NIEPA Occasional Paper 31

OCCASIONAL

PAPERS

Financing Higher Education in India in the Post Reform Period: Focus on Access and Equity

P. Geetha Rani

National Institute of Educational
Planning and Administration
17-B, Sri Aurobindo Marg
New Delhi, INDIA
September 2002

Contents

Abstract

The present paper attempts to examine access and equity issues in financing higher education in India in the changing context of macro economic reforms by examining the pattern of (i) student fees, (ii) student support system, and (iii) student loan programmes. It is unambiguous that Education Policy of the Government of India now encourages augmentation of resources by higher educational institutions for covering a larger portion of cost of education and full cost recovery from students, even in public higher educational institutions. Under the deep waves of globalisation and competition, important economic rationale for government funding for higher education is neglected. A comprehensive student support system consisting of freeships and scholarships must be in place, when fees are raised to cover the cost of higher education. But what is observed is that the number of scholarship schemes and amount of resources allocated to scholarships has been declined. Further, the new student loan programme introduced in 2001, is insensitive to the needs of the weaker sections. Hence, it is argued that for the weaker sections, the loan programme must be flexible enough to suit their requirements, which may involve government guaranteed loans, subsidised interest rates, liberal terms of repayment, waivers for those students with less future incomes, etc. When the objective of such a loan scheme is to encourage equal access and participation of the weaker sections, the cost of administration of a loan programme would be higher than the actual amount of loans disbursed to poor students. Hence, it is argued that instead of providing student loans to poor students, it could as well be broad-based freeships and scholarships to the means-tested poor students. The amount of scholarship needs to be enhanced so as to cover the direct and indirect costs of higher education and the coverage needs to be more focused. Involvement by the state and the retention of public service are still the best guarantee of equal opportunities and democratisation of higher education.

Financing Higher Education in India in the Post Reform Period: Focus on Access and Equity*

P. Geetha Rani**

"Higher education shall be equally accessible to all on the basis of merit"

Article 26.1, Universal Declaration of Human Rights[1]

1. Introduction

It is widely recognised that to the extent globalisation and macro economic reforms intensifies competitive pressures in any sector including education, it correspondingly de-emphasises the redistributive strategies (Bowles, 2001; Tilak, 2001b; Carnoy, 1999). Carnoy argued that globalisation tends to push governments away from equity-driven reforms for two main reasons. *One*, globalisation increases the pay-off to high-level skills relative to low level-skills reducing the complementarity between equity and competitiveness-driven reforms. It is because inter-dependence between globalisation and education presupposes competitiveness and efficiency and efficiency in turn, is achieved upon the latest technology or knowledge accessible to the system. As a result, the growth of the global economy has increased opportunities for those countries with good levels of education and vice versa (Carnoy, 1999; Tilak, 2001a; Stewart, 1996; Lion, 1994). So, the success of the economic reform policies critically depends upon the competence of the human capital, in particular the specialised human capital.

* A preliminary version of the paper was presented in the Conference on Globalisation and Challenges for Education, December 18-20,2001, at NIEPA, New Delhi.

** Associate Fellow, National Institute of Educational Planning and Administration, 17-B, Sri Aurobindo Marg, New Delhi 110 016. The author would like to acknowledge Prof. J.B.G Tilak for the comments, which helped in sharpening the focus of the paper. The author is grateful for the comments of the three anonymous referees, which helped in improving the paper significantly. The author thanks V. Selvaraju and M.V. Srinivasan for the useful comments.

1 United Nations, 1950, and as quoted in UNESCO (2000).

Two, finance-driven reforms dominate educational change in the new globalised economic environment. Economic reforms initiated in India in the beginning of 1990s consist of structural adjustment and stabilisation policies. Following the structural adjustment policies, a fiscal squeeze is experienced in all social sector investments in many developing countries, including in India. This has trickled down to public expenditure on education in general, and higher education in particular (see Table 1). On account of the cut in the budget for higher education, there are severe pressures for the higher education system to mobilise resources from non-governmental resources, including privatisation.

Simultaneously, the demand for higher education has been growing rapidly with comparatively faster growth in enrolment in higher educational institutions[2] than the growth in number of higher educational institutions (see Table 2). The growth rates are doubled among the students enrolled in post-graduate and research, while the number of institutions for post-graduate and research studies has grown at a slower rate in 1990s than in 1980s. Though the enrolment has been increasing in absolute terms, only 7 per cent of the population in the age group 17 to 24 attended higher educational institutions in India, as against 92 per cent of the eligible age-group of the population attending higher educational institutions in USA, 52 per cent in UK and45 per cent in Japan (see Table 3).

Even for these very low enrolment ratios in India, it is being increasingly realised that public budgets cannot adequately fund higher education, particularly when sectors of mass education are starved of even bare

[2] The information here pertains to public higher educational institutions. However, there is no comprehensive information available on the growth of private higher educational institutions and the number of students enrolled therein, which would be substantial.

Table 1
Share of Public Expenditure on Higher Education in GDP and Education Expenditures

Year	Expenditure on Education as per cent of GDP	Expenditure on Higher Education as per cent of Expenditure on Education	Expenditure on Higher Education as per cent of GDP
1981-82	2.49	15.25	0.38
1985-86	3.00	14.04	0.42
1989-90	3.48	14.69	0.36
1990-91	3.59	10.16	0.34
1991-92	3.44	9.78	0.41
1992-93	3.78	10.79	0.40
1993-94	3.68	10.97	0.39
1994-95	3.61	10.81	0.37
1995-96	3.60	10.14	0.35
1996-97	3.57	9.77	0.35
1997-98	3.53	10.01	0.38
1998-99	3.85	9.93	0.46
1999-00(R)	4.35	10.63	0.48
2000-01(B)**	3.91	12.14	0.60

Note: Based on the new series of GDP with base 93-94=100; ** Quick estimates of GDP

Source: Analysis of Budgeted Expenditure on Education, Ministry of Human Resource Development, New Delhi.

needs[3]. As a consequence, several policy directions on new ways of diversifying resources, resulting from a variety of pressures and opportunities are continually emerging with several alternatives, including student fees, student loans and privatisation[4]. The most serious casuality of all these is undermining equity of access to higher education. Equity and social justice

[3] Hence, the resources from higher education are being diverted to the development of primary education. But it is stressed that while it is mandatory that the nation achieves universal elementary education and total literacy, it cannot at the same time afford to relegate to a neglected position to achieve global standards in higher education (Punnayya Committee, 1993). It is to be realised that while primary education is fundamental to the nation, higher education determines its economic and technological progress in the globalised era, which are the necessary and sufficient conditions for growth and development respectively.

[4] Though the issues of privatisation of higher education are very much a part of the education policies, these however are not attempted in the present paper.

Table 2

Public Higher Education Institutions and Students Enrolled Therein in Inda

Year	Institutions			Enrolment (in lakhs)		
	Colleges[5]	Univ & Research[6]	Higher Education	Colleges[7]	Research & PG[8]	Higher Education
1980-81	4152	206	4358	21.25	3.17	27.59
1985-86	4815	228	5043	29.66	3.56	33.22
1990-91	6008	281	6289	39.21	4.12	43.33
1993-94	6764	309	7073	42.07	3.95	46.02
1996-97	8529	327	8856	54.37	5.01	59.38
1997-98	9274	328	9602	57.18	5.17	62.35
1998-99	9607	342	9949	65.37	5.62	70.99
1999-00	9906	349	10255	71.31	5.95	77.26
Growth rates						
80-81 to 89-90	3.33	2.96	3.52	7.19	2.70	5.50
90-91 to 99-00	6.56	2.37	6.39	7.30	4.89	7.09
80-81 to 99-00	4.86	2.99	4.85	6.02	3.24	5.40

Source: Based on Selected Educational Statistics, various issues.

demand that newly emerging beneficiaries from the secondary education sector, who increasingly represent vulnerable groups are able to afford an access to higher education and eventually for an upward mobility (Punnayya Committee, 1993, p.18). However, there is rarely any systematic attempt to examine the impact of increase in fees on access to higher education. The present paper makes a humble effort in this direction with limited available information.

Expansion and diversification of open and distance learning system are viewed as significant steps for providing cost effective education tothe

5 Colleges include Arts, Science and Commerce colleges, Engineering & Technical colleges, Medical colleges and Teacher Training colleges.

6 University and research institutions include universities, deemed universities, Institutions of national importance and research institutions.

7 Enrolment in colleges include the students enrolled in BA, BSc, BCom, BE, BEd, and MBBS.

8 Enrolment in universities and postgraduate include PhD, MA, MSc, and MCom.

Table 3
Gross Enrolment Ratios in Higher Education in Developed and Developing Countries

World total (1997)	17.4	Developing Countries (1997)	10.3
Developed Countries (1997)	51.6	Asia (1997)	11.1
USA (1995)	92	Korea (1997)	68
Canada (1995)	88	China (1997)	6
UK (1996)	52	India (1997)	7
Australia (1997)	80	Less Developed Countries (1997)	3.2
Japan (2002)	45*	Africa (1997)	6.9

Source: UNESCO,(1999); *Altbach and Ogawa,(2002)

deprived groups and to equalise educational opportunities. It is argued that distance higher education caters to the educational needs of all aspirants mainly deprived sections and at the least cost. At the outset, it is to be clarified that distance education or the on-line education is a cost control device rather than cost-effective measure as the quality of distance education is not comparable with the regular system. Yet another recent trend in the distance education in the regular universities is that - though the very purpose of distance education is primarily for equity and access for the deprived section, it is found that a substantial amount of fee is collected from these deprived sections. It is unfortunate that such fee income generated through distance education forming one of the major sources for a regular university to meet its recurring expenditure. The system is already inequitable with unequal access to higher education for the weaker students. The practice of draining off the fee income from distance education to a regular university system would intensify the inequality in the society.

Equity comprises of two elements, that is *access and financial support* to a number of disadvantaged groups such as: socio-economically disadvantaged students; students from rural and isolated areas; students with disabilities; women (especially in non-traditional societies); and first generation university students. The present paper attempts to examine equity in terms of access to higher education and other subsidies and incentives utilised by students enrolled in higher education across income groups from rural and urban areas and across male and female students. Access to other groups of population, though equally important, is not analysed due to non-availability of information.

