out variations between two banks in sanctioning loans due to parent's income.

The table C shows that, higher is the income amount higher will be the loan amount sanctioned. Since loan amount is also linked to fee structures despite a fall in parent's income, loan amounts could not fall. Max can go up to Rupees 15 lakh. Standard deviation is also high i.e., higher income empowers the students. High income lead to high loan amount due to higher credibility.



**Table-8**

**BANK-C: (Data of the whole Capital on gender, specialization, category, and loan amount, father's occupation & income from the Regional office of the Bank C)**

Year	Total accounts	Gender		Specialization						Category			Income groups		
		M	F	Eng	Med	Mgt	MCA*	H & S	NS	G	SC	ST	Rs.50000-100000	Rs.101000-200000	Rs.201000 & onwar
2005	288	208	80	257	10	6	15	0	0	268	9	11	25	160	100
2004	189	134	55	169	8	2	10	0	0	171	10	8	18	116	55

Source: Unpublished material of the bank

N.B. The regional office of the bank is the head office which keeps record of the total amount of loan sanctioned by the bank in its different branches in a particular region (i.e. in a state)

\* indicates that 15 & 10 students have taken loans from the entire region for the study in Master in Computer Applications (MCA) for the year 2005 & 2004 respectively.

From the above mentioned empirical data from three different banks we make observations about the preferences of the banks (or of the society indirectly) in terms of different streams of education, gender, social class, and categories of income. The variations can be explained as follows.

5.5.1 Differentiation among different streams of education: - It is evident from the data that all the banks basically prefer the technical and professional courses to lend rather the non-technical courses. In case of India, students pursuing the major technical and professional courses are able to avail the loans such as engineering courses, medical education, management education, and computer education whether for studies in India and abroad. All these are because, they are in demand and have job guarantee. These courses are quite popular among the new generations due to a growing demand for modern technology. Due to an increasing demand these technical skills fetch a handsome salary. Thus banks are ready to provide loans to these technical students without much hesitation.

When all the branches in a region (capital) were taken into account as mentioned in Table-8 the variations among the streams were found in terms of availing education loans. In bank C, out of 288 accounts opened in the bank in the year 2005, 257 were applied by engineering students. Likewise, 169 accounts were of engineering students out of 189 accounts in the year 2004. The medical students were 10 & 8 in number during the year 2005 & 2004 respectively. Total 15 MCA students had availed education loans in 2005 which was 10 in number in 2004. While 6 MBA students were able to get loans from one of the branches of bank C in 2005 (1 student among them got loan for studies abroad) only 2 students were sanctioned loans in the year 2004. Neither a Humanities & Social science student nor a natural science student availed education loan during the above mentioned periods.

Thus, it is quite clear from the above trend in sanctioning education loans in three different banks (Bank A, Bank B, and Bank C)<sup>20</sup> that the technical & professional students crowd the banks for education loans because of their high cost of education, greater demand and job guarantee. It is also found that among all the technical & professional courses, engineering students lead the list of student borrowers followed by management, MCA &, medical students. The proportion of Humanities & Social science students and natural science students are almost the same that could be hardly 0.1% of total loans sanctioned in a bank. Such trend gradually reduces the popularity of non-professional education which enriches knowledge and intellect of a student. Take for example, many of the seats are remaining vacant in different non-professional colleges in Orissa state because the students after their intermediate education choose the professional line to continue their education (because they have diversified job prospects after the entrance of various private companies & Multi-National Companies into the job market) The students are also becoming commercial in this respect and thus the true meaning of education is often lost. Such attitude of students and perhaps the loan sanctioning authority may gradually reduce the number of non-professional graduates.

In a way, therefore, educational loans are therefore empowering the students to take decisions about their own discipline. Market dominated high paying jobs are attracting the students not necessarily the best brains but those who are financially well-

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<sup>20</sup> For the variations in bank A and B see the Appendix.

off. Certain core courses which should attract the best brains are attracting those who would have preferred loan if they could.

5.5.2 Differentiation in terms of gender: - It is found from the data as collected from different banks that a majority of students who have taken loans for their higher studies are male. The females are less in such technical or non-professional courses like engineering, management etc. There could be different reasons for such observations.

First, the girl students do not come for such courses if the parents do not prefer their daughters doing jobs. Thus they are persuaded to opt for non-professional courses where the need for loan is not felt. It boils down to purposeless education.

Secondly, those girl students who enter higher studies do not avail loans if their parents are well to do in financing their girl's education. This is because; the parents prefer to make them free from the burden of debt if their daughter marries during the course or after it's completion and do not engage her to repay the loan. Thus those parents avail loans for their daughters who want her to pursue professional education (having 100% job guarantee) with the help of loans as they are not able to pay for them. The survey of students also reveals that all those girl students who pursue their education via loans are from well-to-do families. They are ambitious and of high self esteem. They easily get loans for their education because of their higher parental income and the job guarantee of their education.

If some economically challenged parents want to educate their daughter through education loans who have qualified in the competition, they are discriminated against the sanction of loan due to the uncertainty of getting a job (if the course has partial job guarantee) or doing a job (if she marries) and lack of sufficient security.

Thirdly, most of the banks feel insecure to provide loans to girl students because; the student may get married in the due course of education or after the completion of the course. She may not be able to pay back loans in time or default after marriage. Such kind of uncertainty sometimes demand parents/guardian's guarantee to repay the loans in case the student is not able to pay.

Such a fact is reflected from banks data on loan sanctioned to the male and female students.<sup>21</sup> It is shown in the Table-5 that there were 2 female students that are

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<sup>21</sup> See the Appendix for the samples from bank A & B.

taken loans in the year 2005 from bank A in comparison to 9 male students out of total 11 accounts. Similarly only 1 female student had taken loan compared to 3 male students in the previous year out of total 4 accounts. The situation is same for bank B. The Table-7 shows that 1 female student had availed loan in 2005 compared to 3 male students out of total 4 accounts. While in the year 2004 all those students that have taken loans are male. No female student got loan. Though the sample size is small, the dominance of male students is tenable as evident from bank C.

The bank C at regional level reveals that (as shown in Table-8), out of 288 accounts in the year 2005, 80 students are female and the rest (208) students are male. In the previous year also only 55 female students had been sanctioned education loans in comparison to 134 male students.

These above mentioned data give a picture of the usual situation of the banks whether in a small region or a large region (in the capital), their motives and partiality in sanctioning education loans and, the general motive of the society in sending their wards for higher studies in particular, professional courses. In Indian society the males are given preference for higher studies in comparison to the females when the financial constraints come into the forefront. There is a tendency inherited by the people that the male child is the future earner of the family and thus he should be given proper and adequate education. In this context, the female child is considered as a burden upon the parents as she has to marry one day which is an expensive proposition. For this, they think that the education of a female is simply wastage of money. There are very few parents who realize the real worth of educating their daughter either financing on their own or through education loans from banks (for higher studies). These facts are reflected in banks' data on the loan structure.

5.5.3 Differentiation among social classes: - Constitutionally, certain social classes (SC & ST) are enjoying privileges in education. Different policies and programmes have given emphasis for the upliftment of the backward classes in Indian society. Though the government gives directions to the Reserve Bank of India to consider the status of the students those who come from these backward classes in the society while giving loans but RBI is only an advisory body, the commercial banks operate on a commercial basis. They just look upon the bio-data of the student and not their caste. Even all those girl

students that are sanctioned loan are general category students. No backward class girl student has been given loans. This shows that how much underprivileged the backward class students are in general and female students in particular.

The study based on the data collected from the banks reveals, that how the number of the SC and ST students is very few in comparison to the general category students.<sup>22</sup> The technical and professional courses are dominated by the general category students. It further adds to the inequality in terms of social class in the society. The backward classes are not able to reach the higher strata in the society. A small number of students are coming for higher education particularly the professional education in the country. Most of the students from these classes are from poor families who are not able to show the minimum amount of security as demanded by the banks in general. And again they are eliminated from higher education due to their poor conditions or they enter the non-professional education institutions funded by the government where the fees are very less. This further adds to their miseries.

5.5.4 Differentiation on the level of income: - The most significant revelation from the data collected as shown in the tables for different banks is that the loan facilities for the students are not reaching the masses. The economically challenged groups are not able to avail the loans in larger scale. Rather it is the middle or rich income groups that are getting the maximum opportunities from availing of education loans.

The poor parents are often not able to meet the bank's requirements. Due to the lack of enough security, the economically challenged parents are not eligible to take loans for their wards. They do not have land, property, bank balances and, LIC policies to produce before the bank. Any one of the above mentioned documents is required by the bank if, in case, the student fails to pay back loans for certain reasons (e.g. unemployment, accident, death etc.), the parents are held responsible to repay the loan. If, the student who has been selected for higher studies in any professional or technical institution has 100% job guarantee, he/she will be eligible for education loan by the banks. The loan amount covers both the annual course fees and complete living expenses of the student. Otherwise, with partial job guarantee the banks are not ready to provide

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<sup>22</sup> For an idea of the student loans reimbursed by each individual branch please refer the Appendix.

the whole expenditure of the student. Thus a larger share of the loan amount sanctioned to the middle income families followed by the affluent sections of the society.

In bank C, as mentioned in Table-8, there are 25 students from the economically challenged income group in the year 2005 in comparison to 160 and 100 students from the middle and the affluent income group respectively. The bank had sanctioned loans to 18 students from the first group of income in the year 2004. The second and third income groups have 116 and 55 students respectively who have given loans from the bank C during the same period.

These data as mentioned above reveal that how the students from the economically challenged family are comparatively less in number when the students from the middle and affluent income groups are taken into account. A larger share of education loans is acquired by the students from the families whose parent's annual income lies between rupees 101000-200000. Within that range the majority of parent's income is up to rupees 1.7 lakh as shown in table 4 & 6. It is also clear from the table 8 that, as the number of accounts on education loans increases the share of the middle income group increases followed by the affluent group and that of the economically challenged group decreases in average.

Such instances imply that the loan system as an alternative method of financing higher education is not so popular in India if equity aspects in economic, social & educational point of view are taken into account. All the sections of the society are not able to access the loan facilities equally. Such a finding is substantiated with more evidences in the following sections while dealing with the students those who have taken loans. Whether in terms of social class, gender, area of education or economic status, the banks discriminate among the students who apply for education loan for their higher studies. As it is already mentioned before, that the banks provide loans to the students who intend to pursue higher education in the government recognized universities and institutes, it restricts the students from taking loans who are pursuing education in certain private institutions or franchised universities either because of their own interest or their elimination from the recognized institutes due to competition among a large number of students for limited seats in government recognized institutes. After opening the Indian HE sector for competition (due to the internationalization of HE) there will be so many

franchised or off-shore campuses, branches and twinning programmes. Since, they are not eligible for education loans under the present policy of the bank unless they are reputed and well known institutes/ universities. Thus education loans are not equally available for all the sections of the society.

