

COMMERCIAL BANKS FINANCING HIGHER EDUCATION: ISSUES AND CHALLENGES



Commerce

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ABSTRACT

Higher Education is the most important medium for ensuring the advancement of the people of a country. Since Independence, higher education sector in India observed the enormous growth along with the rapid growth of the needs of higher education. Governments share in education budget expenditure has gone down drastically, because of massive expansion and globalisation. Education loan or student loan is considered one of the alternative sources of financing higher education. This loan scheme is administered by the commercial banks in India with the objective that no student desirous of higher education will be deprived of from pursuing higher education owing to financial problems. This paper examines the various issues and challenges of financing higher education by Commercial Banks under the Education Loan Scheme.

INTRODUCTION

Higher education creates human capital investment in education which is important for economic development of a nation. Indian higher education has very long history. The well-known centres of learning such as Takshashila and Nalanda attracted a large number of pupils from far off places. The present education system has been emerged with the advent of Europeans especially the British who came and ruled our India. Since Independence, considerable improvement has been achieved in literacy, school enrolment, and establishment of institutions of higher education including technical education. After the economic reforms, participation of private sector in higher education has been increased, paving the way for increase in the cost of higher education.

Like other developing countries, Indian higher education sector faces several problems. Financing the higher education is one of the challenges to the government. In order to tackle the problem of declining budget expenditure for higher education, the alternative methods of financing higher education are examined by the government. As a result, the Education Loan Scheme was introduced to help the students to meet the rising cost of higher education.

REVIEW OF LITERATURE

Harsh Gandhar (2010) reviewed the growth & performance of educational loan scheme in Chandigarh (2007). The study revealed that the educational loan scheme was run purely on commercial basis and did not offer any soft options for the meritorious and the needy students. There was no link between the institute of study and the bank which advanced educational loan. Many people had misused this scheme as a passport to go abroad. The terms of collateral security were very stringent and needed to be flexible and people friendly.

S. Puttaswamaiah (2010) analysed the trends and patterns of educational loan in India. The study revealed that the demand for higher education loans provided by public sector banks in India has been increasing over the years.

R Srinivasan and Debabrata Das (2011) study revealed that a student pursuing postgraduate professional course was more likely to get education loan than a student pursuing undergraduate course. In the same way, banks preferred giving loans to students seeking admission in government owned or approved institutions. The study also revealed the reluctance of private sector banks in extending education loans.

Varghese K.X. and Manoj P K (2013), analysed the growth of

educational loans, found that from the year 2005 to 2011 the educational loans had risen from Rs. 51 billions to Rs. 437 billions in India. The educational loans showed the growth from 2.09% to 6.38% of the total loans disbursed over the years compared to other categories of personal loans.

OBJECTIVES OF THE STUDY

- To know the education loan performance of public sector banks in India
- To understand the issues and challenges of commercial banks in financing higher education.

RESEARCH METHODOLOGY

This study is based on secondary data. The data and information were collected from various reports such as UGC annual reports, All India Survey of Higher Education reports, MHRD reports, IBA reports, annual report of Ministry of Finance (Budget Division), Statistics on Higher education, etc.

GROWTH OF HIGHER EDUCATION IN INDIA

After Independence, higher education in India has shown a phenomenal growth in terms of establishment of higher education institutions and students enrolment. There were only 20 Universities and 500 Colleges in the country with 2.1 lakh students' enrolled in higher education at the time of independence. Afterwards, the number of Universities has gone up to 711 universities, out of which 46 are Central, 329 are state public, 205 are State private, 128 are Deemed Universities, 3 Institutions are established under State Legislation and 40,760 colleges are providing education in the Higher Education sector (UGC Annual Report 2014-15). The trend of total students' enrolment for the last ten years is given in the following table:

Table 1: Trend in Students Enrolment in Higher Education from 2005-06 to 2014-15 in India

Year	Total Enrolment	Increase over	Percentage
2005-06	1,20,43,050	10,04,507 (1,10,38,543 in 2004-05)	9.1
2006-07	1,31,63,054	11,20,004	9.3
2007-08	1,44,00,381	12,37,327	9.4
2008-09	1,57,68,417	13,68,036	9.5
2009-10	1,72,43,352	14,74,935	9.4
2010-11	1,86,70,050	14,26,698	8.3
2011-12	2,03,27,478	16,57,428	8.9
2012-13	2,23,02,938	19,75,460	9.7
2013-14	2,37,64,960	14,62,022	6.6
2014-15*	2,65,85,437	28,20,477	11.87