The World Declaration on Higher Education for the Twenty First Century in its vision and in its Article 3 on Equity of Access, in keeping with Article 26.1 of the Universal Declaration of Human Rights states that access to higher education for members of some special target groups, such as indigenous people, cultural and linguistic minorities, disadvantaged groups, people living under occupation and those who suffer from disabilities must be actively facilitated, since these groups as collectivities and as individuals may have both experience and talent that can be of great value for the development of societies and nations. Special material help and education solutions can help overcome the obstacles that these groups face, both in accessing and continuing higher education (UNESCO, 1998, p.22). Equal access to higher education for the weaker sections needs to be viewed in this light as against the argument that higher education is not for all. Moreover, the gross enrolment ratio in higher education in India is one of the lowest among many developed andsome of the developing nations (see Table 3). In order to gain the benefits of globalisation, it is essential for a threshold level, if not a majority, of the population to acquire high levels of skills.

It is in this perspective, financing higher education from the point of view of equal access is attempted in the paper by examining the pattern of (i) student fees, (ii) student support system, and (iii) student loan programmes. These three dimensions are discussed in section two through section five. Final section brings out the concluding remarks.

2. Student fees

This section attempts to examine the recommendations of various committees set up by UGC on resource generation through revision of fees and fee income as a source of financing higher education and their implications for equal access to higher education. There are varying views while promoting student funding (through fees) as a method of financing higher education. The arguments in favour of hike in fees in higher education include:

- When the nation needs to achieve universal elementary education and total literacy and lacks funds for education, it is mandatory to divert the resources from higher to primary levels of education. So, higher education is to be managed by student funding through fee income. Thus, increase in fees may augment the required funds for the cash-starved institutions of higher education, as government does not have adequate resources to finance higher education.

- So expenditure on higher education will have to be shared by the society that affluent section of the society should bear reasonable cost of higher education as fees reflect both ability to pay and willingness to pay for education, which needs to be fully exploited (taking away the consumer surplus).

- Private rates of return to higher education are high. Hence, the individual needs to finance his or her own education either from his present or future income. Further, it is argued that subsidies to higher education are regressive in nature, redistributing the income from the poor to the rich. Hence, subsidies to higher education be reduced and removed in the long run.

- Higher fees would improve internal efficiency of the system as fees are adequately and regularly realised and therefore the students are inevitably drawn towards their academic goal. Increase in fees would be viewed as respectability to the system that higher fee gives sobriety to the institution and is also helpful in maintaining law and order.

- It is generally perceived that fees are extremely low and not revised for decades and to be revised immediately and adjusted to inflation and also revised periodically in accordance with the rise in costs of higher education.

- Differential fee has the merits of enhancing recovery of expenditure, removing subsidy from those who are in a position to pay, enabling the financially weaker students to undertake professional and higher studies.

The arguments against hike in fees include:

- While 'Education For All' goals are the foundations of a nation, higher education determines its economic and technological development in the knowledge society. Further, it needs to be realised that all levels of education are, inter-dependent, that an organic relation exists among one another. Indeed, advancement of quality of primary and secondary education itself depends on the quality of higher education.

- Hike in fees would lead to elitism in higher education, that high level of fees would force the poor not to opt for higher education at all.

- High fees would accentuate inequities in the system as the children from rich income would spend more and the children from low-income families would spend less, which is against the national goals of ensuring equity and social justice.

- Hike in fees is argued on the basis of full cost recovery or no-profit-no-loss principles, which treats education just like any other commodity and contrary to the nature and philosophy of education. And it ignores the aspects of human capital investment.

- Contrary to the perception that fees are extremely low, except tuition fee, other forms and kinds of fees are already high and increasing substantially.

- Countries with high skills reap the benefits of globalisation and vice versa. In order to gain the benefits of globalisation, higher education needs to be funded by the government.

Though, there have been strong arguments for and against student funding, there is clear signal from various committees and government for a substantial amount of increase in fees due to various pressures. It is worthwhile here to briefly look at cost recovery through fees in various developed and developing countries, which might serve as a benchmark. It can be noticed from Table 4 that the share of fees in the cost of higher education ranges from zero to a maximum of 20 per cent. However, it is to be noted, the information available in many countries corresponds to late 1980s and early 1990s. Dramatic and sweeping changes over the nature and philosophy of education in general and financing higher education in particular could be observed around the world in the recent decade[9].

Table 4
Share of Fees in Costs of Public Higher Education in Selected Countries

Developing countries	Share (in %)	Developed Countries	Share (in %)
Sri Lanka	negligible	Norway(1987)	0.0
Tanzania	negligible	Australia(1999)^	18.6
Bolivia	1.0	France(1984)	4.7
Pakistan	2.1	Germany(1986)	0.0
Philippines(1985)	10.9	Canada(mid 1980s)	12.0
Nepal	4.4	Netherlands(1985)	12.0
PNG	4.4-9.0	Spain(mid 1980s)	20.0
Brazil	5.0	Japan(1990)@	9.8
Malaysia(1991)$	>20	U.K.(1989)	6.4
Thailand	6.9	U.S.A.(1985)	14.5
Costa Rica	8.0	Hong Kong (1997)**	18.0
Guatemala	10.0	Singapore(1992)	20
Nigeria	12.4	Taiwan(1991)*	7.0
Indonesia(1990)$	>20	Italy(1989)#	7.3
Turkey	15		
India	12.6		
Chile(1990)	34.2		
Colombia(1987)	9.6		
Venezuela(1986)	3.8		
China(1998)*	17.0		

Source: Tilak (1997).
*Tilak(2001c); **Bray(2000); #Catalano, *et al*(1992); $Woodhall(1991a);
@Asonuma(2002); ^ Department of Education, Australia (2001).

Government of India had constituted a number of committees to examine the issue of mobilisation of resources for central universities (under the chairmanship of Justice K Punnayya) (UGC, 1993) and for technical

9 Information on the share of fees in total cost of higher education is rarely available and more specifically for the latest years.

education (under the chairmanship of Dr D Swaminadhan) (AICTE, 1994). Further, committees were formed by UGC to specifically look into the recommendations of Punnayya Committee on unit cost of higher education (under the chairmanship of Dr.M.V.Pylee) (UGC,1997); to review the norms of maintenance grants for Delhi Colleges (under the chairmanship of Dr. Anandakrishnan) (UGC,1999) and to formulate the revision of fee structure (under the chairmanship of Dr. Mohammad-ur-Ruhman) (UGC 2000). The important recommendations of these committees on student fees are recapitulated below.

All these committees have a consensus that one of the major sources of income is the fee from students as fee has not been revised upward for decades in most of the universities. Hence, there is an urgent need for upward revision of fees chargeable by universities and colleges from a reasonable to a substantial limit. They recommended for an increase in the level of fee and in all kinds of fee through all possible ways and means.

Tuition fee:

Tuition fee may be revised upwards with immediate effect and may be periodically adjusted keeping in view the inflation and rise in costs of higher education. The revision of fees must be related in a meaningful manner to the recurring cost of the course of study and employment opportunities offered by the course (suggesting for a differential fee structure) (UGC,1993, p.77). Full cost recovery is suggested in government and aided institutions targeting that the established government funded/ aided colleges may be allowed to start new specialised programmes for specific target groups on self-financing / net revenue earning basis (AICTE, 1994, p.19). Tuition will seek to recover the actual cost of imparting education. Tuition and all other fees, which are not to be charged on one time basis should be tenable for 12 months. Modified unit cost method i.e. 3 per cent of the unit cost worked out by Punnayya Committee should be the basis of fee structure, annual upward revisions may be made at 2per cent of the suggested rate and after five years the commission may consider the entire issue again for upward revision in the fee structure. It is recommended that certain mandatory provisions be made to ensure that the revised fee structure being suggested by the committee is implemented (UGC, 2000, p.41-44 and p.16).

Other fees:

With regard to fees for admission and examination fee, it is recommended to recover the recurring cost of operations. While in library, laboratory, sports and similar other facilities are concerned, it is suggested that these fees must be revised to recover a significant part of the recurring cost (UGC, 1993, p.77). It is recommended to revise the development fee to meet the actual recurring cost on no-loss-no-profit basis (UGC, 1999; 2000).

Hostel and mess fees:

It is recommended to meet the actual recurring cost and to cover part of the capital cost over time (UGC, 1993; 1999; 2000).

Municipal, Civil and Other Services:

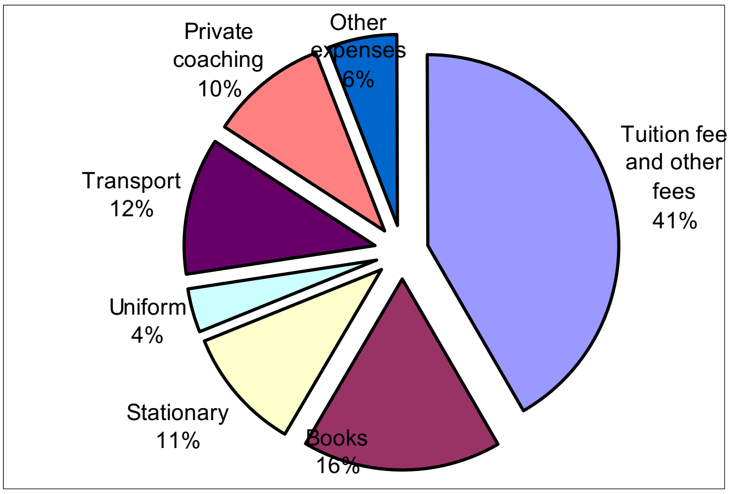
It is recommended to revise appropriately to recover costs. It may include cost of transport, phone, postage and stationery, typing, computing, photocopying, etc (UGC, 1993; 1999; 2000).

Fees as a Source of Income:

Various committees recommended that institutions should raise the fee levels in such a way that at least 15 to 25 per cent of the annual recurring cost per student is recovered from the students in the form of fees and from other sources at the end of ten years. Government should in course of time shift the funding of universities to a system of students funding (UGC, 1993; 1999; 2000). The tuition fee for the government funded and government aided institutions to be revised to at least 20 per cent of the recurring expenditure per student per year. Fees so fixed may be reviewed and refixed once in every three years (AICTE, 1994, pp.19).