The differentiation in the total amount of loans sanctioned to different sections of the society by the leading bank of India on education loans (the State Bank of India) is analyzed in two states of India such as, Delhi and Orissa. While Delhi is one of the affluent states, Orissa is one of the poorest states of India. The following table shows the scenario.

**Table-9**

**BANK-D: (Data from SBI on Education loan sanctioned in the Year 2005-2006  
March in the states such as Orissa & Delhi)**

Place	Subjects	Orissa		Delhi	
		Number of A/C opened	Loan amount (in crores)	Number of A/C opened	Loan Amount (in crores)
For studies in India	Staff members	N.A. *	N.A.*	941	16
	Public (other than SC/ST)	3140	65	7810	141
	Public (SC/ST)	460	10	430	6
For studies Abroad	Staff members	N.A.	N.A.	323	9
	Public (other than SC/ST)	20	5	1355	43
	Public (SC/ST)	Nil	0	152	2
	Grand Total	3620 (including staff)	80 (including staff)	11011	217

Source: From Bank's Annual Report (for the Year 2006) obtained from the Local Head Office of the bank both in Delhi & Bhubaneswar (the capital of Orissa).

N.B. the \* indicates that the data on the total number of accounts opened for the children of the staff members of the bank and the total amount of loan sanctioned to them is not available separately.

As shown in the above table, there are many variations between the two states in terms of loan amounts sanctioned. Many factors add to such variations. First, there are lots of popular and quality institutions in Delhi (not only in professional courses but also in non-professional courses) and there is a greater demand for HE in Delhi compared to Orissa, and thus the demand for education loans is also high enough. Secondly, the number of affluent class and middle class people is larger in Delhi. They satisfy the conditions of the bank to get loans for higher studies. On the contrary the state of Orissa is the state where around half of the people are below poverty line. So a majority of the population is not eligible to take loans from the banks due to the demand for the collateral securities. Thirdly, there is a high degree of variation in terms of awareness of education loans for higher studies. The greater part of the total number of people in Orissa lives in the rural and semi-urban areas. They hardly know about the provision of education loans due to lack of banking facilities in the interior of the village. In fact, the banks sanction loans to the eligible student from the bank nearer to his native place. Thus despite of the capability of the students in the rural areas they can't go for higher studies either due to ignorance or due to the lack of the banking facilities. The situation is just opposite in case of Delhi. The banking facilities are so sparse that very few in rural Orissa are acquainted with the loan facility for education.<sup>23</sup> It is evident from table 10 that, the loan amount sanctioned to the students is mostly provided by the public sector banks and private sector banks are not forward in case of loans in education. Take for example; while the public sector banks have total 5772 accounts in education loans, their number is only 4 in case of private sector banks. Like wise, while Regional Rural Banks (RRBs) have opened 93 accounts in education loans, the Co-operative banks have no accounts in such area.

Further, it is clear from Table-9, that the number of students who go abroad is quite large in Delhi in comparison to Orissa. While in case of Delhi there are 1830

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<sup>23</sup> To know about the status of loan facilities on education in Orissa by different public & private sector banks please refer the Table-10 in the Appendix.



students those have gone abroad during the period 2005-2006 March, in case of Orissa, they are only 20 in number during the same period. There is also a difference between the SC/ST students and the non-SC/ST students in both the states. While the students belonging to the first category who have taken loans are only 152 in number, the second category is 1355 in number. The situation is worrisome in Orissa as not a single SC/ST student has availed education loan for higher studies abroad from the bank during the year 2005-2006 March. All (20) are non-SC/ST students. Such differentiation at the state level shows the miserable condition of the socially and economically backward sections of the society.

Again it can be said that education loan is contributing to the inequality in the society whether educational, economic, or social. The reasons for such inequitable condition are already mentioned before.

### **5.6 Empirical findings from the students**

After examining thoroughly the various loan schemes by different banks and their similarities in terms of sanctioning loan to different streams of education, regions and different sections of the society with the help of certain empirical findings it is now important to relate them with the findings from the students who have taken loans from these banks.

A questionnaire is prepared with the purpose of getting some information from the students regarding the availability of education loans and the different conditions of the bank before and after giving loans. The impact of the study loans on the promotion of the socio-economic equality in the society is examined and its justification towards an alternative method of financing HE in India is explored. The students who have taken loans and those who have not taken were interviewed (total 75 samples were taken) personally from a technical or professional institute (the Kalinga Institute of Industrial Technology, Bhubaneswar, Orissa) with the help of the questionnaire. Their view on study loans are collected, the difficulties faced by them in financing their education are analysed. The Mean value, Maximum and Minimum of certain variables related to education loans (as mentioned in the questionnaire) are found out and standard deviation

of certain variables is calculated. The following section deals with such facts as mentioned, one by one.

### *The Questions*

The questionnaire included the following important questions. The rationales behind them are as follows.<sup>24</sup>

5.6.1 Name, gender and age: - It included the name of the student that remained optional. The gender of the student was important to know whether there is variability in total female students those who have taken loans in comparison to the male students in the institute surveyed. This factor is also considered while dealing with the banks. The age of the student is included to know about the participation of different age groups in different areas of HE and their eligibility of getting education loans as banks keep the age as a criterion to be eligible to take loan.

5.6.2 Social category: - It is already mentioned, that this is one of the important criteria to determine the social equality in the society. These social categories can not be ignored as they are the part and parcel of Indian society. Along with the social category, their economic status gives some important findings for further research on education loans.

5.6.3 The course of study and specialization: - Since the institute provides education and skills in certain areas like Engineering, MCA, and MBA it was necessary to find different area of studies and their demand for the total amount of education loan. Under an area of study there are different specializations. The variation in the loan amount demanded and sanctioned to different specializations is also considered to find out the trend of loan facilities by the banks in the country to different areas of study.

5.6.4 Your native place: - The native place of the student is required to view the regional variations in terms of the loan facilities or the financial availability, and educational facilities. The findings will show the inability of the students in the rural areas and their lack of awareness of the availability of the loan facilities for HE.

5.6.5 Parent's occupation & monthly income: - The occupation of the parents and their annual income is taken as a criterion to determine the economic status of the student and his/her eligibility to take loan or not as determined by the bank. The information on

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<sup>24</sup> Please refer the Appendix to view the format of the questionnaire.

economic status of the student is used to find the Mean, Max, Min, and Standard deviation between the parent's monthly income and the loan amount sanctioned.

5.6.6 Total number of dependants in the family & do you face any financial difficulties?

The information regarding parent's occupation and income are followed by the total number of dependants in the family including the student. It will help to determine the financial condition of the family and their capability to bear the burden of the dependants considering the parent's monthly income. This also shows the level of economic inequality in the society and the availability of loan facilities to the student who really need it due to financial difficulties.

There may be certain students who do not face any difficulties in financing for their higher studies but still they avail of the loan facilities. This may restrict certain needy students who want financial help to carry on their higher studies (the banks have the policy guidelines to provide education loans to a maximum of 20 students per year).

5.6.7 Name the bank that finances you and the total loan amount sanctioned to you: -

To find out the variability in the total loan amount sanctioned by the different commercial banks in India their name was required along with the amount of loan sanctioned to the students. It also gives an understanding of the variability in the loan amount sanctioned to the students based on their expected salary and parent's monthly income.

5.6.8 The documents demanded from the bank: - To match the words of the bank manager and the brochures of the banks, a question on the documents demanded by the bank from the student was kept in the questionnaire. It can show the true picture of the easy/difficult accessibility of the bank loan by the different sections of the society. The differentiation among various public and private sector banks in this aspect can be obtained.

Following the brochures of the banks the following documents were there to select (as per the demand of the bank), such as, the proof of admission/scholarship/studentship, proof of residence/identity (driving license, phone bill, electricity bill etc.), proof of income, income tax assessment order, schedule of expenses for the specified course, parent's/guardian's bank account statement, brief statement of assets and liabilities, assignment of future income of the student, etc. Some

banks demand such documents or a few of it which may vary from bank to bank. As it is mentioned earlier, these documents determine the eligibility of the student to take loan.

5.6.9 The kind of collateral security deposited: - It is usually from banks point of view that they do not demand any security for the loan up to rupees four lakh. But to find out the real fact on this aspect the information collected from the students. It may so happen that the certain banks require security even for loan amount below rupees four lakh from the student looking upon his/her parent's monthly income or the expected salary of the student or any other risk factor.

5.6.10 The rate of interest & the other fees charged: - The variation in the rate of interest charged from different students for different amount of loan is also considered as a factor to determine the effect of education loan on the different sections of the society. The interest rate as mentioned before varies from person to person depending on the risk factor involved in the loan sanctioned. The happenings in reality can be better judged from the students those who are from different socio-economic class, area of study having different expected earnings in future. Certain other fees if, demanded from the students is also taken as a factor that may add to the principal amount of loan and rate of interest and thus burden the student while repaying.

5.6.11 Do you have job guarantee and how long does one have to wait to get a job in your course? The rationale behind such kinds of questions is to get an idea of the student's expectation of a job and his capability to pay back the loans within the scheduled time of the bank. This will indicate the bank's criteria while giving loan. Since the bank operates under commercial motive, it looks upon the capability of the student to repay the loan after the completion of his course. The answer to such questions will reveal such an attitude of the bank that acts contrary to the common objective of equity.

5.6.12 What is your expected salary and in case it is insufficient, what alternative do you think to repay your loan? These types of questions may reveal the ability of the students to repay the principal loan amount with the rate of interest as demanded by the bank. In case, that amount is not sufficient then, how it can be paid. Otherwise the student will be dragged to indebtedness if he does not have any alternative source. The most important finding out of these questions can be; how the banks look upon the expected income of the student after the completion of the course as it is the student who takes the

responsibility to repay the loan sanctioned to him. In other circumstances if, the student is not able to repay then, “who has to pay” is also an important criteria for the banks while sanctioning loan. Indirectly, it reveals that the banks demand certain security while sanctioning loan otherwise they would not have given loan to a student if he does not have hundred percent job guarantee.

5.6.13 The percentage of your study expenses covered by the loan and what are the items covered? Such kinds of questions are included to find the coverage of the expenses of the student by the loan amount. Variations among the banks will be examined in meeting the expenditure of the student. How it will meet the requirements of the needy student is a matter of concern. Does it varies with the parent’s monthly income or not is also taken into account.

Under the items category the following items are considered that are commonly covered by the loan amount sanctioned to the student. They are fees payable to college/hostel, examination/library/laboratory fees, etc., books/equipments/uniforms, travel expenses, and any other expenses related to education (computer, bike etc.).

