Emerging modes of financing Higher Education in India (with special reference to Education loan and HEFA)

Dr. Manoj Sinha
Principal
Aryabhatta College, University of Delhi

Abstract

Financing of Higher education in India has always been a matter of debate among various policy makers as the purpose of imparting higher education to any individual is seen more as helping an individual in improving his own standard of living rather than bringing development in society. Therefore, Higher education is quite often considered as 'Private Good' instead of 'Public Good'. Consequently, in contrast to availability of Government Grants and funds for elementary and primary level of education, financing of Higher education receives lesser attention. It is being anticipated that the availability of Government funds for higher education are expected to decrease gradually and alternative mechanism for financing higher education in India are expected to pick up. The present study examines and analyze various mechanism of financing higher education in India in the recent past with special reference to contribution of Public Sector banks and Higher Education Funding Agency (HEFA).

Introduction

Higher Education in India has always been in focus for many policymakers on account of huge gap in demand and supply for those aspiring to pursue the higher education in their desired field. Considering the phenomenal size of population of India in the age bracket of 5 to 24 years, it will be unfair to expect solely from the Government to take the responsibility of financing Higher education rather all the concerned stakeholders of the society need to play their role in fostering and financing higher education in India. It is perhaps realization of this fact, that corporate sector has risen to support education sector in India through Corporate Social responsibility. The public sector banks have used significant portion of their loan portfolio in supporting higher education by way of education. Higher Education Funding Agency (HEFA) has been set up as a joint venture company of Ministry of Human Resource Development, GOI and Canara Bank in order to provide financial assistance for creation of educational infrastructure and R&D in India's premier higher educational Institutions.

Objective of the study

The present study has been conducted to identify the suitability of various means of financing higher education in India at the student level and the institutional level. Public Sector Banks in India , since the year 2001, engaged themselves in extending education loan facility for pursuing higher education in India as well as abroad on very liberal terms. This has immensely helped many aspirants to achieve their objective of acquiring degree in the choice of their specialization. Therefore, this study focuses on examining the efficiency of this system and suitable suggestions for further improvement have been made. Another important issue discussed in the study is regarding financing of infrastructure requirements of academic institution keeping in view the significant changes in the external environment and increased usage of technology. The study will discuss the role of Higher education Funding Agency in this regard.

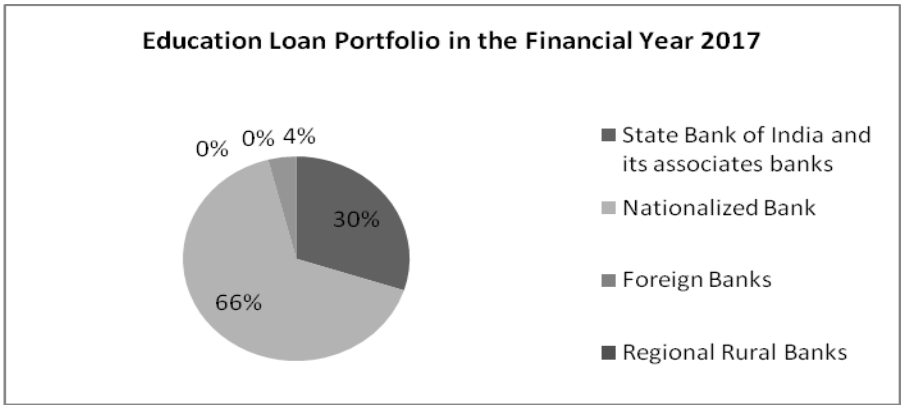
Education Loan for Higher Education

Education sector in India has always been attractive sector for Banks and NBFCs in India on account of huge population and low gross enrolment ratio clearly indicating significant gap between demand and supply . Education loan scheme was introduced in 2001 by banks to facilitate higher education for poor and meritorious students. Earlier, the scheme covered students studying in India as well as abroad with a maximum ceiling of Rs.7.5 lakh in India and Rs.15 lakh for abroad studies. Later on, education loans up to Rs.10 lakh have been classified as priority sector loan, irrespective of the sanctioned amount.