As against the general perception that fees are extremely low and not revised for decades, the reality is that most universities have not revised some components of fees, like tuition fees. But tuition fee is only one of the components of total fees chargeable (see Appendix for a variety of fees suggested by some of these committees). Many services especially student welfare services, viz hostels, water, electricity, food charges and the development fees are revised to a substantial extent. This can be evidenced from the components of household expenditure on education that 40 per cent of the household expenditure on higher education goes to tuition and other fees in the year 1995-96 (see Chart 1).

Chart 1
Share of Various Components of Household Expenditure on Higher Education



Source: Based on NSSO (1998), p. A117.

Yet another fact is that the government and UGC are finding it increasingly difficult to even sustain the current level of funding to the institutions of higher education. Managing the present financial liabilities of the universities, especially the state universities, is in utter chaos. The approach paper to the Ninth Five-year Plan says, "emphasis will be placed on consolidation and optimal utilisation of the existing infrastructure through institutional networking …. and through open university system. Grants-in-aid will be linked to performance criteria to improve quality and inject accountability. *Fees will be restructured on unit cost criteria and paying capacity of the beneficiaries* (emphasis added). Additional resources will be generated by involving industry and commerce and through contribution from community" (Government of India,1997, pp.82). Performance related financing is viewed as one of the ways of achieving the end. UGC has planned to give one-third of the grant, based on the performance of the universities for the first time (UGC, 1997-98, p.8).

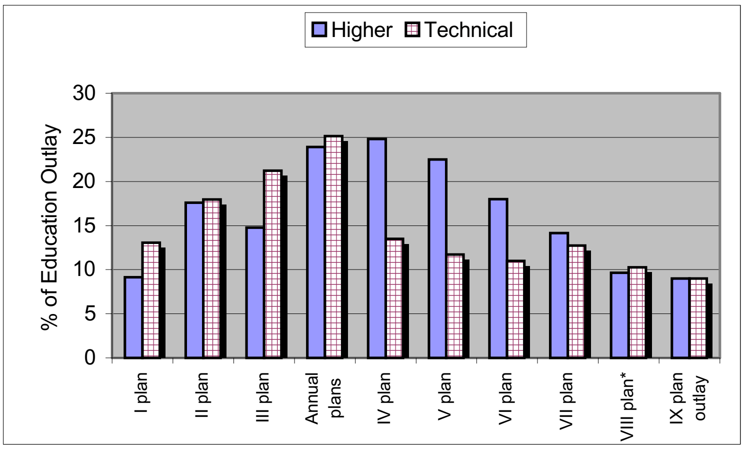
Despite the urge for mobilising resources for higher education, one can notice the equity concerns in the Ninth Five-year Plan, "priority for the Ninth Plan will be the expansion of (higher) education mainly in the unserved areas and with a focus on improving the coverage of women and the disadvantaged groups, using financial assistance as a leverage to secure better performance of the system" (Government of India, 1997-2002, pp.103). Further, in the Ninth Five-year Plan on access and equity, it is said that groups under reported are not yet fully in the mainstream which will receive special consideration in their development proposals (UGC, 1996-97, p.9). Even, on resource mobilisation, the equity concerns are well conceived that planning for internal and external resource mobilisation, such as developing a differential fee structure based on the nature of course and the socio-economic background of the student, enhancing the fees of foreign students and any other methods that the university proposes to utilise including specific interactions with industry and other forms of external funding, is encouraged (UGC, 1996-97, p.10). Mid-term appraisal of the Ninth Plan document emphasised on consolidation and optimal utilisation of the existing infrastructure through institutional networking through open-university system (Government of India, 2000, p.205).

Distinct signals from the government towards hike in fees and shift of resources from higher to primary education can be noticed from the approach paper to the Tenth Five-year Plan,

> "Since budget resources are limited, and such resources as are available, need to be allocated to expanding primary education, it is important to recognise that the universities must make greater efforts to supplement resources from the government. University fees are unrealistically low and in many universities have not been raised in decades. *A substantial hike in university fees is essential (emphasis added)*" (Government of India, 2001, pp.37).

As far as the financial allocation to higher and technical education during the plan periods is concerned, the downward trend in resource allocation is severe which can be seen from Chart 2 and Table 5.

Chart 2
Allocation of Resources to Higher and Technical Education during Five-year Plans in India



Source: Annual Financial Statistics of Education Sector, 1997-98, MHRD, New Delhi, and Planning Commission, 2001.

Table 5
Allocation of Plan Expenditure on Higher and Technical Education in India in the Five-year Plans

	Higher	Technical	Per cent of Education in Total Plan Outlay#
I Plan	9	13	7.9
II Plan	18	18	3.8
III Plan	15	21	6.9
Annual Plans	24	25	4.9
IV Plan	25	13	5.0
V Plan	22	12	3.3
VI Plan	18	11	2.7
VII Plan	14	13	3.5
VIII Plan*	10	10	4.3
IX Plan Outlay	9$	9**	6.3

Source: Same as Chart 2,* Provisional; $ Proposed outlay; **Approved outlay; # Ministry of Finance (2000-2001)

It can be noticed from the above Chart and Table that the plan expenditures on higher and technical education has been on the decline since Fifth Five-year Plan onwards in the case of general higher education and Fourth Plan onwards in technical education.

Faced with fiscal crisis on account of reduced allocations on the one hand and increasing expenditures of the higher education system on the other, higher educational institutions have to look for alternate sources of revenue and find ways and means of reducing costs. Thus, it becomes imperative for the system to explore the alternatives for resource mobilisation. Following the recommendations of these several committees, the plan directions and reduced resource allocations, many universities and other institutions of higher education have been required to reform their fee structures and introduce few financial reforms. Hence, the first focused source of income is the fee income, which has serious ramifications on equity and access to higher education.

While examining the finances of universities in India in the post reform period, Tilak and Rani (2000) found that in the decade 1990, in a sample of around 40 universities, there have been modest to steep increases in students' fees of various types such as, tuition fees, examination fees, admission fees, registration fees, entrance examination, hostel and miscellaneous services, like application forms, brochures, and so on. Government grants to the universities have declined or remained stagnant in real prices, and some times even in current prices. Cost recovery measures, particularly hike in fees, are increasingly resorted to in several universities as can be seen from Table 6.

Table 6

Distribution of Universities by the Share of Fees in the Income of the Universities in 1996-97

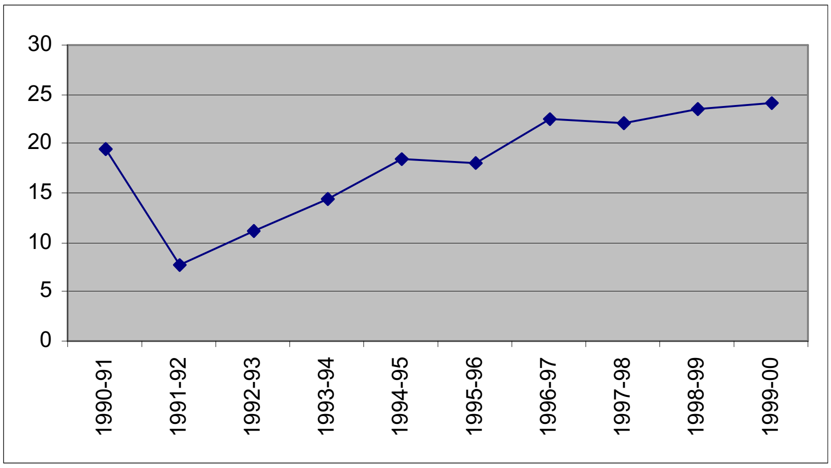
< 5 per cent	5-10 per cent	10-20 per cent	20-30 per cent	30-40 per cent	40-50 per cent	> 50 per cent
Hyderabad	Anna	Andhra	Calicut	Guru Jambeswar	Bangalore	Mumbai
Kalyani	Delhi	Bhavnagar	Goa	Punjab		Karnataka
Maharshi	J.N. Vyas	Calcutta	Kannur	S.N.D.T. Women's		State Open
Dayanand	Osmania	Dibrugarh	Karnataka			Kuvempu
Ravindra Bharati		Dr Harsingh	Kumaon			M.D Saraswati
Tamil		Rajasthan	Mangalore			Pune
Viswa Bharati		Sri Venkates-wara	Mysore			YCM Open
			Saurashtra			
			IGNOU			

Source: Tilak and Rani (2000).

Majority of the universities (as many as 20 universities) have already increased their fee, which covered more than 20 per cent of their recurring income[10]. The share of fee income in recurring expenditures of the universities was on the rise and reached up to 22 per cent of recurring cost in the year 1998-99 (see Chart 3).

[10] This has to be carefully interpreted as the percentage and average has its own limitations. However, this definitely suggests that fees have already been increased.

Chart 3
Fee Income as percent of Recurring Expenditure in Various Universities



Source: Tilak and Rani (2000).

This indicates that the fees are already higher, nearing various committees' recommendations. However, it should be borne in mind that resources that can be raised through fees can be at a maximum level of 15 to 25 per cent on an average of the recurring expenditure over a period of next ten years (UGC, 1993; 2000).

The differential fee structure proposed by Tilak and Varghese (1985) seem to be a viable alternative with top income group paying 75 per cent of the per student cost; middle income group paying 50 per cent and the low-income group paying 25 per cent of the per student cost. As they argued, it attempts to ensure the twin principles of equity (access to low income groups) and efficiency (raise the revenue of the higher education institutions). It is to be noted that discriminatory fees are recommended by UGC(1993; 2000) and AICTE(1994). These committees recommended that as the size and variety in the higher education is complex, it is not pragmatic to suggest a detailed fee structure; differential fee may be charged from students coming from different economic background, subjects, courses, employability of the course, etc.

Some committees recommend uniform hike in fees, which will have serious repercussion on equity.