### *The findings*

The following observations could be culled out of the questionnaires. Out of the total 74 number of students surveyed 61 students are found to have taken educational loans and rest 13 number of students could pay for their higher studies because of financial help forthcoming from their family members.<sup>25</sup>

As already mentioned, the male students always outnumber the female students in HE, the study also revealed the same. Approximately 60% of the students are male students and rest 40% are female students. Category wise, the general students dominate the professional institutes and 78.37% of students belong to the general category. Only .0004% of students each from SC category and ST category. Similarly, only 4.4% of students are from OBC category and 5.4% of students are from religious minority category.

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<sup>25</sup> For a detail outlook about the data collected in questionnaire please refer the master data sheet given in the Appendix.

So far as the age of the students is concerned the majority of the students in different engineering branches are younger. They are 18-22 years of age group. The maximum numbers of students pursuing management studies are older. They vary between the age group 20-29 years. The majority of students in engineering courses prefer Information Technology, Computer science & Engineering. The next preference comes for the Mechanical Engineering and Electronics & Communication Technology. It shows the current demand of the Information Technology courses. It is already mentioned in the second chapter that how the knowledge economy is gaining acclaim day by day. Its growing popularity is reflected in the choice of streams by the students. 26% of students prefer to specialize in Information Technology and 26% of students also prefer Computer Science & Engineering. 15% of students prefer the Mechanical Engineering and another 15% prefer Electronics & Communication Technology. Rest of the students prefer in equal percentage to specialize on Electrical Engineering and Electronics Engineering. In case of management studies maximum numbers of students opt to specialize in Marketing Management. They constitute 57.69% of the total population. The second preference is for specialization in Marketing & Finance. Their percentage is approximately 27. Rest of the students prefers Human Resource & Marketing Management. The MCA students are lesser in number.

As per the responses to the questionnaires, there is a case of regional disparity among the students who pursue job oriented courses. We have already found that the number of students from rural areas is quite less in number availing them of loan facilities. Similarly higher percentages of students (77%) who opt for loan to finance their education are from urban areas and very few percentages of students (23%) are from rural areas. The majority of students in India who pursue HE is mostly from middle class families. Such a fact is also reflected in the study which reveals that the majority of student's fathers are in government service (31%). They are followed by private servants who are 20.27%. The next number comes of businessman and those who are in bank service each occupying 10.81%. The students whose parents (either father or mother) are in banking service get extra provisions while taking loans. They are charged less rate of interest in comparison to other student borrowers. They need not show all the documents and any security as shown by the others. Very few percentages (2.7% only) of students

that go for higher studies (particularly professional courses) whose fathers are farmers or cultivators. Probably such students prefer general or non-technical education because the fees are comparatively less in such courses. The rest of the student's fathers (14.86%) belong to various other professions. India being a male dominating traditional society the mothers of the majority of student's who pursue HE are housewives. 82.43% mothers are housewives and 17.56% of mothers are working ladies.

It is not the case in India that all those students who face financial difficulties are only given loans. As it is already mentioned that the banks operate on commercial basis. They do not want to take any risk on the money lent because those students who belong to low income families are not able to show sufficient securities to the banks. Thus they are avoided for loans by the banks except when they have job guarantee or excellent academic record. Thus such students are eliminated from HE education particularly, from professional education. Such situation is reflected in the study. Only 9.45% of students who face financial difficulties are financing their education through loans. Whereas those students who do not face any difficulties in financing their education but are still able to get loans for it and their percentage is 20.27% out of the total students. Those students who do not face any financial difficulties but still finance with the help of loans along with family support are 36.48%. 8.6% of student who face financial difficulties finance through bank loans and parental income. The banks do not provide them the complete amount of study expenses due to the uncertain future income and lack of proper security. 12% of students do not take any loans because they are from well-to-do families and do not face any financial difficulties. There are 5.4% of students who face financial difficulties but still they are not availing of loans. They have some other arrangements. They take the help of their relatives or friends or village money lenders.

Certain statistical calculation of the observations derived out of the study is done that shows the variability in the loan amount sanctioned to different sections of population. Tables are made keeping in mind possible factors in determining loan amount

**Table: D**

**Loan amount: Stream wise variations**

	<b>Engineering</b>	<b>Management</b>	<b>MCA</b>
Mean	343494	280450	209250
Max	500000	340000	230000
Min	100000	150000	180000
Std Dev	110474	60796	21030
No. of Observations	36	20	4

**Table: E**

**Loan amount: Parent's income**

<b>Income (in Rupees)</b>	<b>Below 100000</b>	<b>100000-200000</b>	<b>200000-300000</b>	<b>300000 &amp; above</b>
Mean	317571	272861	329333	352450
Max	500000	400000	500000	500000
Min	215000	102000	100000	189000
Std. Dev	94007	92269	134402	86054
No. of Observations	7	23	9	20

Note: Job guarantee also matters while sanctioning loans.

**Table: F**

**Loan amount: Expected salary of the students**

<b>Income (in Rupees)</b>	<b>less than 15000</b>	<b>15000-20000</b>	<b>20000-25000</b>	<b>25000 &amp; above</b>
Mean	306000	299040	338952	306500
Max	400000	400000	500000	400000
Min	212000	180000	100000	115000
Std. Dev	132936	72121	124960	98360
No. of Observations	2	19	21	16

Note: Along with expected salary of the student the loan amount sanctioned depends on the fee structure as well.



The statistical calculations out of the data collected in the questionnaire gives the following results. In terms of discipline the engineering students dominate the loan market in India followed by the management students and then MCA students. The table D reveals the situation. The mean value is the highest in case of engineering students and the standard deviation is also quite high. The variation between the 'max' and 'min' also reflects such variations out of 36 observations. This maximum loan sanctioned to engineering students also shows the demand for engineers in the Indian society.<sup>26</sup> Though fees are almost same for all the professional courses but there is a greater demand for engineering education.

As per the table E the loan amount sanctioned on the basis of parental income shows that the lowest income groups (i.e. less than rupees 1 lakh) are able to get enough loans as the mean value is quite significant. But as it is already mentioned this could be due to the job guarantee attached with the professional education opted by the student and loan to an extent is inflexible as it depends on costs. The mean value goes on increasing with the increase in income as per the income groups. It shows that the more affluent the parents are, the more loan amount they will get. This also reveals the commercial nature of the banks in case of the education loan. The standard deviation is higher for the third income group (i.e. rupees 20000-30000). The wider variations show the link between the loan amounts sanctioned by the banks according to the income of the parents. The observations are highly distributed. The 'max' value is almost same for all the income groups though the 'min' differs.

The table F shows the variations in the amount of the loans sanctioned according to the students expected salary after the completion of the course. Here too the loan amount sanctioned also depends on the course structure and the fees charged for them. The institute studied charge tuition and registration fees of around rupees 60000 annually. Besides, there are hostel lodging charges of rupees 25000 annually. Apart from this, the various mechanical and technical instruments such as computer, two wheelers etc. adds to the total expenses. That may be rupees 1 lakh annually and when made total for the total years of education and training it turns out to be around rupees 4 lakh at the end of the

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<sup>26</sup> Even the female students in India are encouraged to pursue engineering by giving them reservations in various government institutions.

course. The third income group has the significant mean which shows that higher is the income level of the parents higher will be the expected salary of the students.

The regression analysis of the statistical samples collected from the students give the following empirical results that reveal interesting facts that are contradictory to the previous studies on education loans by many.<sup>27</sup> For the analysis it is assumed that, the Loan Amount = f (Expected Salary, Parents' Income, Gender, Region, and Rate of Interest).

The variables taken for the analysis are; loan as the dependent variable and other independent variables such as, C that is a constant, INC indicates the income of the parents, EXSAL is the expected salary of the students, DG is the deviation due to gender, DR is the deviation due to region, and ROR indicates the rate of interest charged by the banks on the loan amount sanctioned.<sup>28</sup>

In case of India, there is a conventional belief of negative gender discrimination. The table 11, regression output shows the result where the loan amount taken is a dependent variable and a function of DG. It is found that the female students who opt for loans for HE are generally from high income families as mean of parental income of female students is higher than that of mean of parental income of male students. Female students are also presumably ambitious, meritorious with high self-esteem. High income of parents makes them eligible for higher loans. The people from low or middle income people do not prefer their daughters to pursue HE due to their ordinary economic conditions and the social obligations (the marriage of the daughter is given priority than their education). The male students generally belong to low income or middle income families. They do not get loans easily as they do not fulfill the requirements of the banks while sanctioning loans. Thus, there is positive gender discrimination for women in HE.

The loan amount sanctioned does not have any relationship with parents' income. It is to be expected as higher parental income raises net worth of the student applying for loan and therefore, raises the possibility of higher amount being sanctioned. On the other hand, high income reduces the need for loans. Since both the factors are in operation, no clearcut unambiguous relationship emerges.

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<sup>27</sup> Please refer the tables of regression analysis given in the Appendix.

<sup>28</sup> See the Appendix for the regression output.

The table-12 shows the results where, the expected salary of the students is a dependent variable which depends positively on the income levels of their parents. All those students who are from high income families expect a higher salary than those students who are from lower income families. And such a result is mainly true for the male students than the female students. The female students satisfy with average salary and earning is not the only objective for them to be highly educated. For them, gaining of social status is an important objective and sometimes, parents send their daughters for higher studies for which they will get highly educated and high earning spouse.

The table-13 shows the loan amount as a dependent variable which varies negatively with rate of interest. Higher is the rate of interest lower will be the demand for loan and vice-versa. Parents always prefer a loan where the rate of interest is low otherwise, they arrange for own/ other sources of financing. In such instances, HE becomes expensive for them. The possibility that the banks charging higher rate of interest for higher amount of loans as risks go up is rather subdued.

Thus the study reveals that in case of India study loan is not a much popular method to finance HE. All the under privileged sections of the society are not able to avail the loan facilities to finance their HE either because of the lack of awareness or because of the difficulties faced by them when they ask for loans in the banks as they are not able to fulfill the terms and conditions of the banks that provide education loan. Besides, the underdeveloped market system in India does not meet the requirements of all the sections of the society and of the people from different regions. The lack of any initiative by the government to provide subsidized loans to the needy students further discourages the situation. To consider the loan method of financing HE as an effective alternative method need further research in such area.

**CHAPTER 6**

**CONCLUSION**

## **Conclusion**

The findings of the current study give a broad picture of the theoretical and practical significance of education loan as an alternative method to finance HE in a democratic society and a developing country like India. The study started with the discussion of the effects of international forces on HE after the initiation of the GATS regime. HE is considered as a tradable service which will provide remarkable gains to the member countries that associate themselves in the exchange of academic programmes, curriculum, students and teachers. The idea is to open up the HE sector to the market forces by releasing it from government intervention. Different Modes of GATS are discussed and their impact on HE are elaborated. The effects of such an internationalization policy of GATS are multiple and diverse and are discussed with the example of certain countries which have adopted the internationalization policy few decades back. But the most significant impact of such policy is its effect on the government financing of HE. Various policies and programmes of the government regarding the financing of HE is a debatable issue before the educationists, economists and academicians.

