

ECONOMIC REFORMS AND FINANCING HIGHER EDUCATION IN INDIA

P. Geetha Rani

Associate Fellow,
National Institute of Educational Planning and Administration,
17-B, Sri Aurobindo Marg
New Delhi – 110 016.

Telephone: 2696 2120, 2696 21216 extn (206)
Fax: 91-11-2685 3041, 2686 5180
E-mail id: geetharani@niepa.org, geethselva.yahoo.com

ECONOMIC REFORMS AND FINANCING HIGHER EDUCATION IN INDIA

P. Geetha Rani

National Institute of Educational Planning and Administration,
17-B, Sri Aurobindo Marg
New Delhi – 110 016.

Abstract

It is unambiguous that Policy of the Government of India now encourages augmentation of resources for covering a larger portion of cost of higher education. Recent policy changes in India often favour to divert resources from higher to primary level of education and favours for full cost recovery from students even in public higher education institutions. Cost recovery measures comprising of increase in fees, student loans currently operated by commercial banks and privatisation will exacerbate inequality in the society. Indeed, there seems to be a nexus between the present student loan scheme and full cost recovery. Increasing reliance on student fees, student loans and privatisation without considering the low-income groups may produce regressive effects in the society. Under the deep waves of globalisation and competition, important economic rationale for government funding especially for higher education is neglected. Public support for higher education remains essential to ensure a balanced achievement of educational and social missions, apart from surviving in the knowledge-based society. It is essential that funding sources must be diversified but cost-sharing with students has social and political limits, and excessive commercialization of higher education should be forbidden.

ECONOMIC REFORMS AND FINANCING HIGHER EDUCATION IN INDIA

I. INTRODUCTION

Knowledge is the driving force in the rapidly changing globalised economy and society. Quantity and quality of highly specialized human resources determine their competence in the global market. Emergence of knowledge as driving factor results in both challenges and opportunities. It is now well recognised that the growth of the global economy has increased opportunities for those countries with good levels of education and vice versa (Carnoy, 1999; Tilak, 2001; Stewart, 1996; Ilon, 1994). The benefits of globalisation accrue to the countries with highly skilled human capital and it is a curse for the countries without such specialised human capital. Developing and transition countries are further challenged in a highly competitive world economy because their higher education systems are not adequately developed for the creation and use of knowledge. Converting the challenges into opportunities depend on the rapidity at which they adapt to the changing environment. Though the higher education system and the pattern of financing higher education vary a great deal across countries in terms of their size and strength and degree of diversification of higher education institutions, yet they all face a severe financial crisis in the public finances available for higher education.

India is no exception to this global phenomenon. As part of globalisation, the economic reform packages were introduced in India in the beginning of 1991. These reform packages imposed a heavy compression on the public budgets on education sector, more specifically so on higher education. Following the introduction of structural adjustment policies, that include macro economic stabilization and adjustment, 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. With economic reforms, cuts in public budgets for higher education have been very steep (see Table 1), severely impairing the growth of higher education. Paradoxically, under the reforming economic conditions, integration of the Indian economy with world economy presupposes efficiency and competitiveness in the domestic front as well as in the international arena. As the process of globalization is

technology-driven, and knowledge-driven, the very success of economic reform policies critically depends upon the competence of human capital. But, what is observed is the reverse. Even within the education sector, relative priority assigned to higher education has been on the decline (Table 1 and Chart 1). It is to be realized that higher education institutions play an important role in setting the academic standard for primary and secondary education. They are also responsible for not only providing the specialised human capital in order to corner the gains from globalisation, but also for training inside the country, provide policy advise, etc.

With macro economic reforms resulting in severe cuts on the education budget on the one hand, accomplishing the long cherished goal of universal elementary education on the other hand, the government directs the shift of resources from higher to primary education. It can be noticed from the approach paper to the Tenth Five-year Plan and Tenth plan document that, “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” (Government of India, 2001, 2002-2007).

In a federal polity like India, education being concurrent subject since 1976, the commitment of the centre equally at all levels of education is important. Given the spill over benefits of higher education, it becomes mandatory for the center to finance an increasing share of expenditure on higher education. But, this has been declining in the recent years. Even in secondary education, center’s share of expenditure is minimal ranging around 5 per cent. However, federal role in elementary education is on the rise since the middle of 1980s. Indeed, the momentum of interest in universalising elementary education began in the country in 1987 with a centrally sponsored scheme namely, Operation Blackboard to improve the educational infrastructure in primary schools all over the country. Around the same time another two important nation wide schemes have been initiated – on teacher education and non-formal education. As a result of all these efforts and initiatives by the federal government, the flow of plan transfers from central to states in elementary education have improved since the late 1980s (see Table 2).