It is unambiguous that Education Policy of the Government of India now encourages augmentation of resources by each institution for covering a larger portion of cost of education. The recent policy directions in India exacerbate full cost recovery ('user pays' principle) from students even in public higher education institutions through hike in fees and introduction of self-financing courses and seats in tune with liberalisation policies[11]. Under the deep waves of globalisation and competition, important economic rationale for government funding for higher education is neglected. With economic reforms and other pressures of the government, higher education has been shifted to the list of non-merit good[12] from the list of merit good. It has ignored expenditure on education as a social investment and the complementary nature of public and household expenditure on education. It is to be realised that the funding of higher education requires both public and private resources under economic austerity. However, the role of the state and public support to higher education remains essential to ensure its educational, social and institutionalmissions.

Therefore, the state should take the main responsibility for funding higher education. Public funding of research and development in higher and technical education becomes important for the enormous externalities associated with these investments. Further, public support for higher education and research remains essential to ensure a balanced achievement of educational and social missions.

It is often favoured to divert resources from higher to primary level of education. While it is essential that the nation achieve universal elementary

---

11 Certain number of students in each department pay full cost fee, while the rest of the students pay normal (subsidised) fees. It is to be noted that the normal fee itself has been increasing, besides the full cost fees.

12 Srivastava and Sen (1997).

education, it cannot afford to neglect higher education in the period of globalisation. Further, it needs to be realised that all levels of education are inter-dependent; the principle should not be the growth of one level of education at the cost of another. Private investment alone in higher education would be socially *sub-optimal.* It is because the private and households do not come forth to invest on non-market oriented courses in higher education and research and development. Further, increased role of market jeopardises the participation of meritorious students from economically disadvantageous groups, women and minorities. Very steep increase in fees might compel a good number of students from low and middle income families and women not to go for higher education, and some rich students to opt for studies in abroad. Further, it is important to notice that self-financing courses are short term in nature and heavy reliance on them will have repercussions on the equity and quality of the higher education system in the long run. This will also lead to lack of teachers in pure and basic disciplines in the near future as it is being experienced in United Kingdom.

3. Student Support System

The principles of equity and social justice in education in a democratic set up assume greater significance in the context of increase in fees and reducing subsidies, which must be sustained by an effective support system of freeships, scholarships, assistantships and such other financial support to the meritorious and motivated students from disadvantaged groups. Comprehensive scheme of scholarship and financial assistance should be in place to ensure equitable access to higher education. In this context, this section attempts to examine the nature and coverage of various freeship and scholarship schemes in higher education in India.

Before examining the extent and coverage of freeships, some important recommendations of various committees in this regard on freeships when fees are revised, are highlighted below:

- Central universities should award freeships to or admit meritorious students belonging to socially and economically weaker sections of the society at concessional rate of fee. The freeship schemes may be limited to 10 per cent of the student population. Both the schemes of freeship and conessional studentship may be supported by UGC and to be implemented in the Ninth Five-year Plan (UGC, 1993; 1997).

- Full and half freeships should be instituted with the provision that the amount so disbursed be refunded to the institutions by the central and state governments. This includes (i) full freeship to 5 per cent of students, solely on the basis of merit; (ii) half freeship to the next 5 per cent of students on the basis of merit and (iii) full freeships to 5 per cent of the students on the basis of economic weakness. Such of the needy students who do not qualify for the freeships should be given soft loans at concessional rate of interest (AICTE, 1994).

As noted by these committees as well, there is no comprehensive information available at national, state and even at university levels on student support system, such as freeships, scholarships, fellowships, etc. (UGC,1993; 1997). The limited available information from the 52nd round NSSO data on students getting free higher education[13] (see Table 7) suggests that the freeships in higher education are in general utilised by the low-income groups but the rich also benefited to a substantial extent.

Poor income (20-40) group benefited the most from the freeships. Rich income group also benefited from the freeships in higher education. The expenditure group 20-40 benefited the most. This highlights the complementarity of public provision and household utilisation of educational

[13] As the non-enrolled poor who do not benefit from public spending on education are not on equal footing with the better-off. This further exacerbates the inequality between the rich and poor.

Table 7
Free Education Availed by Students in Higher Education across Expenditure Groups (as a percent to the Total Expenditure Groups)
by Region and Gender in 1995-96

Expenditure Groups[14]	Rural			Urban			All
	Male	Female	All	Male	Female	All	
00-20	3	30	8	22	13	18	15
20-40	23	42	26	21	17	19	21
40-60	17	3	15	12	23	17	16
60-80	15	16	15	12	22	16	16
80-100	17	24	20	6	10	8	12
All	17	22	18	1	15	12	14

Source: NSSO (1998), p. A83 - A96.

services. Even though freeships are available, the individual/household needs to spend on his own to utilise the services, besides forgoing the opportunity cost. That could be one of the reasons for a lesser proportion of the poorest students using free higher education compared to the poor, that is 20-40 income category of students. For the poorest students, the opportunity cost of higher education would be much higher than that of other income groups, apart from the household expenditure on higher education. Hence, a targeted freeship scheme with scholarship needs to cover the direct and indirect cost of higher education. Though the distribution of freeships in higher education across expenditure group is generally available to poor and rich, focus needs to be on the poor and middle-income groups.

Freeship to Girl Students

There is a strong case for government investment in girls' education. Indeed, reallocation of resources to girls' education is favoured for. It is because i. marginal returns of education for women will tend to exceed those for men, especially in countries where women are much less educated, ii.

14 NSSO has classified the expenditure classes into five expenditure groups, viz 00-20, 20-40, 40-60, 60-80 and 80 –100. Here we refer them as 00-20, 20-40 as poor or low- income class, 40-60 and 60-80 as middle-income class and 80 –100 as high income or expenditure category.

health and schooling of children are more closely related to mother's education than father's education, iii. more educated women work more hours in the market labour force, broadening the tax base and thereby potentially reducing tax distortions (Schultz,2002).

Some state governments, like Gujarat, have made education at all stages free for girls, signifying important equity implications. Rajasthan government provides full exemption of fees for women up to post-graduate level and Uttar Pradesh upto graduate level. At the same time, it is to be noted that the extent of gender discrimination in literacy rates in Rajasthan and Uttar Pradesh is the highest in India (the ratio of male to female literacy rates is 1.7 and 1.6 in the two states respectively, as per 2001 census). Some of the state governments, for instance Rajasthan reimburse the fees paid to IGNOU by women candidates. A broad-based freeship and scholarship schemes should be in place to ensure equal access for women in higher education, especially from rural areas and low-income families.

Concessional Studentship

Apart from freeships in higher education, the government exempts the students from paying tuition fee either fully or partially. The pattern of fully exempted fee concession is progressive among the urban areas while it is regressive among the rural areas that is, fully exempted fee concession in higher education is enjoyed more by the rural rich than the rural poor (see Table 8). Not even a single poor and also a middle-income rural female used fully exempted fee concession. With regard to partly exempted fee concession, it is regressive among the urban areas, while in rural areas all income groups used the partly exempted fee concession. Here also, very few poor rural female used partly exempted fee concession. The available information suggests that either fully or partly exempted fee is generally availed by the middle and rich and not by the rural poor and rural poor female. Hence, fully and partly exempted fee concessions needs to be targeted more specifically at the rural poor and female students. Students from this category need to be encouraged to utilise freeships in higher education through incentives.

Table 8
Fully and Partly Exempted from Paying Tuition Fee in Higher Education across Income Groups by Region and Gender (per 1000 Students)

Fully Exempted	Rural			Urban			All
	Male	Fem	All	Male	Fem	All	
00-20	19	0	16	197	102	156	109
20-40	25	0	21	35	33	34	30
40-60	54	0	46	61	60	61	56
60-80	79	51	72	52	37	45	55
80-100	78	65	73	45	33	40	53
All	70	56	66	52	40	47	54
Partly Exempted							
00-20	112	0	92	16	39	26	48
20-40	37	2	32	89	11	57	49
40-60	197	149	190	23	9	17	68
60-80	109	35	90	56	21	39	59
80-100	38	24	34	43	33	39	37
All	75	32	63	46	25	37	47

Source: NSSO(1998), pp. A83-A96.

Scholarships

Student welfare, particularly scholarships, stipends and fellowships should be given importance for equity concerns in universities and in technical institutions. Programme of Action on the National Education Policy (1992) recommends an elaborate and effective system of providing freeships and scholarships to students belonging to the weaker sections of the society. States increasingly feel that equity and social justice can be ensured better through direct support of students through scholarships and grants (Punnayya Committee, 1993). Government of India (Department of Education) administers and finances a number of scholarship and fellowship schemes meant for Indian students for further studies and research in different universities and institutions in India and abroad. However, the number of operating scholarship schemes[15] has been reduced to a minimum of two schemes since 1994-95 as can be seen from Table 9.

Table 9
Operating Status of Various Scholarship Schemes in India in the 1990s

	NSS	NSLS	SC/ST	Residential	Rural Areas	Nehru Fellow-ships for PG	NSS for Studying Abroad	Opera-ting Schemes
1990-91	yes	yes	yes	yes	yes	yes	yes	7
1991-92	yes	yes	yes	X	yes	X	X	4
1992-93	yes	yes	yes	X	yes	X	X	4
1993-94	yes	yes	yes	X	yes	X	X	4
1994-95	yes	X	X*	X	yes	X	X	2
1995-96	yes	X	X	X	yes	X	X	2
1996-97	yes	X	X	X	yes	X	X	2
1997-98	yes	X	X	X	yes	X	X	2
1998-99	yes	X	X	X	yes	X	X	2
1999-00	yes	X	X	X	yes	X	X	2

Source: MHRD, Annual Reports, various years; *Scheme for upgradation of merit of SC/ST students was started in 1987-88 and has been transferred to Ministry of Welfare since 1994.

There were seven scholarship schemes in 1990-91, viz, National Scholarship Scheme (NSS), National Student Loan Scholarship (NSLS), Scheme for upgradation of merit of SC/ST students[16], Scholarship for Residential Secondary Schools[17], National Talent Scholarship for Children from Rural Areas, Jawaharlal Nehru Post-graduate Fellowships and National Scholarship Scheme for Indian Students Studying Abroad. Among these schemes, the schemes that cater to higher education are: National Scholarship Scheme, National Student Loan Scholarship, Scheme for SC/ST students, Jawaharlal Nehru Post-graduate Fellowships and National Scholarship Scheme for Indian Students Studying Abroad. Within these scholarship schemes for

15 Scholarship includes all schemes at all levels of education, a few of them for secondary levels of education and for SC/ST students.