The study is continued with an elaborate discussion on the financing aspect of HE. The different arguments on the government financing of HE are reflected in the chapter on financing and equity. The private good or quasi-public good argument on HE requires a cut in the public expenditure on HE because, the consumption benefits of an educated individual is very large compared to the societal benefits that will accrue to the other individuals in the society. Simultaneously, the returns expected from HE and the externalities associated with it need a government intervention for greater social welfare. There is the failure of the market due to the presence of asymmetric information in the market for which the government financing is called for to provide information to the individuals on the long term gains of HE. HE being an instrument of social mobility and economic growth it is necessary that the government should take the initiative to provide subsidies to HE for the lower strata of the society otherwise, they will be deprived of HE. Besides meeting the growing demand for HE, public financing is needed for the fulfillment of the required skilled labour force for the country. The presence of market

imperfections hinders Pareto optimality and economic efficiency that could be achieved with public financing of HE.

But such arguments are far more outweighed by certain factors which have become more important after the initiation of the new reform policies of the government particularly in developing countries. The resource constraints of the government in meeting the urgent welfare activities in such countries need an alternative to public financing of HE. Thus, far more importance is given to private investment of education. To improve the access to HE, its quality and efficiency public subsidies to HE is opposed that is reflected with a gradual decline in public expenditure on HE in almost all the countries. The case of India is also discussed separately in the study towards a gradual cut in the public subsidies to HE and the requirement of an alternative to finance HE.

Among all the alternatives of financing HE the growing popularity of loan method of financing in many developed and developing countries is discussed elaborately and the practical significance of loan schemes in India is experimented with the help of the primary information from the students and the banks that give loans to the students. Certain secondary information are made use of for the study. The equity aspect of such loan facilities is analyzed. The following conclusions are drawn from the current study on the education loans.

The kind of loan given and the eligibility criterion of the loan schemes are very much biased towards the well-to-do families in the society. The major finding is that the banks always prefer the students from the middle class or the affluent sections of the society who can provide sufficient securities while taking loans (the banks always avoid the risk of default by the borrowers). There is a greater degree of correlation between the income level of the families and the amount of the loans sanctioned. The mean value of parental income is quite significant for the high income groups in comparison to the low income groups. The banks look at the collateral securities for which a number of students get eliminated from the lower strata of the society. Even if they are talented but lack financial resources they do not get it from the banking source. For which the HE institutions are dominated by the mostly middle class families in Indian society and the second majority is of the affluent sections of the society. Here the number of students from the low income families is quite less.

Second, Indian society being a democratic society there are special Constitutional provisions for the underprivileged sections of the society such as SC, ST, and Women in all the government provided amenities. But since banks work for their own profit they do not consider such sections of the society while giving loans. All are treated equally. Thus such sections of the society are eliminated from higher studies since they are not able to pay the high costs of education as it is in the professional courses. Automatically they opt for the general education or the non-technical education that do not help them to improve their social and economic conditions (as non-technical education generally provide lesser salary) and step up in the ladder of social strata.

Third, there is also a gender variation in Indian society which deprives talented girls, particularly from low income family and middle class family to pursue HE. At first instance, the parents usually do not prefer to send their daughters to HE due to many social stigmas and beliefs. The low income family parents due to lack of funds, prefer to educate their sons rather their daughters. So such girls often manage to reach only up to the secondary level of education. And those few female students who want to pursue HE are not encouraged by the banks always due to the fear of negative dowry. It is quite evident from the study, that how such variations are their both in the educational institutions and in the banks. It is only in such cases that the banks give loans when the girl student is from the middle income or high income families or she has job guarantee after the completion of the course.

Fourth, the future expected income of the student is also a factor determining the amount of loan sanctioned. If the future income is expected to be high enough due to the high market value of the specialized course then the banks do not hesitate even to give a larger amount of loan. Such facts lead to a skewed distribution of the students in a particular course of study (e.g. computer science and engineering or marketing management). Students prefer those subjects that have job guarantee. The Information and Communication Technology has given impetus to the technical education. The demand for general and non-technical education such as arts, science and commerce is discouraged. The traditionally knowledge oriented subjects are losing their charm in Indian education market. Thus the colleges are losing students in general education subjects. This fact is particularly true for the small towns and cities where there is lesser

prospect of any job after the completion of the course. Getting a job has become the major objective of education rather than gaining knowledge. Such biasedness is also reflected in the loan provisions of the banks in the country for education.

Fifth, the participation rate in HE of the students from the rural areas is quite low in comparison to the urban area students. The study reflects such fact. The reason behind this is many. The lack of awareness about the bank loan among the students from rural areas who want to pursue HE but lack funds are eliminated from HE. Second, it is the fact that the income of the parents from rural areas is generally low. Thus they are not able to get loans easily from the banks due to their inability to provide security except when the course that the student wants to pursue has job guarantee.

Sixth, the loan amount provided by the banks does not cover the total expenses of the student during the study period. It covers only the tuition fees, hostel accommodations, travel expenses (not always) and other fees charged in the institution. But the whole living expenses are not covered by the loan amount. It has to be paid by the students. Like some other countries (e.g., Scandinavia etc.) the government of India does not provide any financial aid to those underprivileged students who fail to meet the complete expenses of HE. This has a disincentive effect upon the students from low income families.

Seventh, the rate of interest charged by the banks is high enough that overburden the student while repaying the loan. Thus, in general parents hesitate to take loans for the higher studies of their children because of their low repaying capacity in case the student is unable to pay for it. It discourages the students from low income families to pursue HE. Even if the loan is not paid in time the rate of interest compounded each year i.e. it is added to the initial amount each year. Here, it is quite surprising that the rate of interest is charged on loans for different luxurious goods such as car, house etc. are almost the same or a little less when compared with the rate of interest charged for education loan. There is no difference in interest rate for the investment in physical capital and human capital. No interest subsidy is provided by the government like certain other countries that have very successful education loan system. The Indian government is only an advisory body who give its suggestions to the banks in its policies and programmes to reduce the rate of interest or the other charges to reduce the burden upon the student.



Eighth, as India has a short-term loan system the period of repayment is fixed and it is not variable (except in the case of illness, accident, or unemployment, if application is granted) according to the income level of the borrower like the ICL scheme. The inability of the student in repaying his loan in time due to low paid job or, else, it puts a psychological pressure upon the student. Even such pressure is there always upon the students when they start paying their study expenses out of the loan amounts.

Ninth, those students who go abroad for higher studies are from high-income families and their number is more in affluent cities of India like Delhi. Apart from financial matters the students of this metro city are more aware of their future prospects. They are very aware of the banking facilities on education unlike the students from small cities or towns. This fact is evident from the number of accounts opened and the amount of loan disbursed.

Whether in terms of social class, gender, area of education or economic status, the banks discriminate among the students who apply for education loan for their higher studies. Market dominated high paying jobs are attracting the students not necessarily the best brains but those who are financially well-off. Certain core courses which should attract the best brains are attracting those who would have preferred loan if they could. If some economically challenged parents want to educate their daughter through education loans who have qualified in the competition, they are discriminated against the sanction of loan due to the uncertainty of getting a job (if the course has partial job guarantee) or doing a job (if she marries) and lack of sufficient security. The backward classes are not able to reach the higher strata in the society. A small number of students from underprivileged sections are coming for higher education particularly the professional education in the country. But, they are eliminated from higher education due to their poor economic conditions or they enter the non-professional education institutions funded by the government where the fees are very less. This further adds to their miseries.

The regression analysis of the information collected from students revealed certain valuable results unlike the conventional studies on education loan. The loan amount sanctioned does not have any relationship with parents' income. It is to be expected as higher parental income raises net worth of the student applying for loan and therefore, raises the possibility of higher amount being sanctioned. On the other hand,

high income reduces the need for loans. It is found that the female students who opt for loans for HE are generally from high income families as mean of parental income of female students is higher than that of mean of parental income of male students. Female students are also presumably ambitious, meritorious with high self-esteem. High income of parents makes them eligible for higher loans. The people from low or middle income people do not prefer their daughters to pursue HE, due to their ordinary economic conditions and the social obligations (the marriage of the daughter is given priority than their education). The male students generally belong to low income or middle income families. Further, the expected salary of the students depends positively on the income levels of their parents. All those students who are from high income families expect a higher salary than those students who are from lower income families. And such a result is mainly true for the male students than the female students. The demand for loan and rate of interest vary inversely. Higher is the rate of interest lower will be the demand for loan and vice-versa. Parents always prefer a loan where the rate of interest is low otherwise, they arrange for own/ other sources of financing.

Till today, the loan system of HE in India is not a much encouraging system. The above discussed difficulties associated with the loan system in India have not given much popularity to the system. Besides, the underdeveloped banking and financial system make it practically infeasible to apply the loan method of financing HE. It is not a very good alternative to the public financing of HE in our country. The major objective of any method of financing HE should be first to reach the underprivileged sections of the society. In such a way the country will meet the need of skilled manpower besides being a developed economy. The loan method of financing can be a successful method if, the government, like other successful countries takes the initiative to give some relief in terms of rate of interest to the low income earners of the society. The loan system under operation also needs further explorations in such areas like, the attitudes of the parents towards the study loan, and the attitude of other family members, relatives, associates in the office, the employer etc. who are associated with the parents who have taken loans for the education of their children. Certain study on the psychology of the students (both male and female) will be fruitful in giving certain new findings which are not covered by the present study. Overall, the attitudes of the banking personnel towards the students who ask for loan has also important impact on the popularity of education loan which can be explored to get new results in this area of study.