Source: UGC Annual Report 2014-15 * Provisional

The above table 1 shows the growth trend of the enrolment of students in higher educational institutions in India for the last ten years. There is a steady growth over the years. Even though the percentage wise growth of enrolment has decreased during 2010-11 and 2013-14, the total enrolment has been increased. During 2005-06 the total enrolment was 1,20,43,050. It was increased to 1,72,43,352 during 2009-10. The growth rate of student enrolment in higher education was 9.1% in 2005-06 which was increased to 9.4% in 2009-10. In the year 2010-11 the enrolment of students in higher education institutions was 1,86,70,050 which was increased to 2,65,85,437 during 2014-15 showing a growth of 11.87% over the number of students enrolled (2,37,64,960) during 2013-14.

GROSS ENROLMENT RATIO (GER) IN INDIA

Generally, access to higher education is measured by Gross Enrolment Ratio (GER) in higher education which is calculated for students of the age group ranging between 18 and 23. GER indicates access level by taking ratio of persons in all age groups ranging between 18 and 23 enrolled in various programs to total population in age group ranging between 18 and 23. The GER in higher education in India from 2010-11 to 2014-15 is given in the following table:

Table 2: Gross Enrolment Ratio in Higher Education (18-23 Years) in India

Year	2010-11	2011-12	2012-13	2013-14	2014-15
Male	20.8	22.1	22.7	23.9	24.5
Female	17.9	19.4	20.1	22.0	22.7
Total	19.4	20.8	21.5	23.0	23.6

Source: All India Survey on Higher Education (AISHE) reports from 2010-11 to 2014-15

The above table 2 shows an increasing trend in GER of students for higher education in India. GER has increased to 23.6% in 2014-15 from 19.4% in 2010-11 showing growth of 21.65%. The GER of the male population of the age group ranging between 18 and 23 has increased to 24.5% in 2014-15 from 20.8% in 2010-11. Similarly, the female GER also increased to 22.7% in 2013-14 from 17.9% in 2010-11. Thus, GER has shown growth in the student enrolment for higher education year after year.

EDUCATION LOAN SCHEME

In India, the economic reforms were introduced in 1991, which imposed drastic cut in the public budget on education sector, especially on higher education. This has resulted in the rapid expansion of self-financed private higher education. This in turn reflected in increase in the cost of higher education. Because of the rising cost many of the students are not able to meet their desire to pursue higher education. In order to encourage and help the students to pursue higher education, education loan scheme was launched by the government through the commercial banks. The Scheme also includes students belonging to the economically weaker sections and those belonging to below the poverty line. The core objective of this scheme is that no student is denied of opportunity to pursue higher education for want of financial assistance.

The education loan covers all types of courses in higher education including professional courses in India and abroad. The loan amount covers the expenses required to complete the course. Banks are required to prepare and publish a list of courses they would consider for sanctioning of loans, as the list of courses given in the loan scheme are indicative in nature. This scheme includes loans and advances granted only to individuals for educational purpose. The loan amount will cover up to a maximum of Rs.10 lakh for studies in India and Rs.20 lakh for studies abroad. The parents are to be the joint borrowers up to loan of Rs. 4 lakh, and no other securities are required. The loan amount above Rs.4 lakh and up to Rs. 7.5 lakh requires collateral security in the form of suitable third party

guarantee and above Rs.7.5 lakh insists tangible collateral security of suitable value acceptable to bank. Interest is charged at rates linked to the base rate as decided by the individual banks. Normally, sanction or rejection of education loan application will be communicated within 15 days of receipt of duly completed application with supporting documents. The repayment holiday will be course period plus one year or six months after getting job, whichever is earlier. Banks may, make it mandatory to arrange for life insurance policy on the students availing Education Loan (Model Educational Loan Scheme, August 2015).

