

Higher Education Finance and Cost-Sharing in India

1. Brief description of the higher education system in India

The India higher education sector has expanded at a phenomenal rate in the last century. The European system of higher education was introduced in India by the British in 1857 with the establishment of universities for European education in three cities and withdrawal of support for indigenous education. By India's independence in 1947, an additional 18 universities had been established. In 1950-51 when the country's First Five Year Plan was launched, there were 27 universities serving 174,000 students. By 2006, there were 348 universities (composed of general universities; science and technical universities; open universities; agricultural universities; women's universities; language universities; and medical universities), more than 17,625 colleges, and 10.5 million students, making India's system of higher education the third largest in the world in terms of enrollment and the largest in terms of number of institutions (Agarwal, 2006 5). Table 1 shows the breakdown of higher education between public and government aided and unaided private institutions.

Table 1

Type		Number of Higher Education Institutions (2005/06)
Public	Government	4,493
Private	Aided	5,760
	Unaided	7,720
Total		17,973

Higher education in India is made up of regular education and distance education. There are four types of regular education (general, technical, medical and agricultural) with each type divided into university level and college level education. Distance education is university-based and is limited to undergraduate and post-graduate degree and diploma courses in general and technical education (Narayana, 2002).

Under the Constitution (42nd Amendment) Act of 1976, both the Federal/Central/Union and the State Governments are responsible for the promotion and development of higher education. The University Grants Commission (UGC), established in 1956 by an Act of Parliament, is responsible for funding, coordinating, monitoring and maintaining the universities in the country. The 16 Central Universities were established by Acts of Parliament and are directly controlled by the Union (central) government, while state universities are set up by state legislatures. In addition to these, there are higher education institutions that are granted "deemed to be university" status by the central government and those that are established by Parliament or state legislatures as "institutions of national importance". All of these are degree granting institutions.

The Central Advisory Board of Education (CABE) serves as the liaison between the Union and the State governments. There are no private universities, though the Prime Minister's task force on education (as well as the Prime Minister's Council on Trade and Industry) has recommended that a private university bill be passed to encourage the establishment of new private universities. Colleges are established by State Government, private agencies and, sometimes, universities. Private colleges account for approximately three quarters of all colleges.

Despite its expansion, enrollment in higher education in India today accounts for only 11 percent of the relevant age group (because of growth in population in the relevant age group) and facilities fall short of demand (Agarwal 2006). In an effort to equalize access, the government has instituted a policy of “reservations” whereby a certain percentage of admissions are reserved for the castes that are considered to be low in the caste hierarchy and for the aborigines or tribes who were traditionally excluded from education. (Chitnis, 1999, 25).

For admission to university-level studies students must have senior/higher secondary school certificates with some institutions setting minimum marks on the Higher Secondary Examination and others requiring students to sit for admissions tests. Certain centrally sponsored institutes and universities and the Indian Institutes of Technology require students to take the Joint Entrance Examination.

Financing Higher Education

The cost of higher education in India is supported by the central and state government sector and by the nongovernmental sector (including student/parents and the rest of the community). The 16 Central universities receive maintenance and development grants from the central government through the UGC, while other universities and colleges receive maintenance funds from state governments and some development grants from the UGC.

Private colleges, instead, are either privately managed and publicly funded (aided colleges) or privately managed and funded (unaided colleges). Private aided colleges are required to admit 50 percent of their students based on their performance on entrance exams (free seats). These students are not required to pay any extra fees or tuition. The other 50 percent of students are admitted based on their willingness to pay extra tuition (payment seats). Unaided private colleges set their own fee levels (below a government-set ceiling) that are generally extremely high in comparison to the aided private colleges and government colleges.