## APPENDIX

## Appendix

**Table-1**

Education loans provided by different public and private sector banks to different courses and the required eligibility criteria:-

S. No.	Banks	Courses	Eligibility
1.	State Bank of India	Graduation, Post-Graduation, Professional Courses and other Courses approved by UGC/AICTE/Government etc.	All courses having employment prospects
2.	Allahabad Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, M.A. M.Com., M.Sc., Ph.D., Research, Computer etc.	Any Indian National selected for admission into any professional/technical course through entrance test/selection process.
3.	Andhra Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, M.A. M.Com., M.Sc., Ph.D., Research, Computer etc.	Any Indian National selected for admission into any professional/technical course through entrance test/selection process.
4.	Bank of Baroda	B.Arch, BE, B.Pharm, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, M.A., M.Com., M.Sc., Ph.D. Research, Computer etc.	Any Indian National selected for admission into any professional/technical course through entrance test/selection process.
5.	Bank of India	B.Arch, BE, B.Pharm, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, M.A., M.Com., M.Sc., Ph.D. Research, Computer etc.	Minimum 60% in the last qualifying examination, Parents age below 55 years.
6.	Birla Global Finance Limited	M.B.A., Computer (Loans are available for short-term career enhancement courses. And for Post-Graduate courses who pay via scholarships and education loan)	Could be a Professional or Salarised, Trader or a Business Person or has a firm or a Company in existence for at least two years.
108-7.	Canara Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Any Indian national, selected for admission into any professional, technical courses through entrance test/selection process.
8.	Indian Overseas Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Looking at past academic record and parent's regular source of income.
9.	Punjab and Sind Bank	B.Arch, BE, B.Pharm, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Depends on the merit of the student.
10.	Punjab National Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Indian citizens of the age group of 16-30 Years, 1 <sup>st</sup> class academic career, Aggregate Income of parents/guardian should not > 3 Lakh per

			annum.
11.	UTI Bank	B.Arch, BE, B.Pharm, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Admission to career oriented courses.
12.	UCO Bank	BE, B.Tech., M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Minimum 60% in the qualifying examination.
13.	Union Bank of India	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Age 15-25 years, confirmed admission, Good academic record, Institute of Study should be recognized one.
14.	United Bank of India	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Minimum age be 18 or above, Confirmed admission.
15.	Vijay Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Proof of admission, Minimum 60% marks throughout career, Should be an Indian National.
16.	Central Bank of India	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Should have consistent academic record in previous examination with marks over 60% in 10 <sup>th</sup> and 12 <sup>th</sup> and first grade in other cases.
17.	Corporation Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Any Indian National secured admission to professional/technical courses through entrance test/selection process.
18.	Dena Bank	B.A., B.Com., B.Sc., High School, Engineering, Diploma, MBA, MCA, MBBS, Medical, PG, M.A., M.Com., M.Sc., Ph.D, Research, Computer etc.	Age group of 15-25 years, confirmed admission, good academic record, the institute to be studied be recognized one.
19.	Federal Bank of India	B.Arch, B.Pharm, BE, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, MA, M.Com, M.Sc., Ph.D, Research, Computer, Nursing, etc.	All Indian Nationals intending to join educational institution recognized by the government or any university in India.
20.	IDBI Bank Limited	B.Arch, B.Pharm, BE, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, MA, M.Com, M.Sc., Ph.D, Research, Computer, etc.	Confirmed Admission, Good Track Record.
21.	HDFC Bank Limited	B.Arch, B.Pharm, BE, B.Tech, Engineering, Diploma, MBA, MCA, MBBS, Medical PG, MA, M.Com, M.Sc., Ph.D, Research, Computer, etc.	Continued Admission.

Source: [www.myiris.com/loans/eduloans/index.php](http://www.myiris.com/loans/eduloans/index.php)

**Table-2**

**The Security Demanded and the Documents required by different Public & Private sector Banks to be eligible to take education loans:-**

Sl. No.	Banks	Security Demanded	Documents Required
1.	Allahabad Bank	Rs.1 -400000- No security and Rs.400000-750000-Collateral security of suitable value or co-obligation of parents/guardians third party guarantee only with assignment of future income of the student for the payment of installments.	Agreement with the student, Proof of identity, Age and Residence Parents income proof Resume of the student
2.	Andhra Bank	Rs.1-400000- No security, and Rs.400000-750000- Collateral security of suitable value or co-obligation of parents/guardians, third party guarantee only with assignment of future income of the student for the payment of installments.	Agreement with the student, Proof of identity, Age and Residence Parents income proof, Resume of the student
3.	Bank of Baroda	Up to Rs.4 Lakh- No security Rs. 4 Lakh -750.000- Collateral security equal to 100% of the loan amount or co-obligation of parents/guardian/third party guarantee only with assignment of future income of the student for the payment of installments.	Agreement with the student, Proof of identity, Age and Residence, Parents income proof, Resume of the student
4.	Bank of India	Rs.1-25,000 – Nil Rs.25,001-2 Lakh- Collateral equivalent to the loan amount in the form of NSC. bonds. shares. property etc.	Agreement with the student, Proof of identity, Age and Residence, Parents income proof, Resume of the student
		Rs.2 Lakh -5 Lakh- Collateral equivalent to 150 % of the loan amount in the form of gold. bonds, shares, property etc.	
5.	Birla Global Finance Limited	Rs.50,000 -200000- Parents as co-applicant Rs.2 Lakh -5Lakh- Parents as co-applicant	Proof of parental income, Age, identity Employment Address of parents, Electricity Bill, Telephone Bill, Last 3 months Bank statement.
6.	Canara Bank	Up to Rs.4 Lakh- Joint documentation with parents/guardian Rs.4 Lakh -750,000- Collateral security of suitable value or co-obligation of third party having required net-worth with assignment of future income of student	Joint documentation with parents/guardian.
7.	Indian Overseas Bank	Personal Guarantee of Parents/third party	Joint documentation with parents/guardian.

8.	Punjab National Bank	Up to Rs.4 Lakh- Co-obligation with parents/guardian and LIC policy equivalent to the amount of loan. Rs.4 Lakh to 750,000- Co-obligation with parents/guardian and LIC policy equivalent to loan amount or third party guarantee equivalent to 100% of the loan amount.	Proof of Age, identity, income, residence etc. Agreement with the student.
9.	Punjab and Sind Bank	Up to Rs.2 Lakh– Collateral security like bonds, shares, assets etc. Rs.2 Lakh - 3 Lakh – Collateral security like bonds, shares, assets etc.	Proof of admission, identity. Resume of the student, Parents source of income.
10.	State Bank of India	Up to Rs.4 Lakh – No. Security Rs. 4 Lakh -7.5 Lakh- Third party guarantee Rs.7.5 Lakh -10 Lakh- Tangible collateral security for full value of loan. <u>For studies abroad:-</u> up to Rs.4 Lakh – No security Rs.7.5 -15 Lakh – Tangible collateral security of suitable value of loan with third party guarantee. Rs.15 Lakh -20 Lakh- Tangible collateral security of full value of loan. *(for SBI scholars, no security, collateral guarantee, co-borrower)	Mark sheets of last qualifying examination. Proof of admission, scholarship, studentship etc. Schedules of expenses for specified course, Borrower's Bank Account statement for the last six months, Income tax assessment order of last two years, Brief statement of assets and liabilities of co-borrower, Proof of income (i.e. salary slips etc.)
11.	UTI Bank	Collateral securities (individuals in government service should have minimum salary of Rs.7500 per month, and others Rs.10,000 per month, self-employed should have net annual income of Rs.2 Lakh)	IT returns of parents/guardian, Admission letter, Insurance policies, Collateral securities.
12.	UCO Bank	Collateral securities like bonds, shares, assets etc.	Proof of admission, identity, photographs, residence, Parents source of income, Resume of the student.
13.	Union Bank of India	No collateral security up to Rs.4 Lakh. > Rs.4 Lakh- Collateral security of suitable value or obligation of parents/guardian/third party, assignment of future income of student in favour of Bank (An LIC policy/ convertible whole LIC policy of not less than the loan amount at the name of the student and got assigned in the Bank's favour.)	Agreement with the student and parents.

14.	Vijaya Bank	Up to Rs.25,000 – Nil Rs.25, 000- 4 Lakh- Collateral security like bonds, shares, gold, assets etc. LIC policy of the borrower equivalent to the loan amount	Agreement Note, Proof of income, Age, Residence identity. A guarantee of parents/guardian.
15.	United Bank of India	Collateral of equivalent amount	Agreement with the student, Proof of admission, Parent's income.
16.	Central Bank of India	Rs.1 -4 Lakh – Nil Rs.4 Lakh- 7.5 Lakh- Collateral security of suitable value or co-obligation of parents/guardian/third party guarantee only with assignment of future income of the student for payment of installments.	Agreement with the student, Proof of residence.
17.	Corporation Bank	Rs.1 -4 Lakh – Nil Rs.4 Lakh- 7.5Lakh- Collateral security of suitable value. Above Rs.7.5 Lakh (for Abroad)- Collateral security of suitable value or suitable third party guarantee along with the assignment of future income of the student for payment of installments.	Agreement with the student, Proof of income of parents, age and residence.
18.	Dena Bank	Up to Rs.4 Lakh – No security Rs.4 Lakh- 7.5 Lakh- Collateral security of suitable value or co-obligation of parents/guardian/third party guarantee only with assignment of future income of the student for payment of installments.	Agreement with the student, Parents as guarantor.
19.	Federal Bank of India	Up to Rs.2 Lakh– Personal guarantee of 2 persons with minimum basic pay of Rs.5000 or declared annual income of Rs.1.25 Lakh. Rs.2 Lakh- 5 Lakh- Personal guarantee of 2 persons with minimum basic pay of Rs.5000 or declared annual income of Rs.1.25 Lakh (No collateral security for IIT/ IIM students provided guardian and any one person satisfying income criteria join as co-applicant)	Agreement with the student, Parents as guarantor.
20.	IDBI Bank Limited	Collateral security of 150% of the loan amount.	Insurance policies. Admission letter, Collateral securities of parents/guarantors, IT Returns.
21.	HDFC Bank Limited	LIC policy equivalent to the loan and depends on the credit profiles of the applicant.	Resume of the student. Letter of admission.

Source: [www.myiris.com/loans/eduloads/index.php](http://www.myiris.com/loans/eduloads/index.php)



**Table-3**

The maximum loan amount sanctioned by different Banks, the rate of interest charged, the required margins & processing fees, the tenure of repayment, & repayment holiday.