PERFORMANCE OF PUBLIC SECTOR BANKS UNDER EDUCATION LOAN

Education loan is provided by both public and private sector banks in India. Public sector banks have major share in financing higher education. Education loan performance of PSBs in India has shown continuous growth both in terms of number of education loan accounts and amount outstanding. The growth in education loan by PSBs is a good sign that the students could be able to enter higher education sector to meet their desire to get higher education in India or abroad. The year wise data of education loan outstanding, number of accounts and also percentage wise increase in education loan from March 31, 2005 to December 31, 2015 is given below:

Table 3: Performance of Public Sector Banks under Education Loan in India

As on 31 st March	No. of A/c	Amt. Outstanding (Rs. in Crore)	Year on Year Growth (%)
2005	4,68,207	6,713	47.54
2006	6,79,945	10,012	49.14
2007	9,44,397	14,283	42.65
2008	12,46,870	19,847	38.75
2009	16,03,385	27,646	39.51
2010	19,28,350	35,628	29.81
2011	22,37,031	43,074	20.03
2012	24,60,493	49,069	13.92
2013	25,09,465	53,520	9.07
2014	25,72,716	58,256	8.84
2015*	26,68,586	61,967	6.37
December 2015*	25,44,672	65,740	7.45

Source: Annual report 2014-15, Ministry of Finance (Budget Division), Govt of India. *(Provisional)

The above table 3 shows the year wise performance of PSBs under education loan scheme in India. The total outstanding education loan of PSBs was Rs. 6,713 crore in respect of 4,68,207 accounts as on 31st March, 2005. It has increased up to Rs. 65,740 crore in 25,44,672 accounts as on 31st December, 2015. The rate of growth as on 31st March 2006 was 49.14% compared to 47.54% in 2005. Similarly, the rate of amount outstanding showed a decreasing trend over the years, even though the total number of accounts as well as total outstanding amount showed an increasing trend. This may be due to higher rate of interest, stringent procedure to get loans etc. Due to increasing trend in NPAs of education loan, bankers are also very rigid in providing education loan.

EDUCATION LOAN IN INDIA: ISSUES AND CHALLENGES

Education loan scheme has helped many students to go for higher education in India as well as abroad. But this system poses various issues and challenges in its operation from the point of view of students and also banks.

- Education loan market in India is not well developed.
- Marketability of a course has high probability of getting loan sanctioned. The lenders and borrowers may prefer courses which have high employment potential, professional courses get priority among other courses.
- Many a time students from lower income families may not be in a

- position to meet the terms and conditions laid down by banks to get education loan. The students who are not able to meet the conditions laid down by bankers might not be provided with education loan.
- Education loan may discourage students from low income families, women and other weaker sections and minorities from pursuing their higher education.
 - The rate of interest on education loan is high.
 - The problem of unemployment or underemployment faced by the educated youth today has become hurdle to the repayment of loans. Inability of educated persons to get desired job makes them to default.
 - Some studies on student loans pointed out that the recovery rate is very low.
 - Administrative cost of student loan programme is quite high.
 - The banks also have to face major problems like wilful defaults, negligence on repayment of education loans by borrowers etc, resulting in increasing NPAs of education loan.
 - Some students may post pone the repayment of loan intentionally or due to continuing their higher studies further. Brain drain may also affect the education loan repayment.

SUGGESTIONS

It is a great challenge to the government to provide access to higher education to the growing segment of population demanding higher education. In this connection certain suggestions can be put forth to strengthen and improve the functioning of education loan scheme.

- Financial assistance should be provided to the needy students on the condition that they enter into contract to repay the loan regularly after they get employment.
- Students from economically backward families should essentially be given fully subsidised education loan.
- Students should be provided with skill oriented training programmes, so that they can get employment immediately after the completion of education.
- The banks should reduce the interest rates on education loan which is high compared to other loans. The disparity in rate of interest on education loans charged by different banks should be removed.
- Lenders should not prefer only students who go for professional courses but also general streams of higher education should be considered.
- The creditworthiness and repayment capacity of the students seeking loan for higher studies as far as possible must be assessed before sanctioning loan.
- Banks after sanctioning loan must also keep track of the utilisation of loan and maintain contact with the students to facilitate the recovery of loans.
- The loan programme must be flexible enough, which may involve government guaranteed loans, subsidised interest rates, flexible terms of repayment, waivers for those students with less future income etc.

CONCLUSION

The present study revealed the growth of higher education in India in terms of students' enrolment and number of institutions. Financing the growing higher education segment is the major challenge for the government. Commercial banks financing to higher education is becoming popular method of financing higher education today. But this education loan scheme faces many challenges from the point of view of students as well as banks. In spite of these issues and challenges, this scheme functions on the path of developing self confidence among the students. This leads to increased enrolment of students and necessary finance to meet the educational expenses of students. Thus banks financing to higher education play a significant role in meeting the increasing financial need of our growing young population for higher education.

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