To finance higher education expansion, the government has consistently increased its share in the total expenditure on higher education, from 49.1 percent in 1950-51 to more than 90 percent in 1999 (Chitnis, 1999, 26). Students pay a nominal fee that constitutes 10 to 15 percent of the budget of the institution (Maiti, 2001; Tilak, 1997)¹. However, some data suggests that fee contributions may vary considerably between Central and state institutions with student fees contributing a significant amount to university income in the state universities. Several universities offer fee waivers to women students.

The higher education financing system is beginning to change and a policy of fostering financial independence in universities and degree colleges (reducing government allocations to universities and increasing user fees) has been in place since 1997. Despite policy pronouncements over the last six years, however, it is only fairly recently that action has been taken. While the UGC has the legal right to set tuition and fees, it has not done so – in practice, it is the individual state governments and institutions that take the initiative.

While some states like Andhra Pradesh are in the process of significantly increasing tuition in their state universities (and in the case of Andhra Pradesh also in the costs charged for hostel accommodation), less action has been taken by many other states largely because of the violent student resistance to the introduction of higher fees. Nevertheless, there is a slow trend towards cost recovery (with special care being taken to frame policies to assist low-income and disadvantaged students). Professional and private educational institutions have come to accept

¹ Agarwal (2006) calculated tuition fees as making up 19 percent of total public university income.

this change more readily because these students are often from economically stronger families and are more certain of gainful employment on completion of their education (Arora, 2000)

A report was presented by the Prime Ministers Task Force on Education (created in 2000) in April 2000 that recommended, among other measures, full cost recovery in higher education asserting that students and parents can bear the costs of higher education and that the central and state governments should only fund those disciplines that have no market orientation. In May 2000, the HRD Ministry decided that higher education institutions should raise 7 percent in that academic session with a one percent increase each year.

To offset the increase in fees, the Government of India announced a new education loan program, the Educational Loan Scheme, in April 2001. The scheme provides loans to “poor and needy” Indian citizens to undertake basic education and to “meritorious student” to pursue higher education at home or abroad. As compared to the bank-specific education loans scheme in the past, the new scheme is a) non-bank specific in nature as it can be adopted by all banks, b) wider in scope as it includes a large number of courses, and c) broader in scope as it covers both fee and non-fee expenditures which are related to study (Narayana, 2002). The program does not require collateral for the first \$8,595 (Rs 400,000) loaned² and charges an interest rate tied to the lending rate set by the Reserve Bank of India (12 percent) for amounts up to \$8,595³. Larger loan amounts carry higher interest rates. The maximum amount awarded is Rs 750,000 (\$16,115) for studies in India and Rs 1,500,000 (\$32,230) for studies abroad. The interest rate is not compounded during the repayment holiday/moratorium (course period plus 1 year or 6 months after getting a job, whichever is earlier).

There have been relatively few students⁴ availing of the loan scheme due to what is considered a high interest rate, the short repayment period, the fact that they can only be used for programs approved by the government and the stipulation by some banks that loans will not be made to students whose families earn less than \$209 per month, which disqualifies most Indians, since there is no provision for governmental underwriting.

A number of nationalized banks offer study loan schemes including (but not limited to):

The Centvidyarthi Finance for Education program offered by Central Bank loans up to Rs 300,000 (\$6,446) for higher studies in India at a margin of 15 percent for loans up to Rs100,000 (\$2,149) and 25 percent for loans up to 500,000 (\$10,743) with relaxed margins for individuals from the scheduled castes and tribes. The interest rate ranges from 12.5 percent to 14 percent depending on the loan amount. For families whose income falls under Rs12,000 (\$258) per year, the interest rate is 4 percent. A 1 percent rebate is granted in the rate of interest for regular repayment of interest and installments and payment of insurance premiums.

The Federal Bank Scheme offered by the Federal Bank loans a maximum of Rs500,000 (\$10,743) for studies in India (no margin). The interest rate varies depending on the size of the loan. Repayment begins 12 months after the course is completed or when the student gets a job (whichever comes first). The maximum repayment period is 5 years from the end of the course.