Banks	Loan Amount (in Rupees)	Rate of interest (in Percentage)	Margin (in Percentage)	Repayment Tenure (in months)	Repayment Holiday (in Months)	Processing fees
Allahabad Bank	Maximum 75,0000	Up to Rs.4 Lakh -12% Rs.4 Lakh – 75, 000-13%	0 5	84	12	Nil
Andhra Bank	Maximum 75,0000	Up to Rs.4 Lakh -12% Rs4 Lakh – 75, 000-13%	0 5	84	12	Nil
Bank of Baroda	Maximum 75,0000	Up to Rs.4 Lakh-11.50% Rs.4Lakh - 75,000-12.50% Penal interest of 2% on overdue amount in the loan exceeding Rs. 2 Lakh and 1% interest is serviced during the study period.	50 5	60	12	Nil
Bank of India	500000	Up to Rs. 25,0000-13.5% Rs.25,001- 200,000-13.50% Rs.200,001- 500,000-14.40%	0 50 0	60	6	Rs, 1- 500000- 0.15%
Birla Global Finance Limited	50,000-5 Lakh	Up to Rs.2 Lakh -18.50% Rs.200000- 500000-19.00%	0 0	48	0	Up to Rs.2 Lakh- 01%
Canara Bank	750,000 (Maximum)	Up to Rs.4 Lakh-11.75% Rs.4 Lakh-750, 000-12.75%	0 5	84	12	Nil
Indian Overseas Bank.	200000	12.50%	10% (Margin could vary from 10-25% depending upon the profile of the applicant)	50	6	Nil

Punjab National Bank	750,0000	Up to Rs.4 Lakh-12%	0	84	24	Nil
Punjab and Sind Bank	3.000000	Up to Rs.2 Lakh- 12% Rs.2 Lakh-3 Lakh-14%	0 0	36	2	Rs. 1- 3 Lakh- Rs. 500 & Rs. 250 (for document ation)
State Bank of India	Maximum Rs.10 Lakh (for Studies in India) Maximum Rs.20 Lakh (for Studies Abroad)	Up to Rs.4 Lakh -10.5% Above Rs. 4 Lakh -11.05% (subject to change)	0 5 (for studies in India) 15% (for Studies Abroad )	Up to Rs. 7.5 Lakh- 5-7 Years (India) Above Rs.15 Lakh 5-7 Years (Abroad)  Above Rs. 15 Lakh 5-10 Years (Abroad)	-	No changes A deposit of Rs. 5000 for studies Abroad
UTI Bank	50,000-750.000	Up to Rs.4 Lakh -12% Rs.4 Lakh-750,000-13%	5 5	84	12	Nil
UCO Bank	400000	Up to Rs. 25,000-12.24% Rs.25,000-2 Lakh -13.26% Rs.2 Lakh -4 Lakh-14.28%	25 25 25	60	2	Rs.1-4 Lakh-15%
Union Bank of India	750.000	Up to Rs.4 Lakh-11.75% Rs.4 Lakh-750,000-12.75% (interest concession of 1% at General Manager's Recommendations)	0 5	84	12	Nil
Vijaya Bank	4.00000	Up to Rs.25000-15% Rs.25000-2 Lakh -13% Rs.2 Lakh-4 Lakh-14.50%	0 25 25	60	12	Nil
United Bank of India	50.000	15%	10	30	60	0.15%
Central Bank of India	750.000	Up to Rs.4 Lakh-12.50%	0	84	12	Nil

		Rs.4 Lakh-750,000-13.50% (till course completion Rate of interest calculated at simple interest basis and hence forth, on a compound interest basis)	50			
Corporation Bank	750,000	Up to Rs.4 Lakh-12.25% Rs.4 Lakh-750,000-13.25% (interest is charged on simple basis during study period)	0 5	84 (prepayment of loan amount is permitted without penalty)	12	Nil (No service charges for corporate Vidya loans)
Dena Bank	750,000	Up to Rs.4 Lakh -12.50% Rs.4 Lakh - 750,000-13.50%	0 5 (Margin is waived for SC/ST students)	84	12	Nil
	50,000-500000	Up to Rs.20000-13.50% Rs.2 Lakh-5 Lakh -15%	0 0	132	12	Up to Rs.2 Lakh – Rs.5000 Rs.2 Lakh – 5 Lakh – Rs. 750
IDBI Bank Limited	500000	16%	0	36	0	Rs. 1000+other charges (Processing fee is Rs.500 per annum till loan is repaid completely)
HDFC Bank Limited	500000	21%	10	48	3	2%

Source: [www.myiris.com/loans/eduloans/index.php](http://www.myiris.com/loans/eduloans/index.php).

**Table-4****BANK- A: (Data on Gender, Specialization, Category, and Loan amount, Father's occupation & income from one of the branch of bank A).**

Year	Gender		Specialization					Category			Loan amount (in Rupees Lakh )	Father's occupation	Father's annual income (in rupees lakh)
	Male (M)	Female (F)	Engineering (Eng)	Management (Mgt)	Medical (Med)	Humanities & Social sciences (H & S)	Natural sciences (NS)	General (G)	SC	ST			
2005	M	-----	-----	-----	-----	H & S (Law)	-----	G	---	---	2	Government Job	1.70
	M	-----	-----	Mgt (MBA)	----	-----	----	G	---	---	4	Private Job	2.82
	M	-----	-----	Mgt (MBA)	-----	----	----	G	---	---	2.5	Private Job & Property	3
	M	-----	-----	Mgt (MBA)	----	----	----	G	---	---	4	Government Job	2.5
	M	-----	----	Mgt (MBA)	----	-----	-----	G	---	---	4	Government Job	1.35

Continued

	M	----	Eng	----	----	----	----	---	---	ST	2	Government Job	86
	M	----	Eng	----	----	----	----	---	---	ST	2	Government Job	0.86
	-----	F	Eng	-----	----	----	----	G	---	---	2.25	Business	2.8
	M	----	Eng	-----	----	----	----	---	SC	---	2.5	Cultivator	0.85
	M	----	Eng	-----	----	----	----	G	---	---	3	Private Job	0.40
	-----	F	Eng	-----	----	----	----	G	---	---	2	Government job	1.5
2 004	----	F	----	Mgt (MBA)	----	----	----	G	---	---	15 (for abroad)	Government Job	3. 9
	M	----	Eng	----	----	----	----	G	---	---	2.5	Private job	1.44
	M		Eng	----	----	----	----	G	---	---	2	Government Job	2. 37
	M		Eng	----	----	----	----	G	---	---	2.5	Government Job	1.7

Source: Unpublished material of the Bank

**Table-5**

A summary of the variations among different sections in Bank A, extracted from Table-4.

Year	Total accounts	Gender		Specialization					Category			Income groups		
		M	F	Eng	Med	Mgt	H & S	NS	G	SC	ST	Rs.50000-100000	Rs.101000-200000	Rs.201000 & onwards
2005	11	9	2	6	0	4	1	0	8	1	2	4	3	4
2004	4	3	1	3	0	1	0	0	4	0	0	0	2	2

N.B. the first income group may be considered economically challenged group, the second income group is the middle income group & the third group is the high income group.

**Table-6**

**BANK-B: (Data on Gender, Specialization, Category, and Loan amount, Father's occupation and income from one of the branch of bank B)**

Year	Gender		specialization					Category			Loan amount (in Rupees lakh)	Father's occupation	Father's income (in Rupees lakh)
	Male (M)	Female (F)	Eng	Mgt	Med	H & S	NS	General	SC	ST			
2005	M	---	---	Mgt (MBA)	---	--	--	G	---	---	1.4	Cultivation	0.72
	---	F	Eng	---	---	--	--	G	---	---	2.5	Government service	1.3
	M	---	---	---	---	--	@ M Sc (BT)	---	SC	---	1	Private service	1.5
	M	---	---	Mgt (MBA)	---	--	--	G	---	---	2	Pensioner	0.84
2004	M	---	---	Mgt	---	--	---	G	---	---	0.50	Private service & Property	1.2
	M	---	Eng	---	---	--	---	G	---	---	1	Government service	1.8
	M	---	Eng	---	---	--	---	---	---	ST	1.427	Government service	1.5

Source: Unpublished material of the bank.

N.B. @ indicates that the student is Master of Science with specialization in Bio-Technology.

**Table-7**

**A summary of the variations among different sections in Bank B extracted from Table-6**

year	Total accounts	Gender		Specialization					Category			Income groups		
		M	F	Eng	Med	Mgt	H & S	NS	G	SC	ST	Rs.50000-100000	Rs.101000-200000	Rs.201000 & onwards
2005	4	3	1	1	0	2	0	1	3	1	0	2	2	0
2004	3	3	0	2	0	1	0	0	2	0	1	0	3	0

The subject wise variations in sanctioning of loans in different banks are collected from the banks' accounts. It is evident from Table-4 & 5, that there are 6 engineering students who have availed education loans from bank A in the year 2005 out of total 11 accounts. Their number was 3 out of 4 accounts in the year 2004. There is 4 and 1 student in the management education who have availed loans from bank A during the same period respectively. There is only one student in the Humanities & Social Sciences category who has availed loan for law education in 2005 and none in the year 2004. Not a single student has availed loan for education in the area of Natural Science. Similarly, in bank B only 1 student availed education loan out of total 4 accounts in the year 2005 which was 2 out of 3 accounts in 2004, as mentioned in Table-6 & 7. There were no medical or H & S student those who have taken loans in both the years. 2 MBA students had taken loans in 2005, which was 1 in 2004. Only 1 natural science student had availed loan in 2005 whereas there was none in 2004.

The category wise differentiations among the banks' are also evident from the information collected. It is shown in the Table-5, that out of the total 11 accounts in bank A, 8 accounts are occupied by the general category students, 2 accounts are of ST students and only one account is opened by a SC student in the year 2005. In 2004, the total loan amounts were sanctioned to the general category students and not a single SC or ST student has taken loan for education. Similarly, in bank B, as evident from the Table-7, there are 3 general category students and 1 SC student who have taken loan in the year 2005. No ST student has taken loan in that year. In 2004, 2 general category students have taken loans from the bank. There is no SC student but 1 ST student during the same period.

The Table-8 shows, that the bank C has given loans to 268 general category students out of total 288 accounts in the year 2005. The number of SC & ST students is 9 and 11 respectively during the same period. In the previous year, out of the total 189 accounts 171 was of general category students, 10 for SC students and 11 for ST students. The table 4 and 6 reveal that among all the female students who have taken loans are from general category. Not a single out of them is from the reserved category.

The participation of different income groups in HE by using the loan method of financing is understood from the following data set as mentioned in the tables. It is shown in the Table 5, which the bank A has sanctioned education loan to 4 students in the year 2005 whose parent's annual income lies between rupees 50000-100000. The students from middle income groups whose parent's annual income lies between rupees 101000-200000 are 3 in number during the same period. There are 4 students who have sanctioned loans in the year 2005, their parents annual income lying between rupees 201000 and above. From the same bank in the year 2004, there was not a single student who had taken loan in the first income group. There were 2 students each in the second and third income group in the same periods who have taken loans. The students who have sanctioned loans from the first income group have their parent's annual income 40000 or 85000 or 86000 as shown in the Table-4. Three out of them are from reserved category. This shows the backwardness of the SC and ST students in terms of income. These students could manage to take loans because they have job security.

Similarly, the Table-7 shows that from bank B, there were 2 students who have taken loans in the first income group in the year 2005. Two students from the middle income group were sanctioned loan during the same period and not a single student from the affluent section had taken loan during the period. In the year 2004, no student was sanctioned loan from the economically challenged group and the affluent section. All the 3 students that are sanctioned loan are from the middle income group.