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. Even for very low enrolment ratios in higher education in India, it is increasingly realised that public budgets cannot adequately fund higher education, particularly when sectors of mass education are starved of even bare needs. 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 (UGC,1993).

With this perspective, the present paper attempts to examine financing of higher education in India during the previous two decades by looking at different sources of funds for higher education, highlighting the changes therein in terms of the hike in student fees, introduction of student loans operated by commercial banks and, rapidly increasing role of private sector and self-financing courses within public higher educational institutions.

II. SOURCES OF INCOME FOR HIGHER EDUCATION

The funds for higher education in India come mainly from three different sources, viz, government, fee income from students and other sources of income from philanthropy, industry, sale of publications, etc. Reliance on government for resources has almost doubled that is from 49.4 percent in 1950-51 to 75.9 per cent in 1986-87. On the other hand, fee income has drastically declined from 36.8 per cent to 12.6 per cent during the same period. Other sources contribute around 10 per cent through out the period. Higher education has been largely a state funded activity with about three-quarters of the total expenditure being borne by government. The relative shares of non-government sources such as fees and voluntary contributions have been declining (Table 3). It is to be noted that the latest year for which such information available is 1986-87.

On the other side, the needs of the higher education system have been growing rapidly. It is being increasingly realized that public budgets cannot adequately fund higher education, particularly when sectors of mass education are starved of even bare needs. A decadal experience with adjustment policies is with clear compression in the higher education budget (see Table 1). Indeed, the decline in plan allocations had started even prior to economic reforms (see Chart 3). Hence, in the recent decade, the need for experimentation with several alternatives such as student fees, student loans, graduate tax and privatization is intensified.

Simultaneously, the demand for higher education has been growing rapidly with comparatively faster growth in enrolment in higher educational institutions¹ than the growth in number of higher educational institutions (see Table 4). 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 population attending higher educational institutions in USA, 52 per cent in UK and 45 per cent in Japan (see Table 5). 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 needs. 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. The most serious casualty of all these is undermining equity of access to higher education. Equity and social justice 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

¹ 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.

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. (For a detailed discussion on access and equity in financing higher education in India, see Rani, 2002)

Faced with economic reforms and budget cuts in the education system, a number of committees have been constituted to examine the issue of mobilisation of resources (discussed later). All these committees have a consensus that one of the major sources of income is the fee from students. They recommended for an increase in the level of fee and in all kinds of fee and 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.

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. In the eighth plan itself financially self-supporting higher education has been advocated that “expansion of higher education in an equitable and cost-effective manner, in the process, making the higher education system financially self-supporting” (Government of India, 1992). 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. Additional resources will be generated by involving industry and commerce and through contribution from community” (Government of India, 1997, pp.82).

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). The Tenth Five-year Plan document as well notes that it is important to recognise that the universities must make greater efforts to supplement resources apart from the government (Government of India, 2002-2007, p.17).

As far as the financial allocation to higher and technical education during the plan periods is concerned, the downward trend in resource allocation can be noticed from Chart 3 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. Elementary education has got the highest priority in first plan, which again seemed to gain momentum in the 9th plan. It may be observed from Chart 3 the oscillating battle between elementary and higher levels of education in the country. In the first plan higher education got 9 per cent allocation, which is the case again in the 9th plan. The financing strategy even under economic reforms seems to be developing one level of education at the cost of another exacerbating imbalances among different levels of education (see Rani, 2003 for a detailed discussion on this issue). It should be noted that higher education institutions play an important role in setting the academic standard for primary and secondary education. They are responsible for not only providing the specialised human capital in order to corner the gains from globalisation, but also for research and development, training inside the country, provide policy advise, etc. It is to be realized that ‘Higher Education is no longer a luxury; it is essential to national, social and economic development’ (UNESCO, 2000).

The adverse impact of economic reforms reflects upon various revenue diversification measures such as hike in student fees, student loan programmes operated by commercial banks and privatisation. Various revenue-raising measures take place in the form of:

- a. raising tuition fee as a significant source of revenue for the support of instructional cost
- b. full cost recovery of other fees such as institutionally provided room and board
- c. sale of research publications, consultancy, etc

- d. participation of private sector both non-profit and proprietary providers and
- e. philanthropy for endowments, for direct operations and for scholarship to students.