16 Covers all levels of education.

17 It was to provide educational facilities to talented but poor students in the age group 11 to 12 years, which was waived off with the introduction of Navodaya Schools.

higher education, only two schemes NSS and NSLS[18] belong to merit-cum-means category and the scheme for SC/ST students for socially weaker students in higher education. These two schemes are discussed in the subsequent paragraphs.

National Scholarship Scheme

National Scholarship Scheme provides financial assistance to students from economically weaker sections in higher education. This scheme is in operation since 1961-62. It is operated by the central government through the states. It provides for full support to the first ten rank holders in the qualifying examinations without the means test and the rest of the scholarships are provided on the basis of merit-cum-means test. Specific number of scholarships is allotted to each state. It awards scholarships for post-matric studies. The rates of scholarships vary from Rs.60 per month to Rs.120 per month for day scholars and Rs.100 to Rs.300 per month for hostellers depending upon the course of study. The income ceiling of the parents for eligibility of scholarship is Rs.25,000/- per annum. The main problem with this scheme is the provision of very meagre amount of scholarship. It needs to be augmented so as to cover the direct and indirect costs of higher education. Further, with the revision of fee structure, it needs to be a broad-based scholarship scheme.

The Punnayya and Pylee Committees recommended a post-graduate scholarship in central universities, for supporting the students from economically and socially weaker sections. The important recommendations of these two committees include:

- UGC may introduce a broad-based student scholarship scheme for PG students in central universities. Eligibility criteria should be strictly on the basis of merit-cum-means and social backwardness. Social backwardness may be evaluated in terms of backward areas such as tribal and remote areas, backward districts and also those belonging to

[18] This loan scheme was waived in 1993 and is discussed later.

other backward classes. Loan amount may cover tuition and living costs. The tuition cost may be met fully or partly in relation to the income of the graduates. Scholarship may be generous so as to include living expenses, travel expenses and other essential expenses for out-station students in order to promote the all India character of central universities. Post-graduate scholarships may be sanctioned to 20 per cent of the students. However, individual universities may be given discretion to appropriately modify them to extend the benefit to a larger number of students.

- It was further recommended that financial implications of the PG scholarship needed to be studied by an expert committee in detail. The committee also recommended that UGC may in consultation with central and deemed universities prepare programmes for this purpose for inclusion and implementation during the Ninth Five-year Plan.

Though committees have been set up to follow-up the recommendations of Punnayya Committee on revision of fees, norms of maintenance grants, etc, there seems to be no further deliberations on the issue of support system for the students from disadvantaged groups, while fees have been revised substantially.

Scheme for Upgradation of Merit of Scheduled Caste (SC) / Scheduled Tribe (ST) Students

Students from SC and ST are entitled to tuition and living expenses under this scheme, which is administered by the Department of Welfare through the state governments. There are two major problems with this scheme. One, the process of applications and sanction is time consuming and hence late receipt of financial support by the institutions and students. Two, amount of scholarship is meagre and may not be able to cover the rising costs of higher education. Hence, the scholarship amount needs to be enhanced so as to cover the direct and indirect costs of higher education.

Various committees recommended that socially weaker students should be supported fully for the actual cost, which includes all fees, living and travel expenses. UGC may evolve a system wherein the actual cost is reimbursed to the institutions. Central government may support a programme for development of book banks in the central universities assisting the students belonging to SC/ST (UGC, 1993, 1997).

Fellowship for Research Students

Besides these scholarship schemes, there are few fellowships available for research students pursuing doctoral research. Fellowships for research programmes are offered on natural sciences by a number of organisations to meritorious students such as Council for Science and Industrial Research, Department of Atomic Energy, Department of Science and Technology, Indian Council of Medical Research, Department of Non-conventional Energy Sources, Indian Space and Research Organisation, Indian Council for Agricultural Research and fellowships of individual institutions of CSIR. Similarly, fellowships for social sciences are offered by UGC, Indian Council for Social Sciences Research, Reserve Bank of India, Indian Council for Historical Research, Indian Council of Philosophical Research, and individual institutions under ICSSR to pursue doctoral research. These are institutions of national importance and merit should be the sole criterion for award of fellowships.

NCERT's National Talent Search Programme provides fellowship to pursue higher education up to and beyond post graduation in any institution of student's choice. Some of the central universities have their own PG fellowship programme built into their maintenance expenditure. These are generally means-cum-merit based, which enable access to higher education for needy students and such initiative of these institutions deserves encouragement and support[19] (UGC, 1993).

[19] The innovative practice followed in Dr. Baba Saheb Ambedkar Marathwada University, Aurangabad is "*work scholarship*" to the needy students from rural areas.

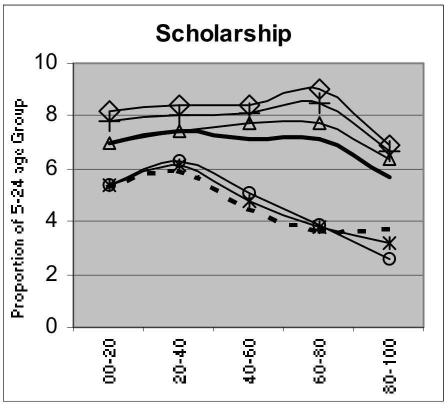
Fellowships for Socially Weaker Students

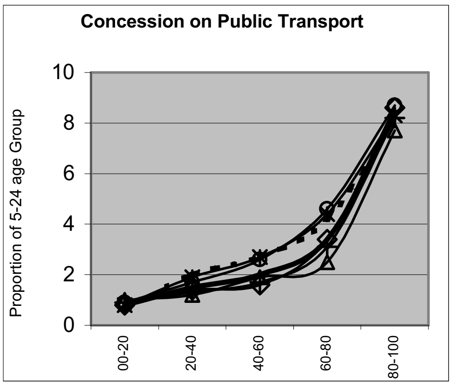
Junior Research Fellowships (JRF) by UGC / CSIR is relaxed up to 10 per cent cut off marks for SC/ST students. Since 1989 UGC has decided that as the number of JRF qualified SC/ST candidates was rather small, all candidates qualifying JRF test would be awarded JRF. Though each university has a fixed quota for JRF, UGC decided to provide supernumery positions to JRF to the universities, to accommodate all eligible candidates. 50 JRFs are also awarded every year in Science and Humanities, including Social Science, to SC/ST candidates through open selection without qualifying in the test.

Though, there is no information on the actual number of students receiving various scholarships[20], the household survey on "Participation in Education" by NSSO, in its 52nd round provides some useful information on the per cent distribution of population in the age groups 5 –24 using various incentives provided by the government. The incentives relating to free / subsidised books, free/subsidised stationery and mid-day meals schemes mainly correspond to primary levels of education. Incentives such as scholarships and concession in public transport among income groups across regions and gender would be more appropriate as they would be increasingly utilised by students in higher education. Distribution of scholarship was found to be highly progressive, the poor benefiting more than the rich across regions and gender. Even across regions and gender, it was the rural poor female benefiting the most from scholarships as can be observed from Chart 4a. With regard to concession in public transport, it is the rich urban student population, which benefited the most than the poor across region and gender. This suggests that the focus needs to be on the poor in providing the concession in transport.

[20] Share of students getting scholarships in the total number of students enrolled in higher education across schemes and time period, would be worthwhile to examine the extent of student support system in the country.

Charts 4a and 4b
Distribution of Scholarship and Public Transport Concession across Income Groups by Region and Gender in 1995-96



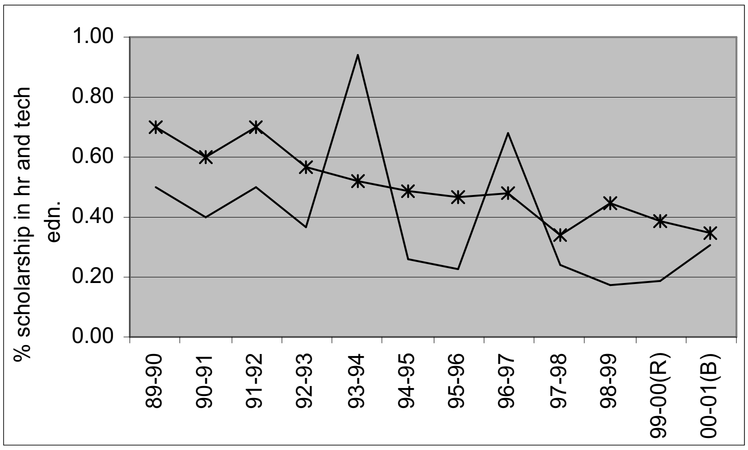


*	urban person	- - -	urban male
o	urban female	+	rural person
□	rural male	Δ	rural female
___	total –person	Source: NSSO (1998), p.24.	

Expenditure on Scholarships

Expenditure on scholarships in higher and technical education has been declining over the years at the macro level. The simple growth rate on the expenditure on scholarships from 1989-90 to 2000-01 in higher education is 7.10 per cent while in technical education the growth rate is 4.47 per cent. Growth rates in real terms are negative, that is, –1.16 per cent in higher education and much severe –3.58 per cent in technical education during the same period. This indicates that there has been a drastic decline in the amount of scholarships allocated to higher and technical education. Share of expenditure on scholarships in higher education expenditure constitutes a minuscule proportion and the same is true for technical education as well. Even this meagre proportion has been on the decline from 0.70 per cent in 1989-90 to 0.34 per cent in 1997-98 in higher education (see Chart 5). The proportion allocated to scholarships in technical education was also small, that is, 0.50 per cent in 1989-90 which declined to 0.24 per cent in 1997-98. Even this smaller allocation fluctuates a great deal.

Chart 5
Share of Expenditure on Scholarships in the Expenditure on Higher and Technical Education



Source: Analysis of Budgeted Expenditure on Education, Ministry of Human Resources Development, various years.