**Table: 10**  
**Data on education loans disbursed all over ORISSA by different Public and private Sector Banks.**

Banks	No. of Branches Opened in ORISSA	Loans Disbursed	
		Accounts Opened	Amounts Sanctioned (in Rupees lakh)
Allahabad Bank	64	38	202.00
Andhra Bank	79	382	390.00
Bank of Baroda	36	122	196.00
Bank of India	115	310	437.00
Bank of Maharastra	2	-	-
Canara Bank	42	201	131.29
Central Bank of India	56	32	41.25
Corporation Bank	-	-	-
Dena Bank	3	34	29.00
Indian Bank	45	269	207.46
Indian overseas Bank	78	95	388.00
Oriental bank of Commence	10	55	41.50
Punjab National Bank	52	183	37.8
Punjab and Sind Bank	2	13	21.00
State Bank of India	482	2601	5300.00
State Bank of Bikaner & Jaipur	2	2	4.50
State Bank of Hydrabad	5	26	42.61
State Bank of Mysore	1	-	-
Syndicate Bank	31	102	175.67
Union Bank	52	205	400.55
United Bank of India	95	516	427.00
UCO Bank	158	564	692.00
Vijaya Bank	7	14	11.45
Total Public Sector Banks	1424	5772	9528.23
Balance outstanding		15135	18962.70
Centurion Bank	1	-	-
Federal Bank	2	1	0.50
HDFC Bank	2	-	-

Continued



**11. Do you face any financial difficulties in financing your education?**

**If, YES** then, how do you overcome it? Are you aware of education loans?

Please mention. \_\_\_\_\_

\_\_\_\_\_

**If, NO** then, who finances your education? Tick in the appropriate box which is/are relevant for you.

Parents or family

Out of your own job or occupation

Any other sources, please mention

Bank loan

**12. If you have financed your study through bank loan please respond to the following questions.**

**i. Name the bank that finances you:** \_\_\_\_\_

**ii. The total loan amount sanctioned to you:** \_\_\_\_\_

**iii. The documents demanded from the bank: (Tick the following)**

Proof of admission/scholarship/studentship

Proof of residence/identity (driving license, phone bill, electricity Bill etc.)

Proof of income

Income tax assessment order

Schedule of expenses for the specified course

Your's/parents/guardian's bank account statement

Brief statement of assets & liabilities

Assignment of the future income of the student

**iv. The kind of collateral security deposited for the loan:** \_\_\_\_\_

**v. The rate of interest charged:** \_\_\_\_\_ %

**vi. Any other fees charged, please mention:** \_\_\_\_\_

\_\_\_\_\_

**13. Do you have job guarantee? YES/NO**

**14. How long does one have to wait to get a job in your course? \_\_\_\_\_ Months**

15. What is your expected salary? \_\_\_\_\_

16. In case it is insufficient, what alternative you think to repay back your loan?

Please mention. \_\_\_\_\_

17. What percentage of study expenses is covered by the loan amount? \_\_\_\_\_ %

18. Which are of the following items covered? (Tick the following)

Fees payable to college/hostel

Examination/Library/Laboratory fees etc.

Books/Equipments/Instruments/Uniforms

Travel expenses

Any other expenses related to education (computer, bike etc.)

Thank you.

**Table: 11**

Dependent Variable: LOAN				
Method: Least Squares				
Date: 07/26/06 Time: 17:41				
Sample(adjusted): 2 74				
Included observations: 57				
Excluded observations: 16 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	364131.0	40670.96	8.953095	0.0000
INC	-9944.581	7721.950	-1.287833	0.2035
EXSAL	-0.378322	1.388981	-0.272374	0.7864
DG	-95212.87	27356.88	-3.480400	<b>0.0010</b>
DR	48651.20	30918.63	1.573524	0.1217
R-squared	0.240313	Mean dependent var	316066.7	
Adjusted R-squared	0.181876	S.D. dependent var	102350.3	
S.E. of regression	92576.04	Akaike info criterion	25.79308	
Sum squared resid	4.46E+11	Schwarz criterion	25.97229	
Log likelihood	-730.1028	F-statistic	4.112314	
Durbin-Watson stat	2.128048	Prob(F-statistic)	0.005711	

Conclusion: Loan amount depends on fee structure (which is not a variable here as captured by the constant) and gender positive discrimination is present for the sample.

**Table: 12**

Dependent Variable: EXSAL				
Method: Least Squares				
Date: 07/26/06 Time: 17:42				
Sample: 1 74				
Included observations: 58				
Excluded observations: 16				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13181.41	3520.407	3.744286	0.0004
INC	2032.305	697.5435	2.913517	<b>0.0052</b>
DG	5168.973	2547.078	2.029374	0.0474
DR	252.3767	3019.974	0.083569	0.9337
R-squared	0.157678	Mean dependent var		21289.66
Adjusted R-squared	0.110882	S.D. dependent var		9621.042
S.E. of regression	9071.973	Akaike info criterion		21.13024
Sum squared resid	4.44E+09	Schwarz criterion		21.27234
Log likelihood	-608.7769	F-statistic		3.369500
Durbin-Watson stat	2.267397	Prob(F-statistic)		0.024983

Conclusion: Income level of the parents determine loan amounts and gender discrimination is positive

**Table: 13**

Dependent Variable: LOAN				
Method: Least Squares				
Date: 07/26/06 Time: 17:45				
Sample(adjusted): 2 74				
Included observations: 57				
Excluded observations: 16 after adjusting endpoints				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	609925.6	118426.9	5.150229	0.0000
INC	-173.6487	7543.980	-0.023018	0.9817
ROR	-26811.67	11379.55	-2.356127	0.0222
EXSAL	-1.081460	1.452961	-0.744315	0.4600
R-squared	0.114307	Mean dependent var		316066.7
Adjusted R-squared	0.064173	S.D. dependent var		102350.3
S.E. of regression	99011.74	Akaike info criterion		25.91146
Sum squared resid	5.20E+11	Schwarz criterion		26.05483
Log likelihood	-734.4765	F-statistic		2.280044
Durbin-Watson stat	2.164826	Prob(F-statistic)		0.089939

Conclusion: Loan amount varies negatively with ROR

Sample of education loan from students of KIIT, Bhubaneswar, Orissa (Year 2006)

Name	Gender (male/female)	Age	Category (General/BC/ST/OBC/Minority/Community)	Course of Study (Eng/MCA/MBA)	Specialization	Native place (Rural/Urban Area)	Parents occupation (Father; say, 1 & mother; say, 2)	Parents monthly income (in Rupees)	Number of dependants in the family	Any financial difficulties (Yes/No)	Who finances (Bank/Family/Both)	Which Bank	The loan amount (in Rupees)	Documents demanded	Security deposited	Rate of interest (in %)	Have job guarantee?	How long to wait for a job	Expected salary per month (in Rupees)	% of study expenses covered by loan	The items covered
T.Priya	F	19	Gen	Eng	Electronics & Electrical Eng	urban	1-engineer 2-hw	12000	5	no	both	Allahabad bank	do not know	do not know	do not know	do not know	no	12 months	15000	no idea	1, & 2
M.Zaman	F	20	OBC	Eng	mechanical eng	rural	1- government service 2-hw	25000	5	yes	both	Allahabad bank	300000	1,2,3, & 7	the papers of the house	12	yes	6 months	20000	50	1,2, & 5
N.A.*	M	26	Gen	MCA	N.N.~	urban	1- government service 2-hw	12000	4	yes	both	Allahabad bank	180000	1,2,3,5, & 7	nothing	11	no	4 months	15000	60	1,2, & 3
N.Sinha	F	19	Gen	Eng	electrical eng	rural	1-LIC representative 2-hw	15000	3	no	both (loans just for a year) @	Allahabad bank	102000	1,2,3,4, & 6	nothing	8	yes	18 months	20000	80 (only for first year)	1,2,3, & 4
B.Purty	M	20	ST	Eng	mechanical eng	rural	1- retired 2-hw	0	4	yes	bank	Andhra bank	352000	1,5,6, & 7	house papers	11	yes	12 months	20000	100	1,3, & 5
Rakhi k.	F	19	Gen	Eng	IT	rural	1-business 2-hw	25000	4	no	both	Bank of Baroda	400000	1 only	nothing	10	yes	2 months	25000	70	1 only
N.A.*	M	24	Gen	Eng (M.Tech)	Computer Science & eng	rural	1-farmer 2-hw	10000	5	yes	both	Bank of Baroda	215000	1,2,3,5, 6, & 7	nothing	11.5	no	2 months	25000	80	1,2, & 3
S.Pritam	M	26	OBC	MBA	Marketing Management	urban	1-Retired Government servant 2-hw	7000	5	yes	both	Bank of Baroda	340000	All	nothing	11	yes	12 months	25000	65	1,2, & 3
A.K. Pattnaik	M	25	Gen	MBA	Marketing Management	urban	1-service 2-hw	23000	2	no	bank	Bank of Baroda	240000	1,2, & 6	nothing	9.5	yes	18 months	15000	100	1,2,3, & 5
Chandrasekhar P.	M	22	Gen	Eng	Information Technology (IT)	rural	1- service 2-hw	15000	5	no	bank	Bank of India	355200	1,5, & 6	father's provident funds	10.75	yes	36 months	15000	100	1,3, & 5
P.Purohit	F	19	Gen	Eng	E & C	urban	1-engineer 2-hw	25000	3	no	both	Bank of India	400000	1,2,3,4, 5,6, & 7	National Savings Certificate (NSC)	9	yes	6 months	25000	80	1,3, & 5