On similar lines, the experience of World Bank(1994) suggest that if public institutions are to achieve higher quality and greater efficiency, governments will need to implement sweeping reforms in higher education financing in mobilising private financing for public higher education and fostering efficiency in allocating and utilising resources among and within public institutions

It is a fact that macro economic reforms imply profound changes in the relationship between government and higher education and also considerable expansion of the private sector in the higher education. Nevertheless there are three important economic justifications for government funding for higher education as:

- 1) Higher education investments generate external benefits important for economic development, such as the long-term return from basic research and from technical development and transfer which is essential for competition and globalisation. Hence, public investment on higher education should enhance.
- 2) Private investment alone in higher education would be socially *sub-optimal*.
- 3) Increased role of market undermines the participation of meritorious students from economically disadvantaged groups (World Bank, 1994).

COST RECOVERY MEASURES:

Dramatic and sweeping changes over the nature and philosophy of education in general and financing higher education in particular could be noted around the world in the recent decade. The globalisation wave and the changes within the economic systems have forced the higher education system to opt for a number of cost recovery measures. Few of the important cost recovery measures adopted in the Indian higher education system, viz, student fees, student loans and privatisation are discussed here.

III. 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. 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 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. Anandkrishnan) (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.

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 2 per 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. 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 2).

Confronted 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 (2002) 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. Majority of the universities (as many as 20 universities) have already increased their fee, which covered more than 20 per cent of their recurring income². 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

² 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.

1998-99 (see Chart 4). 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).

Other Sources of Income:

Income from other sources comprises of income from endowments, university press, rent from university land, buildings, space, infrastructure, etc; income from consultancy services and research projects; etc. Income from sale of university publications, self-financing courses, and interest income are some other source of internal income of the universities. The search for additional resources and the introduction of income-generating activities has been on the raise in many institutions. However, it should not sideline the primary goal of academic quality and relevance.

It is unambiguous that 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 policies³. 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 good⁴ 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 institutional missions.

³ 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.

⁴ Srivastava and Sen (1997).

It is often favoured to divert resources from higher to primary level of education. While it is essential that the nation achieve universal elementary 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 disadvantaged 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 and researchers in pure and basic disciplines in the near future as it is being experienced in United Kingdom.

IV. STUDENT LOAN

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. 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.

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 (For a detailed account of information on the Policy and Practice of Student Loans in Several Developed and Developing Countries, see, Rani, 2001).

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.

Following the wave of changes around the world, the present Educational Loan Scheme was introduced in India following the announcement in the budget 2000-01. The scheme is administered by the commercial banks⁵. 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. A maximum of Rs.7.5 lakhs for studies in India and Rs.15 lakhs for studies in overseas institutions / universities is envisaged under the scheme. For loans up to Rs.4

⁵ Some private banks also operate student loans schemes.

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 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.

V. PRIVATISATION

In India, over the years, there have been private initiatives in education initially for philanthropic reasons and eventually in professional and even in general higher education not only to meet the growing demands but also to realize the huge and quick profits potential. Privatization of higher education has emerged in several forms and types in the recent decade in India. One, privatisation within government higher education institutions take place in the form of introducing self-financing courses within government institutions; two, converting government-aided private institutions into private self-financing institutions; three, allowing to expand self-financing private institutions with recognition and also without recognition, which may be termed as commercial private higher education institutions.

Commercial private higher education emerges from market forces and tied to economic and global forces. They thrive on the principles of commercialism, primarily focus on vocational courses and highly pragmatic. Their commercial thrust is training jobs, indeed, part of the curriculum is industrial training. Not only training for jobs but also place their students in well-paid jobs. This indeed speaks about the strong industry – institution linkages. They are narrowly focused, rather micro-specific in designing their course and training. This narrow focus is their strength as well weakness. It is a strength as long as there is demand for such specific nature of the courses and a weakness once such a demand is satiated. Moreover, the built-in set up / infrastructure do not allow them to diversify. They cater to the unmet demands or rather demand- absorbing from the non-university higher education sector.

Ownership of these private institutions ranges between a spectrum of substantially weaker and stronger commercial institutions. Indeed, there are chain of institutions from Kinder- garden to higher levels of education by well-known business groups and corporate sector. Since 1993 with the Supreme Court judgment, growth of commercial

higher education in the name of capitation fee or self-financing colleges is mushrooming. The private institutions include colleges, training centers, etc. Neither the Department of Education nor the University Grants Commission collect, compile and publish the information on the size and growth of institutions and enrolments on this rapidly growing private higher education.