Expenditure on Various Scholarships Schemes:

Scattered and limited information on the allocation of funds to various scholarship schemes in higher education (see Table 10) suggests that meagre resources are allocated to various schemes. One can also notice the gap in outlay and actual expenditure in the Eighth Plan in National Scholarship Scheme and in Jawaharlal Nehru Post-graduate Fellowship as this scheme has been waived off in early 1990s itself. Though this Post-graduate Fellowship and National Scholarship Scheme for Indian students studying abroad are waived off, still some amount of assistance is provided to students who seek for it. Resources allocated from the Seventh to Ninth Plan in National Scholarship Scheme, which is the only operating scheme for the poor and meritorious students, have also declined. It is to be noted that there has been a substantial allocation in the Ninth Plan under National Loan Scholarship Scheme[21], which refers to the new education loan scheme.

[21] It is the educational loan scheme, which is referred as national loan scholarship scheme and discussed in detail later.

Table 10
Amount of Resources Allocated under Various Scholarships Schemes in India (Rs in crs)

	NSS	NSLS	NSLS (written-off)	JN Fellow-ship	NSS for Abroad
1990-91®	1.1	2.85	0.35	--	--
1991-92®	0.9	2.85	0.35	--	--
1992-93®	1.0	2.85	0.35	0.35	1.75
1993-94®	1.0	2.85	0.2	0.5	1.75
1994-95®	0.9	2.85	0.1	0.1	1.25
1995-96®[22]	4.18	2.85	--	--	--
VII Plan	5.06	--	--	--	--
VIII Plan Outlay	4.24	--	--	4	--
1992-97 (Expr.)	3.37	--	--	0.12	--
IX Plan Outlay	3.44	25.32	--	--	--

® Refers to revised estimates.
Source: Annual Reports, various years, MHRD; Annual Financial Statistics of Education Sector 1997-98; and Planning Commission, 2001.

The students are hard pressed from both the supply as well as demand sides. On the supply side, there are severe pressures for hike in fees in higher education and withdrawal of subsidies. The point that noticeably comes out from the analysis is that student welfare activities in terms of number of scholarships has declined drastically with regard to the scholarship schemes in higher education. The resources allocated to scholarships at the macro level and individually to the few existing schemes have declined. At the micro level, the household survey information on students getting free higher education, concessional fee and incentive on transport suggests that these are generally utilised by the low-income groups. So, the focus needs to be equal access to higher education to the poor and rural poor female students. But, it is to be noted that scholarships are already targeted at the poor.

[22] No information is available on the financial allocation of resources to various schemes from the annual reports since 1996-97.

With a substantial revision in fees, a sufficiently broad-based freeship and scholarship schemes should be in place for an equal access to higher education for disadvantaged groups of population. Hence, it is argued that coverage needs to be more comprehensive and broad-based. Allocation to various scholarships needs to be substantially increased. It is emphasised that a comprehensive student support system must be strengthened (when the fees are increasing substantially) in order to ensure equal access to higher education for the students from weaker sections.

4. Student Loan Scheme

It is argued that in order to safeguard poor students from the rising costs of higher education (both tuition fee and maintenance cost), a number of countries in the developing and developed world have established student loan programmes. However, cost recovery cannot be implemented equitably without scholarship programmes that should guarantee necessary financial support to academically qualified poor students (Salmi, 1992; Tilak, 1997). Further, imperfection in capital markets related to the lack of collateral security for education investments restricts the ability of poor students to borrow for education.

Student loans are currently in operation in more than 80 countries around the globe. Of late, educational loan is very popular among students because of its simple and appealing logic, despite its inherent weaknesses. Abundance of research has gone into student loan programmes around the world. Some of the reports and studies provide institutional details of the various student loan programmes around the globe (Woodhall, 1990, 1991a, 1991b, 1993; Johnstone, 2000; Khan, 1991; SveniEric Reutuberg and Allan Sevenson, 1993). The review of methods and practices of student loan programmes[23] in about 40 countries reveals that in majority (35) of the student loan programmes, the choice of administering agency is either government department / agency or educational institutions / universities themselves (see Table 11). The table has condensed a variety of methods and practices followed in 39 student loan programmes around the world considering five important aspects, namely choice of administering agency, eligibility for loan, the coverage of loan amount, the rate of interest charged and loan recovery. It can be observed from the Table that commercial banks, private banks and private agencies/sector also administer the student loan programmes.

Table 11
Methods and Practice of Student Loan Programmes in Developed and Developing Countries

Administering Agency	Government dept/ Agency (24)	Institutions / universities (11)	Commercial Banks (15)	Private Banks (3)	Private agency / sector (4)
Eligibility for Loan	Financially needy (15)	Merit (4)	Merit-cum-means (18)	Income assessment (10)	Number of other criteria
Amount Paid for	Tuition cost (4)	Living expenses (4)	Tuition and living expenses (17)	Other considerations (3)	
Interest Rate Charged	Zero interest (12)	Zero interest during study (4)	Fixed interest (2)	Subsidised or below market rate (20)	Market rate (8)
Recovery	Above 60 % recovery (4)	60 – 40 % recovery (9)	40 – 20 % recovery (6)	Below 20 % or high default (5 + 20)	Negative (2)

Note: The numbers within brackets indicate the number of student loan programmes / countries.

23 This part mainly draws from a detailed review of the 'Methods and Practices of Student Loan Programmes in Developing and Developed Countries' presented by the author in the National Workshop on Student Loans with Reference to Weaker Sections, November 28, 2001, at NIEPA, New Delhi.

Majority of the loan programmes in the world are administered by government/government agencies. It is either equity (means) and/or efficiency (merit) considerations, which determine the eligibility for loan in almost all loan programmes. Means tested student loans help to maintain the access of low-income families to higher education. Many of the loan schemes cover both tuition and living expenses. In some of the European (Sweden, Norway) and African (Ghana, Lesotho, Nigeria) countries, loan amount covers only living expenses as higher education is tuition free in these countries. In most of the countries either zero rate of interest or subsidised or less than the market rate of interest is charged, that is, the opportunity cost of loan (interest rate) is subsidised either fully or to a greater extent.

The terms, conditions and period of repayment vary a great deal across loan programmes and countries. Some countries such as Australia with efficient taxation system, Ghana with comprehensive social security network and Sweden have explored alternative strategies to replace traditional mode of repayment, that is equal monthly instalments with income-contingent repayment, which is responsive to earnings. It is worthwhile here to briefly explain the scheme that seems to have successfully worked in Australia since 1989. It is referred as Higher Education Contribution Scheme (HECS), wherein Australian students are required to contribute to the cost of their education.[24] An innovative-cum-equity feature of the scheme is that repayment is based on the individual's capacity to pay. It is an interest-free deferred payment, which does not prevent the eligible students from participating in higher education on account of their inability to pay the fees. Hence, it is argued that income-contingent repayment loan is considered better than the equal monthly fixed repayment loan as the former has the advantages in terms of both efficiency and equity, since it considers the ability-to-pay principle of

[24] Few students with an Australian Post graduate award, HECS's research scheme, merit based equity scholarship are exempted from this HECS scheme.

the student borrowers. The repayment or the rate of recovery has also improved from around 8 per cent of the HECS account in 1990-91 to around 50 per cent in 2002-2003(BE) (see Department of Education, Australia, 2001, pp.99).

But, many countries have experienced very low recovery or high default rate. Only in four countries, viz, Barbodas, Canada, Sweden and Singapore, the recovery rate is above 60 per cent. It is argued that the existing student loan programme is not very promising but can be improved with certain changes. Student loan schemes need to be suitably reformed on a number of counts, that of improving the financial effectiveness through targeting towards the most needy and able students; charging positive real rate of interest; designing repayment plans responsive to graduate earnings; and ensuring over right institutions, such as banks, private collection agencies or taxation department or social security systems for collecting loans. Further, it is argued that government could explore alternative cost recovery mechanisms such as a graduate tax and national service (Ziderman and Albrecht, 1995).

After reviewing the student loan programmes in 50 countries, it is suggested that student loans are not an effective instrument for cost recovery in higher education as students repay only a small proportion of the value of the original loan. It is because subsidies, high default rates and high administrative costs together have eroded the value of repayments. A combination of all these factors has resulted in a low repayment in relation to the average loanas found in Thailand. Hence, it is recommended that student loans can be converted into outright grants (Ziderman, 2002).

Yet another review of experience of student loans in developed and developing countries found that loans were feasible and could increase equity, depending on the terms and conditions of the loans and the general educational and economic situations in which a student loan scheme operates (Woodhall, 1987). On similar lines, student loans is viewed as a potential instrument in financing higher education, as it can shift the burden of cost from the government to parents and students. Despite the difficulties found in the loan recovery and high rates of default in student loans in developing countries, full cost recovery in higher education and in student loans in its fixed equal monthly form of repayment is advocated (Johnstone, 2000).

There has been a paradigm shift in the attitude towards financing higher education *per se* and student loans in particular. The features of second generation of loan programmes around the world are such that loan is not guaranteed by government; sanction of loan requires 100 per cent collateral security and a guarantor that of co-signatory of parent or family member; the loan schemes are operated by commercial banks / private sector / private banks; the loan amounts are charged at market rate of interest; and marketability of a course scores for high probability of a loan getting sanctioned. A major shift can be observed from the choice of administering agency from government/agency or institutions/universities to commercial banks and private banks or private sector. There is gradual shift from a regime of interest-free loans to subsidised interest on student loans. With the changes in economic reform polices around the world, there is sudden upsurge of market rate of interest or even above the market rate of interest being charged for student loans.

Second generation of loan programmes aim at full cost recovery and are not responsive to any equity considerations. It should be reminded that such loan schemes involve a number of risks. Heavy reliance on such student loans will discourage students from low-income families, women and other weaker sections and minorities from participating in higher education. More specifically for women, student loan is regarded as a negative dowry. Further, with globalisation and internationalisation of higher education under WTO and General Agreement on Trade and Services (GATS), there is a risk of highest student mobility from developing countries to other developed countries.