Key characteristics of education loan sector

1. Significant Assistance from Public Sector Banks

As per the data released during the financial year 2017, the nationalised banks, including the State Bank of India and its associates contribute 96% of the education loan portfolio amongst the banks. Foreign Banks have not been seen active participants in this sector and have low participation of 4% only .



Source: *Report on Education Loan dated March 29, 2018 released by CARE ratings Ltd.*

Significant portion of the loan book of bank comprises of loan with amount sanctioned less than Rs.4 lakh which falls in the category of priority sector lending. Education loans under the priority sector lending stood at around 89% in FY17 (refers to the period April 1 to March 31) compared with the total educational loan portfolio of the banks.

2) The ratio of priority sector loans to total educational loan portfolio has shown decreasing trend from almost 95.86% in 2013 to 89.75% in 2017.

3) Regional disparities in education loan portfolio of banks have been observed as can seen from the data given below in table 1

S.No.	Region	Percentage of Education Loan extended
1	Northern	9%
2	North Eastern	10%
3	Central	1%
4	Eastern	13%
5	Western	12%
6	Southern	56%

Table 1: Regionwise Education loan portfolio (Source: RBI Annual Report)

The benefit of education loan by public sector has majorly been drawn by southern region of our country. Southern India forms around 56% of the total education loan portfolio of the banks. Among the various states in Southern Region , Tamil Nadu and Kerala together account for 36% of the outstanding education loan portfolio. The main reason attributed for this skewness in education loans towards some regions is higher literacy levels and students inclination to pursue higher education mainly technical courses.

4) Low Growth rate of Education loan

The rate of growth in education loan has been observed to be on decreasing trend in comparison to other asset classes . As against 17% in the year 2015 , it has reduced to just 2% in the year 2017. The main reason attributed to this fact is the delinquencies experienced by banks in recovery of these loans. As banks do not charge any margin or security to the borrower of education loan upto Rs 4 lakhs, most of the banks experienced problems in recovery of their loan. The problem of recovery are expected to be higher in undergraduate courses in comparison to post graduate courses as employment opportunities are more for post graduate students. The reputation and technical superiority of the college in imparting education is also an important factor and directly correlated to the debt servicing. The delinquencies have been witnessed in the cases wherein the repayments are being done by the students rather than the parent who are also helping with the debt repayments.

Higher Education Funding Agency (HEFA)

Hon’ble Finance Minister in his budget speech for the year 2016-17 announced setting up of Higher Education Funding Agency (HEFA) , a joint venture between Canara Bank and Ministry of Human Resource Development GoI . The main objective of HEFA is to provide no-/low-interest finance to IITs, IIITs, NITs, IISERs, IISc, AIIMs , Central Universities Jawahar Navodaya Vidyalayas ,etc with a view to transform them into Institute of Eminence (IOE) . HEFA has a capital base of Rs 10,000 crore (Rs 6,000 crore from the Centre, Rs 600 from Canara Bank and the rest Rs 3,400 crore raised from corporate houses against equity in HEFA), is supposed to mobilise Rs 1 lakh crore by the year 2022 . The funds are expected to be supplemented through CSR and donations. In terms of letter issued by MHRD regarding credit policy framework of HEFA , the eligibility of institutions and nature of projects is mentioned as under

Eligible Educational institutions

Educational institutions satisfying any one or more of the following criteria are eligible for financing:

a) Institution funded by the Central Government covering at least 50% of its expenditure.

b) Institution owned or controlled by Central Government.

c) Institution set up and funded by the Central Government.

Provided further that such institution must be having its own internal resources generated either from fees, consultancies, research project or such other sources of revenue, lease, rent, donations from industry, donations from alumni etc.

Oniy projects of the following nature, which propose to create new infrastructure shall be considered for financing:

- Construction of buildings or facilities therein, required for academic or research purposes, Including the requirements for accommodating students/scholars/faculty/staff of the institution. Only the non-recurring portion shall be financed. .