The State Bank of Mysore scheme that offers loans to students based on merit up to Rs800,000 (\$17,190) for study in India at a margin of 10 percent and an interest rate that varies depending on the size of the loan (13 to 15 percent). Collateral security is required. Repayment begins immediately after the loan’s disbursement to cover the interest portion during the period of study. The

² For loans above Rs 400,000 the margin becomes 15 percent and collateral security equal to 100 percent of the loan.

³ 2001 official exchange rate of \$1=46.540

⁴ Only about about 2 to 3 percent of students (Agarwal 2006).

installments are increased one year after the completion of studies or when the student gets a job. The loan must be repaid within a period of 48 months.

The State Bank of India's Gyan Jyoti Scheme that offers up to Rs800,000 (\$17,190) in loans at a margin of 10 percent to needy and deserving students at an interest rate that varies from 12.21 percent to 14.28 percent depending on the size of the loan. Collateral security is required. The loan is to be paid within a maximum period of 60 months after completing a course or securing a job. A moratorium of one year may be given.

The Dena Bank's Dena Vidya Laxmi Education Loan Scheme offers up to Rs350,000 (\$7,520). The loan is repayable within 3 to 5 years from the completion of studies and repayment commences after 12 months from the date of completion or 1 month after getting employment.

In addition, some private trusts and endowments and higher education institutions run their own loan schemes and offer some scholarships.

II. Estimated Expenses of Higher Education

India Higher Education Expenses Borne by Parents and Students First Degree, Academic Year 2001-2002

[National currency (Rupees) converted to \$US by [2001] purchasing Power parity estimate \$1 = India rupees 11.78⁵]

		<i>Public</i>				<i>Private College (aided)</i>
		<i>Central University⁶</i>	<i>State University⁷</i>	<i>University College</i>	<i>Gov't College</i>	
	Special "One-Time" or "Up Front" Fees	40 \$3	200 \$17	350 \$12	200 \$17	200 \$17
Instructional Expenses	Tuition	240 \$20	1,000 \$85	440 \$37	440 \$37	440 \$37
	Other Fees	105 \$9	625 \$50	800 \$68	586 \$50	586 \$50
	Books & Other Educational Expenses ⁸	865 \$73	521 \$44	447 \$38	224 \$19	605 \$51

⁵ 1998 official exchange rate was \$1 = Rs41.259 and the PPP was \$1 = Rs10.44; the 2001 official exchange rate was \$1 = 46.540)

⁶ Central University is funded by union government. Costs here are from website of Jawaharlal Nehru University, New Delhi lodging at the university hostel.

⁷ State University funded by state government. Tuition costs are from website of University of Mumbai. Lodging costs here are from website of Allahabad University with lodging at the university hostel. Admission fee, registration fee, sports development fee and examination fee are from Bangalore University information.

⁸ Estimates based on the 52nd Round of the National Sample Survey (NSS) on Attending an Educational Institution in India: Its Level, nature and Cost inflated by annual rate of inflation from survey year (1996-97) through 2001-02.

	Subtotal Expenses of Instruction	1250 \$106	2346 \$199	2037 \$173	1450 \$123	1831 \$155
Student Living Expenses	Lodging	440 \$37	2000 \$170	1960 \$166	100 \$8	3000 \$255
	Food	6500 \$552	6000 \$509	6500 \$552	7500 \$637	12000 \$1019
	Transportation ⁹	1366 \$116	1060 \$90	500 \$42	420 \$36	460 \$39
	Other Personal Expenses ¹⁰	291 \$25	212 \$18	164 \$14	73 \$6	226 \$19
	Subtotal Expenses of Student Living	8597 \$730	9272 \$787	9124 \$775	8093 \$687	15686 \$1332
	Total Cost to Parent & Student	9847 \$836	11618 \$986	11161 \$947	9543 \$810	17517 \$1487

Note: The table was compiled in large part by M.R. Narayana, Professor of Economics, Institute for Social and Economic Change, Bangalore.

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