Student Loan Scheme in India

With this brief review of the methods and practices of student loans around the world, the student loan scheme in India is discussed in the following paragraphs. In India, the National Loan Scholarship Scheme operated between the period 1963 and 1993. It was funded by central government and administered through state governments. The loan disbursement was through higher education institutions. It was provided for the students in post-matriculation studies. The loan was provided on merit-cum-means basis, that is, the students who obtained marks of 50 per cent and above in the qualifying examination were eligible for the scheme; income ceiling of parents for eligibility was Rs.6000 per annum, which was raised to Rs.25,000 per annum in 1988. The loan amount ranged between Rs.720 to Rs.1750 per annum depending upon the course of the study. It was an interest free loan to needy and able students. It was to be repaid in easy monthly instalments equal to one tenth to one sixth of monthly income subject to a minimum of Rs.25 per month. The repayment was expected to start one year after the student begins to earn income or three years after termination of scholarship or studies, whichever was earlier. So, the full recovery of loan would take around eight to ten years.

It fared well in equity aspects as the loan was provided on merit-cum-means basis with no interest, but suffered from resource generation as the recovery rate was dismal. This loan scheme was fraught with a number of problems, such as: the quantum of loan was inadequate and was not related to fee structure; number of loans were inadequate; loan scheme assumed a strong relationship between education, employment and earnings; and procedures for securing loans were bureaucratic, time consuming and not user-friendly (Tilak, 1992; UGC,1993; AICTE, 1994). However, it is argued that the student loan programmes can be revitalised in India to generate some limited resources for higher education in the long run, though the earlier and world experience does not offer much scope. Moreover, in the short run, the loan programme might indeed require huge funds. Further, it needs to be reminded that loan programmes in higher education are fraught with serious weaknesses as they are based on unrealistic assumptions (Tilak, 1996; 1999).

As noted earlier, the loan scheme was waived off in 1993, following the recommendations of the Committee constituted at Ministry of Human Resource Development (MHRD). The Ministry noted that the scheme was to be reformulated with a view to quicken the disbursement of loans and also to facilitate systematic recovery. It was recommended to explore the possibility of channelising the loans through nationalised banks. Later, following a directive of the Supreme Court of India, the Reserve Bank of India (RBI) issued guidelines to nationalised banks to sanction loans in varying amount from Rs.15,000 to students admitted into professional colleges under 'merit' quota and Rs.50,000 to the students admitted under 'payment' quota. Some of the nationalised banks started their operation of student loan schemes in 1995. Interest rates were charged according to the RBI guidelines, that is up to Rs.2 lakhs, interest was the medium term lending rate (MTLR) of 12 per cent per annum and above Rs.2 lakhs, the interest rate was charged 2 per cent above MTLR, which is 14 per cent per annum (Tilak, 1996). This loan scheme still continues to operate.

Before looking at the details of the new student loan scheme announced in Budget 2000-01, it is worthwhile to look at the important recommendations of Punnayya Committee (1993) and AICTE (1994) on student loans:

- UGC may also explore the possibilities of introducing a soft loan scheme in collaboration with the nationalised banks on experimental basis in central universities (UGC, 1993).

- Establishment of an Educational Development Bank of India(EDBI) by the central government with shares in each of state government with a matching contribution by the central government and from International Financing Institutions. National Loan Scholarship scheme may be operated by EDBI through associate banks in all States/UTs for higher technical education (AICTE,1994; UGC,2000).

- The sole criterion for selection of a student must be merit and economic backwardness. The extent of tuition and living costs to be supported by the loan programme will be determined in each individual case by the university based on economic need and local circumstances. Loans may carry only a soft interest rate for a period upto one year after completion of studies or leaving the institution. Government may also consider bearing the low interest charges and allowing appropriately and generously phased return of loan. Repayment shall be responsive to earnings depending upon the paying capacity of the borrower. The terms of repayment may be made renegotiable on the request of the borrower. Repayments should be waived in the case of certain categories of persons such as those who join the armed forces and those who die or become handicapped. Procedures shall be simple and user-friendly and implementation of a loan scheme should be done with utmost sympathy (UGC,1993; AICTE,1994).

Various committees noted that the scheme of freeships, concessional studentships and scholarships may continue to operate besides the proposed student loan schemes.

New Student Loan Scheme

The present Educational Loan Scheme was introduced in India in 2000 following the announcement in the budget 2000-01. The scheme is administered by the commercial banks[25]. The scheme covers a wide range of courses in higher studies from post-matric to research studies, both in India and abroad. Eligibility criterion is that any student who secures admission in domestic / foreign educational institution is eligible for loan. The loan covers both instructional cost and living expenses[26]. A maximum of Rs.7.5 lakhs for

[25] Some private banks also operate student loans schemes.

[26] The expenses considered for loan include, various fees viz, tuition, examination, library, laboratory and hostel and purchase of books, equipments, instruments, uniforms; caution deposit, building fund, refundable deposit supported by institution bills, receipts; travel expenses and passage money for studies abroad; purchase of computers – essential for completion of the course; any other expenses required to complete the course, like study tours, project work, thesis etc.

studies in India and Rs.15 lakhs for studies in overseas institutions / universities is envisaged under the scheme. For loans up to Rs.4 lakhs, no margins are required and collateral security is not insisted upon. Loan amounts exceeding Rs.4 lakhs require 100 per cent collateral security or guarantee of a third person known to the bank for the entire loan amount. Margins vary from 5 per cent to 15 per cent for loans above Rs.4 lakhs. Interest rate is charged according to the Prime Lending Rate (PLR) for loans up to Rs.4 lakhs and with one per cent addition to PLR for loans exceeding Rs.4 lakhs. The loan can be repaid in five to seven years and repayment would commence one year after completion of the course or six months after getting employment, whichever is earlier. Simple rate of interest is charged during the period of study and up to the commencement of repayment.

However, it is to be noted that there is no income ceiling on students / parents for the eligibility of this loan scheme. Neither the academic achievement is considered as an eligibility criterion, that is, there is no minimum qualifying marks required. There are no special provisions of any kind for the weaker sections in terms of security, government guarantee, lower rate of interest or repayment period, repayment in accordance with earnings, waivers, etc. It is to be noted that the scheme neither adheres to the efficiency nor the equity principles unlike in many other countries, where merit-cum-means determine the eligibility for student loan.

Given the world experience on student schemes, the new scheme in India is insensitive to the needs of the poor and does not concern equity aspects as there are no special provisions of any kind for the weaker sections. The present loan scheme neither takes into consideration the various details, such as eligibility, interest rates, repayment terms and conditions as recommended by various committees. Hence, an alternative scheme specifically for the weaker sections needs to be evolved as the present scheme is not flexible to the needs of the weaker sections.

The alternative loan programme should be administered by the government / agency / educational institutions and not the commercial banks. The eligibility criteria for this scheme should be merit-cum-means basis, targeting the disadvantaged sections of poor, rural and female students aspiring for higher education. Though identification of the eligible students is a difficult task, but still targeting should be tried which would involve errors of commission and omission. It needs to be a government guaranteed loan programme with no security insisted upon from these disadvantaged sections. Loan amount needs to cover tuition, maintenance and opportunity costs with no interest during the study period for the poor students. A nominal rate of interest may be charged during the repayment period. It should have other liberal terms and conditions of repayment, viz, repayment in relation to income of the students; if income of the student is very low, the loan amount needs to be waived because this would generate inter-generational inequality.

The world experience on student loans suggests that recovery rate from student loans is very low. In addition, administrative cost of the student loan programme is quite high. Hence, total cost incurred on default and administration would be much higher and eventually the scheme may not be financially viable. Hence, the idea of self-sustaining student loan schemes in the long run seem to be elusive. Further, student loan schemes require huge start-up amount. Apart from financial non-viability of student loan, its psychological impact (burden) and societal attitude ("negative dowry" for women) is adverse on students, family and society.

As highlighted, for the weaker sections, the alternative loan programme must be flexible enough to suit their requirements. This may involve government guaranteed loans, subsidised interest rates, liberal terms of repayment, waivers for those students with less future incomes, etc. The objective of such a loan scheme becomes encouraging equal access and participation of the deprived groups in higher education. Hence, the extent and amount of open and hidden subsidy would be enormous, besides a probable high rate of default. Considering the high cost of administration of such a loan programme than actual disbursement of loans to poor students, it is arguedthat instead of providing student loans to poor students, it could as well be freeships / scholarships to the means-tested poor students. The freeships and scholarships for the poor students need to be broad-based especially when the fees are revised substantially. It is to be noted that the existing few scholarship schemes should continue, with the enhanced resource allocation to them. Indeed, in the analysis, it can be found that fees have been raised substantially and a student loan scheme is in place, which is insensitive to the needs of the weaker sections. But, there seems to be a missing gap to strengthen the student support system in the entire strategy.

5. Concluding Remarks

Financing higher education from the point of view of equal access is attempted in this paper by examining the pattern of: (i) student fees, (ii) student freeships and scholarships, and (iii) student loan programmes during the post reform period in India. It is unambiguous that Education Policy of the Government of India now encourages augmentation of resources for covering a larger portion of cost of education. The recent policy directions in India exacerbate full cost recovery from students even in public higher education institutions through student funding including hike in fees. Under the deep waves of globalisation and competition, important economic rationale for government funding for higher education is neglected.

When fees are revised substantially, the support system for the students should be in place, so that equity and access to higher education for weaker students is not denied. What is observed is that the number of scholarship schemes and the resources allocated to the few existing schemes have been reduced at the macro level. In the reforming era, distributional effects of globalisation are extremely unfavourable to the poor as the cost of higher education is accentuated by increase in the fees on the one side and a gradual decline of subsidies on the other. There are serious apprehensions that when fees are revised substantially, the impact on enrolment in higher education by the weaker sections would decline, though there is no empirical evidence to support this. However, the available evidence on the distribution of various forms of subsidies and free higher education across income groups brings out that the poor benefited the most and the rich also benefited from freeships in higher education. The policy imperative here is two-fold: (i). freeships / confessional studentships to target the students from poor and lower middle-income families and (ii). withdrawing subsidies and hike in fees in higher education to be embedded with broad-based freeship and scholarship schemes for students from low-income families and rural areas with an emphasis on equal access to female students from these groups.