E.Dash	F	22	Gen	MCA	N.N.-	urban	1- government service 2-hw	20000	3	no	family	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~
S.Patnaik	M	25	Gen	MBA	Marketing & Finance managemen t	urban	1-head master 2- teacher (DIET)	30000	2	no	family	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~
S.Tripathi	F	22	Gen	MCA	N.N.-	rural	1-Private job 2-Business	18000	4	no	family	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~
Dipti	F	23	Gen	Eng (M.Tech)	mechanical eng	urban	1-Private job 2-hw	15000	3	no	family	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~
A.K.Ahmad	M	23	MC	MCA	N.N.-	urban	1-Private job 2-hw	30000	5	no	family	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~
D.Panigrahi	M	23	Gen	MBA	Marketing Managemen t	rural	1-teacher 2- teacher	25000	2	no	family	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~	N.N ~
S.Patnaik	M	22	Gen	MBA	Marketing Managemen t	urban	1-dead 2- housewife	2000	2	yes	bank	Punjab National Bank	250000	1,2,3,5, 6, & 7	Docume nts of land	11.25	yes	0-3 months	15000	71	1,2, & 3
N.A.*	M	20	Gen	Eng	E & C	urban	1- government service 2-hw	25000	3	no	bank	Punjab National Bank	400000	All	nothing	11.5	no	do not know	30000	no idea	1, & 2
G.Mohanty	M	22	Gen	Eng	mechanical eng	urban	1- bank manager 2- hw #	32000	4	no	both	SBI	300000	1,3,4,5, & 6	nothing	7.5	yes	6 months	20000	90	1,3, & 4
N.A.*	M	21	OBC	Eng	IT	urban	1-business 2- hw	20000	3	no	bank	SBI	400000	All	nothing	10	yes	36 months	20000	100	1,2, & 3
P.M.Samal	M	23	Gen	MBA	Marketing Managemen t	urban	1-business 2- hw	10000	3	no	both	SBI	150000	8 only	nothing	10.5	yes	0 month	25000	44,12	1,2, & 3
S.Das	M	23	Gen	MBA	Marketing & Finance managemen t	urban	1-central government servent 2-hw	18000	4	no	bank	SBI	340000	1,3,5,6, 7, & 8	nothing	10.5	yes	24 months	33000	100	1,2, & 3
C.J.Jyoti	F	20	Gen	Eng	E & C	urban	1-clerk 2-hw	10000	3	yes	both	SBI	400000	All	photocop y of the property (house) & LIC policies	10	yes	at least 1 month	>15000	80	2,3,4, & 5
S.K. Sahu	M	23	Gen	MBA	Marketing Managemen t	urban	1-contractor 2-hw	15000	5	no	both	SBI	300000	1,4,5,6, 7, & 8	nothing	11	yes	6 months	20000	88	1,2, & 4
N.A.*	F	20	Gen	Eng	Computer Science & eng	urban	1-dead 2- government service	12000	2	yes	both	SBI	400000	1,2,3, & 8	nothing	10	yes	30 months	20000	75	1,2, & 5



N.A.*	M	24	Gen	Eng (M.Tech)	Electronics eng	urban	1- government service 2-hw	13000	4	no	both	SBI	200000	1,2,3,5,6, & 7	nothing	11	yes	2 months	25000	70	1,2, & 3
S.R.Baidya	F	21	Gen	MBA	Marketing & Finance management	urban	1- government service 2-hw	25000	3	no	bank	SBI	340000	1,2,3, & 7	nothing	10.5	yes	10 months	28000	100	1,2, & 3
M.Dash	F	22	Gen	MBA	Marketing Management	urban	1- government service 2-hw	35000	3	no	bank	SBI	340000	1,2,3, & 7	nothing	10.5	yes	10 months	25000	100	1,2, & 3
J.R.Sahu	M	24	OBC	MBA	Human Resources & Marketing Management	urban	1- government service 2-hw	15000	4	no	both	SBI	300000	1 only	nothing	10.5	yes	N.A.*	20000	90	1,2,3, & 5
S.Pradhan	F	22	Gen	MBA	Marketing Management	urban	1- government service 2-hw	30000	4	no	both	SBI	240000	1,2,3,5, & 7	nothing	10.5	yes	10 months	20000	90	1 only
S.K. Sahu	M	26	OBC	MBA	Marketing & Finance management	urban	1- government service 2-hw	2500	3	yes	bank	SBI	300000	1,2,3,4,5,6, & 7	Documents of land	10.5	yes	24 months	15000	100	1,2,3, & 5
S.Pattnaik	M	24	Gen	MBA	Marketing Management	urban	1- government service 2-hw	25000	8	yes	both	SBI	250000	1,2,3,5, & 6	Documents of land	10.5	yes	0-3 months	15000	75	1,2, & 3
N.A.*	M	24	MC	MCA	N.N.-	urban	1-private job 2-dead	7000	3	yes	both	SBI	215000	1,2,3,5, & 7	nothing	10.5	no	2 months	18000	70	1,2, & 3
N.A.*	M	25	Gen	MCA	N.N.-	rural	1-Private job 2-hw	12500	3	no	both	SBI	230000	1,2, & 3	nothing	10.5	no	3 months	do not know	70	1,2, & 3
N.A.*	M	23	ST	MCA	N.N.-	rural	1-Private job 2-hw	9000	4	yes	both	SBI	212000	1,2,3,5, & 7	nothing	10.5	no	4 months	14000	65	1,2, & 3
M.Priyadarshi	M	25	Gen	MBA	Marketing Management	urban	1-professor 2-doctor	60000	4	no	both	SBI	189000	All	nothing	10.5	yes	0 month	83000	60	All
S.Bakshi	F	18	Gen	Eng	electrical eng	rural	1-retired 2-doctor	21000	3	no	both	SBI	300000	1,2,5, & 6	nothing	9	yes	18 months	16000	75	1, & 2
N.Panda	M	29	Gen	MBA	Marketing Management	rural	1-retired teacher 2-retired teacher	12000	3	no	both	SBI	325000	1,2,3,5,6, & 7	nothing	10.5	yes	24 months	30000	96	1,2, & 4
P.Dhar	F	19	Gen	Eng	Computer Science & eng	urban	1-service 2-hw	30000	4	no	both	SBI	350000	All	nothing	10.5	yes	2 months	30000	90	1, & 2

N.A.*	M	21	MC	Eng	IT	urban	1-service 2-hw	20000	3	no	bank	SBI	200000	1,5,6, & 8	nothing	10.5	yes	36 months	20000	N.A	1,2, & 3
N.A.*	M	21	Gen	Eng	Electronics & Tele-Comunications (E & C)	urban	1-service 2-hw	15000	4	no	both	SBI	300000	1,3,4,6, & 7	nothing	10.5	yes	36 months	15000	75	1,2, & 3
K.Majumdar	F	20	Gen	Eng	E & C	urban	1-service 2-service	60000	2	no	both	SBI	400000	1,2,3,4,5,6, & 7	nothing	10.5	yes	0 month	25000	81.3	1,3, & 5
P.Majumdar	F	18	Gen	Eng	electronics eng	urban	1-service 2-service	33000	1	yes	both	SBI	400000	1,2,3, & 6	nothing	10.5	no	36 months	20000	80	1,2,3, & 5
K.Sinha	F	20	Gen	Eng	mechanical eng	urban	1-service in bank 2-hw	18000	3	no	both	SBI	384000	1, & 5 **	nothing	8.75 **	yes	18 months	20000	80	1, & 3
Garima	F	18	Gen	Eng	Computer Science & eng	urban	1-service in bank 2-hw	30000	3	no	bank	SBI	500000	1,2,3,4,5, & 6	nothing **	7 **	yes	36 months	20000	100	All
Ruchika	F	18	Gen	Eng	Computer Science & eng	urban	1-service in bank 2-hw	30000	3	no	bank	SBI	500000	1,2,3,4,5, & 6	nothing **	7 **	yes	36 months	20000	100	All
N.A.*	F	19	Gen	Eng	Computer Science & eng	urban	1-service in bank 2-hw	18000	3	no	bank	SBI	500000	1,2,3,4,5, & 6	nothing **	7 **	yes	36 months	20000	100	All
J.P.Sahoo	M	22	Gen	MBA	Human Resources & Marketing Management	urban	1-service in bank 2-hw	N.A.*	3	no	both	SBI	300000	1,2,3,6, & 8	nothing	10.5	yes	6 months	15000	90	1,2, & 3
A.K.Nayak	M	24	Gen	MBA	Marketing & Finance management	urban	1-service in bank 2-hw	15000	5	yes	both	SBI	325000	1,5,6, & 7	nothing	10.5	yes	N.A.*	15000	95	1,2, & 3
J.K. Swain	M	24	Gen	MBA	Marketing Management	urban	1-service in nationalised company 2-hw	15000	4	yes	bank	SBI	340000	1,3,5, & 6	nothing	10.5	yes	18 months	15000-20000	100	1, & 3
S.K.Gartia	M	24	OBC	MBA	Marketing & Finance management	rural	1-teacher 2-hw	12000	5	no	both	SBI	200000	1,2,3,5,6,7, & 8	nothing	10.85	yes	no idea	20000	60	1, & 2
N.A.*	M	22	Gen	Eng	IT	rural	1-vetenary doctor 2-hw	9000	4	no	bank	SBI	355200	1,2,3,5,6, & 7	nothing	10.25	yes	36 months	18000	100	1,3, & 5
Y.Sneha	F	19	ST	Eng	Computer Science & eng	urban	1-yard master (railways) 2-teacher	25000	5	no	both	SBI	400000	1,3,6, & 7	nothing	10.5	yes	12 months	8000	50	1only

A.K. Pandey	M	20	Gen	Eng	mechanical eng	urban	1-Retired Government servant 2-hw	5000	3	yes	bank	State Bank of India (SBI)	266000	1,2, & 5	Documents of land	11.25	no	12-14 months	can't say	100	1,2, & 3
J.Behera	M	23	Gen	MBA	Marketing & Finance management	rural	1-business 2-hw	15000	3	no	both	UCO bank	200000	1,2,5, & 8	nothing	10.5	yes	6-8 months	15000-20000	80	1,2,3, & 4
N.A.*	M	20	MC	Eng	IT	urban	1-government service 2-hw	25000	3	no	bank	UCO bank	400000	1,3, & 5	nothing	10.5	yes	36 months	25000	100	1,2, & 3
N.A.*	F	19	Gen	Eng	IT	urban	1-perfusionist 2-business	20000	3	no	both	UCO bank	100000	1 only	nothing	8	yes	30 months	20800	25	1only
P.Sharma	F	19	Gen	Eng	E & C	urban	1-business 2-hw	35000	2	yes	both	Union Bank of India	400000	1,2,3,4, 5,6, & 7	nothing but asked for insurance fees	9	yes	0 month	15000	80	1,2, & 3
S.Biswas	F	19	Gen	Eng	IT	urban	1-business 2-hw	15000	3	no	bank	Union Bank of India	371400	All	nothing	10.5	yes	36 months	15000	100	All
N.A.*	M	25	Gen	Eng (M.Tech)	Computer Science & eng	urban	1-government service 2-hw	15000	3	no	both	Union Bank of India	115000	1,2,3,4, 5,6, & 7	nothing	11	yes	3 months	30000	60	1,2, & 3
I.Dalai	F	18	Gen	Eng	Electronics & Electrical Eng	urban	1-service 2-hw	100000	2	no	both	Union Bank of India	200000	1,2,3, & 6	nothing	10	no	36 months	15000	85	1,2,3, & 5
Priyadarshini	F	20	Gen	Eng	Computer Science & eng	urban	1-service in bank 2-hw	20000	3	no	bank	Union Bank of India	500000	1,2,3,4, 5, & 6	nothing **	7 **	yes	36 months	20000	100	All

Source: The Master Data Sheet Prepared from the Extracts of The Questionnaires that surveyed the Students.

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