- Setting up laboratories / high performance computing (HPC) facilities/libraries and equipping them, provided further, that the projects are accompanied by detailed plans for utilisation of such facilities, Only the nonrecurring portion shall be financed. .

- Research projects that are sanctioned by Ministry of HRD or any other Ministry of Government of India provided further that the Company would meet only the cost of the non-recurring portion of the research project, and the cost of maintenance shall be borne by the institution from the resources generated through such project. .

- Setting up Centres of Excellence (CoE) sanctioned by the MHRD or other Ministries of Government of India, provided that only cost of the non-recurring portion of the CoE project shall be financed .

- The projects executed with the HEFA finance shall be maintained by the internal resources of the Institution.

The main highlights of funding through HEFA are given below:

1. Focused lending to educational institutions
2. Quick Sanctions
3. Competitive ROI
4. Project Monitoring system to ensure efficient fund usage
5. Well-structured escrow mechanism for repayment

Education Institutions requiring finance facility from HEFA need to comply with following formalities:

1.Prior approval for loan/project from concerned Ministry/bureau is to be sought. The eligibility of Loan and limit is decided by the concerned ministry taking into consideration credit and exposure norms.

2.Due diligence and Loan Appraisal is conducted through appraisal of Detailed project report (DPR) submitted by the Expenditure Finance Committee/Standing Finance Committee as the case may be.

3. Thereafter, Institute is to be registered and Loan Application is to be submitted.

4. The loan is provided at a market determined rate and ROI on loans is linked to the cost of funds of HEFA to ensure competitive financing of loans.

5. On sanction of loan proposal, Institute need to open escrow accounts with the bankers and a portion of their cash flows from their internal accruals as per the window under which the repayment is made. Loan portion agreed to be serviced by the Government will be made through normal grants.

6. The projects are closely monitored by HEFA besides monitoring by project monitoring group of institutions. In addition to that, MHRD assesses the performance of each institution on a continuing basis and fix a period beyond which servicing of interest shall also be taken over by the institution in part or full.

Recently funded Educational Institutions by HEFA

According to India Today web desk dated January 11, 2019 , HEFA approved funding of Rs 5310 crores. This included several projects for IITs, IIMs, IISERs, IISc, NIT and 44 new Kendriya Vidyalayas in a move to improve the higher education infrastructure of India

Conclusion

The general perception towards Higher education has changed over last few years which has resulted in shifting of higher education from Public good to Private good. Direct financing from Government for supporting higher education is on declining trend and academic institutions need to meet most of their expenditure through internal accruals. The need to generate funds through internal accruals has made imperative for many academic institutions to increase student fees. This has resulted in shifting higher education in the excludable category and aligning it with characteristics of private good. In order to facilitate the aspiring students , scheme of education loan has been started by public sector banks which have phenomenally cooperated in extending this facility to the students on very liberal terms. But , delinquencies observed by some of the bankers and regional disparities in extension of this service requires policy makers to review the system and take corrective action to avert any material problem likely to arise in future. To meet the financing for infrastructure , Higher Education Funding Agency (HEFA) has been set up and the process prescribed for availing funds from it takes into consideration all necessary requirements. It is expected that it will suitably justify its role in contributing to the growth of infrastructure requirement of educational institutions. It is necessary that corporate India must channelize their funds meant for Corporate Social Responsibility to capitalize HEFA.

References

- Furqan Qamar (2019) : ‘Higher education: Public good or private consumption?’National Herald , 28 Jan 2019

- Dandekar, V M (1991): ‘Reform of Higher Education’, Economic and Political Weekly, 26, November 16: 2631-37.

- Leadership Development in Higher Education , Report of the workshop for Vice Chancellors dated 7-8 December,2017 published by (Department of Higher and Professional Education) National Institute of Educational Planning and Administration (NIEPA)

- UGC (University Grants Commission) (1993): UGC Funding of Institutions of Higher Education: Report of Justice Dr K Punnayya Committee 1992-93, New Delhi.

- Report of Care Ratings Ltd on Educational Loan (2018)

- RBI Annual Reports
- https://hefa.co.in/about-us/