Cost recovery measures comprising increase in fees and student loans currently operated by commercial banks will exacerbate inequality in the society. Indeed, there seems to be a nexus between the present student loan scheme and full cost recovery. It needs to be noted that the maximum income that can be raised from fees is on an average around 25 per cent of the total recurring expenditure in a span of ten years. Increasing reliance on student fees and student loans without considering the low-income groups may produce regressive effects in the society. Hence, an alternative student loan scheme specifically for the weaker sections should be evolved. Such a programme must be flexible enough to suit their requirements, which may involve government guaranteed loans, subsidised interest rates, liberal terms of repayment, waivers for those students with less future incomes, etc. The objective of such a loan scheme becomes encouraging equal access and participation of the deprived groups in higher education. Hence, the extent and amount of open and hidden subsidy would be enormous, besides a probable high rate of default.

Considering the high cost of administration of such a loan programme than actual disbursement of loans to poor students, it is argued that instead of student loans to poor students, it could as well be broad-based freeships and scholarships to the means- tested poor students. When fees have been revised substantially, the new student loan scheme administered by commercial banks is in place, which is not responsive to the requirements of the students from low-income families. Further, freeships and scholarships, where the eligibility for such support system is determined on the basis of merit-cum-means category, are already weak and deteriorating in terms of the resources allocated towards them and in the number of such available scholarship schemes. This reflects the lack of access and equity concern in the financing of higher education in India in the post reform period. Hence, it is argued that sufficiently broad-based freeship and scholarship schemes should be in place for an equal access to higher education for these groups of population under economic reforms where fees are being revised substantially to cover the cost. However, involvement of the state and retention of public services is still the best guarantee of equal opportunities and democratisation of higher education.

References

AICTE (1994), *Report of the High Power Committee for Mobilization of Additional Resources for Technical Education*, All India Council for Technical Education, New Delhi.

Altbach G.Philip and Y. Ogawa (2002), "Introduction", *Higher Education*, 43(1), Special Issue on Japan: Reform and Change in the Twenty First Century, pp.1-6.

Asonuma, Akihiro (2002), "Finance Reform in Japanese Higher Education", *Higher Education*, 43(1), pp.109-126.

Bowles, S. (2001), "Globalisation versus Redistribution: Egalitarian Policies in a Competitive World Economy", *Indian Economic Review*, 36(2), pp.315-339.

Bray, Mark. (2000), "Education in Asia: Financing Higher Education: Patterns, Trends and Options", *Prospects*,30(3),pp.331-347.

Carnoy, M. (1999), *Globalisation and Educational Reform: What Planners Need to Know*, Report No.63, International Institute of Educational Planning, Paris.

Catalano, G P.Silvestri and M.Todeschini (1992), "Financing University Education in Italy", *Higher Education Policy*, 5(2),pp.37-43.

Department of Education (2001), *Higher Education Report for the 2001 to 2003 Triennium*, Department of Education, Training and Youth Affairs, Commonwealth of Australia.

Government of India (1992), *Programme of Action on the National Education Policy*, Ministry of Human Resource Development, New Delhi.

Government of India (1997), *Approach Paper to the Ninth Five-year Plan:1997-2002*, Planning Commission, New Delhi.

Government of India (1997-2002), *Ninth Five-year Plan:1997-2002*, Planning Commission, New Delhi.

Government of India (2000), *Mid-term appraisal of Ninth Five-year Plan:1997-2002*, Planning Commission, New Delhi.

Government of India (2001), *Approach Paper to the Tenth Five-year Plan: 2002-2007*, Planning Commission, New Delhi.

Ilon, L. (1994), "Structural Adjustment and Education; Adapting to a Growing Global Market", *International Journal of Educational Development*, 14(2), pp.95-108.

Johnstone, B. (2000), *Student Loans in International Perspective: Promises and Failures, Myths and Partial Truths*, World Bank, Washington, D.C.

Khan, S.R. (1991), "Financing Higher Education in Pakistan", *Higher Education*,21, pp.207-22.

Ministry of Human Resource Development (several years), *Analysis of Budgeted Expenditure on Education,* Government of India, New Delhi.

Ministry of Human Resource Development (several years), *Selected Educational Statistics,* Government of India, New Delhi.

Ministry of Human Resource Development (several years), *Annual Reports,* Government of India, New Delhi.

Ministry of Human Resource Development (1999), *Annual Financial Statistics of Education Sector: 1997-98*, Government of India, New Delhi.

Ministry of Finance (2000-2001), *Economic Survey*, Government of India, Department of Economic Affairs, New Delhi.

NSSO (1998), *Attending an Educational Institution in India: Its Level, Nature and Cost*, NSS 52nd Round, July 1995-June 1996, NSSO, Government of India.

Salmi, J. (1992), "Perspectives on the Financing of Higher Education", *Higher Education Policy*, 5(2), pp.13-19.

Schultz, Paul.T. (2002), "Why Governments Should Invest More to Educate Girls?", *World Development*, 30(2), pp.207-225.

Srivastava, D.K. and Tapas, K. Sen (1997), *Government Subsidies in India*, National Institute of Public Finance and Policy, New Delhi.

Stewart, F. (1996), "Globalisation and Education", *International Journal of Educational Development*, 16(4), pp. 327-33.

SveniEric Reutuberg and Allan Sevenson (1993), "Student Financial Aid in Sweden", *Higher Education Policy*, pp.31-38.

Tilak, J.B.G. (1992), "Student Loans in Financing Higher Education in India," *Higher Education* 23 (4), Special issue on 'Student Loans in Developing Countries', pp.389-404

Tilak, J.B.G. (1996), "Financing Technical Higher Education in India," *The Indian Journal of Technical Education,* 19 (3), pp.11-23 [Updted/reprinted in *Institutional Building*, (eds. S. Misra and P.G.V. Chand).McGraw Hill, New Delhi, 1999, pp. 101-31.

Tilak, J.B.G. (1997), "Lessons from Cost Recovery in Education," in: *Marketising Education and Health in Developing Countries: Miracle or Mirage?* (ed.: C. Colclough). Oxford: Clarendon Press,, pp. 63-89.

Tilak, J.B.G. (1999), "Student Loans as the Answer to Lack of Resources for Higher Education," *Economic and Political Weekly,* 34, (January 2-15), pp.19.

Tilak, J.B.G. (2001a), "Education and Globalisation: The Changing Concerns in Economics of Indian Education, Editorial", *Perspectives in Education*,17, Special Issue, pp.5-8.

Tilak, J.B.G. (2001b),"Globalisation and Education", presented in a Conference on Globalisation and Challenges for Education, December18-20, 2001, held at NIEPA, New Delhi.

Tilak,J.B.G. (2001c), *Building Human Capital: What Others Can Learn*, World Bank Institute Working Paper, World Bank, Washington, D.C.

Tilak, J.B.G. and G. Rani (2000), "University Finances in India: A Profile", National Institute of Educational Planning and Administration, *Mimeo*, New Delhi.

Tilak, J.B.G. and N.V. Varghese (1985), *Discriminatory Pricing in Education*, NIEPA Occasional Paper No.8, NIEPA, New Delhi.

UGC (1993), *UGC Funding of Institutions of Higher Education, Report of Justice Dr.K.Punnayya Committee*, 1992-92, University Grants Commission, New Delhi.

UGC (1996-97, 1997-98), *Annual Reports*, University Grants Commission, New Delhi.

UGC (1997), *Report of the Pylee Committee on the Recommendations of the Punnayya Committee Relating to Unit Cost of Higher Education and Other Issues,* University Grants Commission, New Delhi.

UGC (1999), *Report of the Expert Committee Appointed by the University Grants Commission to Review the Maintenance Grants Norms for Delhi Colleges*, University Grants Commission, New Delhi.

UGC (2000), *Report of the Committee Constituted by UGC for 'Formulation of Revised Fee Structure in the central and Deemed Universities in India',* University Grants Commission, New Delhi.

UNESCO (1998) Higher education in the Twenty-first Century: Vision and Action, Final Report, World Conference on Higher Education, UNESCO, Paris,5-9, October, 1998.

UNESCO (1999), *Statistical Year Book*, UNESCO, Paris.

UNESCO (2000), *World Education Report: 2000*, UNESCO, Paris.

Woodhall, M. (1987), "Student Loans" in *Economics of Education: Survey of Research,* ed G. Pscharapoulous, Penguin Books, England.

Woodhall, M. (1990), *Student Loans in Higher Education: No.1, Western Europe and USA,* International Institute of Educational Planning, Paris.

Woodhall, M. (1991a), *Student Loans in Higher Education: No.2, Asia*, International Institute of Educational Planning, Paris.

Woodhall, M. (1991b), *Student Loans in Higher Education: No.3, English Speaking Africa*, International Institute of Educational Planning, Paris.

Woodhall, M. (1993), *Student Loans in Higher Education: No.4, Latin America and Caribbean*, International Institute of Educational Planning, Paris.

Ziderman, A. and D.Albrecht (1995), *Financing Universities in Developing Countries*, The Stanford Series on Education and Public Policy, The Falmer Press, Washington, D.C.

Ziderman,A. (2002), "Student Loans in Thailand: Revolving Fund or Open-ended Commitment?", *Economics of Education Review*, 21(4), pp.367-380.

Appendix

Various Kinds of Fees Recommended by Various Committees

1. Application form / Prospectus Fee
2. Enrolment Fee
3. Admission Fee
4. Tuition Fee
5. Home Examination Fee
6. Examination Fee
7. Development Charges
8. Medical Fee
9. Library Fee
10. Library Fines, etc.
11. Lab Fee
12. Games and sports Fee
13. Union Fee
14. Literacy Magazine Fee
15. Boarding House Dues,
16. Hostel Room Rent
17. Mess Establishment Charges
18. Hostel Games
19. Hostel Maintenance Fee
20. Food Charges
21. Water and Electricity Charges
22. Hostel Magazine, if any
23. Caution Money,
24. Various Types of Deposits like Science Deposit,
25. Library Deposit,
26. Breakages etc.

Source: UGC (1999, 2000).