There are also different types of these private institutions – Many of the self-financing engineering colleges and management institutions are affiliated to the conventional universities (Examples as found in Tamil Nadu, Karnataka and Andhra Pradesh). In which, the course structure, design, curriculum, and the pattern of examination fall within the purview of the national or state pattern. On the other side, several of these self-financing private institutions are also non-affiliating to any universities and cater to the demands of the corporate sector nationally and internationally. Whether the private institutions follow multi-faculty or discipline are decided by the individual institutions. Since the programs and courses are market-driven and each private institution decides on their own the course and subjects it offers. Hence, they also have a free hand to introduce new programs and discard the old.

Student is the power while faculty is weak in these private institutions. Indeed, the faculty lack the position, power and autonomy as they traditionally enjoy at universities. Basically they serve to students and their practical orientations in commercial private institutions. These institutions rely on part-time faculty and may be drawn from full-time faculty at public universities (and hence do not add to further employment opportunities). When employing full-time faculty, they pay meagre salary. Perhaps many of them have neither practical nor academic expertise and lack training.

The finances of these private enterprises seem to be free to raise and deploy resources to meet their own norms. Private universities elsewhere, for instance in USA mobilise the resources of about 30 to 40 per cent of the recurring cost of education from students. Remaining 60 to 70 of the recurring cost are generated from endowments, alumni and other sources (Ziderman and Albatch, 1995). On the contrary, fee in these private enterprises in India are exorbitant as they fully depend upon student payments. Indeed,

these institutions make huge profits, some times recover more than their recurring costs (full of recurring cost plus part of the capital cost). Such institutions survive as long as there is a demand for their services and the students are willing to pay for such job-directed training.

The Government of India in its Prime Minister's Council on Trade and Industry, appointed a committee to suggest required reforms in the education sector, along with other sectors (headed by M.Ambani and K. Birla). It strongly suggested for 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; shifting of resources from higher to primary level of education that government should leave higher education altogether to the private sector and confine itself to elementary and secondary education. Further, the report urged the private university bill to be passed and also suggested that the user-pays principle be strictly enforced in higher education, supplemented by loans and grants to economically and socially backward sections of society (Ambani-Birla, 2001). In addition, number of foreign universities and franchise of multinational educational (business) centres compete in developing their own centers in India at a full cost recovery basis.

It is important to note that in the U.S., drive for efficiency and profits are categorically powerful among the private higher education providers. In developing countries like India, it is only the profit, which thrives these institutions and efficiency is jeopardized. Further, the important dimensions of complementarity and competition found in the U.S. private higher education sector boosts the growth and survival of both the public and private higher institutions, which is conspicuously absent in India.

There are a number of important factors that led to emergence and rapid expansion of private higher education in India. They are classified here as the conventional pull and push factors. In addition to these, the external factors that have been conducive for the growth of private higher education is also discussed.

V.1. Pull Factors

All over the world including India, there has been rapid expansion and demand for higher education known as massification of higher education. The conventional university sector is not able to cater to the demands of the new sections of the rapidly growing eligible age group population for higher education. As an alternative, private enterprises are sought to accommodate this evolving pressure on higher education in various forms, types and levels.

Conventional university courses are not able to cater to the immediate demands of the market as it takes considerable amount of time for a change within the formal higher education / university system. This academic inflexibility boosted the rapid development of private initiatives in higher education. Perhaps, many providers /stakeholders in many of these private institutions are the one who struggled to change the formal system to suit to the needs of the students who, in turn, demand depending upon the marketability of a course, the emphasis being pragmatism.

The conventional institutions lack the responsiveness of higher education to labor market demands implying business participation in governing boards of institutions, the creation of financial incentives for joint industry-university research, corporate-sponsored internships for students, and part-time academic appointments for professionals from the productive sector. Alternatively, such a nexus between academics and industry is met by private institutions with multi-disciplinary and/or inter-disciplinary courses, which are short-term in nature with a very narrow focus. Hence, led to proliferation of short-term / market-oriented courses. However, leaving a few reputed private higher learning institutions, majority of them are education shops catering to the majority of the students, who are willing to pay with a desperate hope to get into the job market.

In short, these private institutions marketed their service in technology courses varying from hi-tech to fashion technology; management courses ranging from institutional management to hotel management; and promised to produce not only employable youth but also to place them in jobs.

V.2.Push Factors

Expenditure compression referred as resource constraint of the government on account of economic reforms led to financial privatization of higher education in various forms such as reduced allocation to higher education (decline in public expenditures and plan allocation on higher education see Table 1 and Chart 3); introduction of cost-recovery measures within public institutions and directed policy measures toward privatization of higher education. Government of India introduced the Private Universities Establishment and Regulation Bill in 1995. The bill is still pending in the Parliament because the private sector was not interested in several clauses in the bill – primarily on the clause on the provision of scholarship for the economically and socially backward sections of the population. Though, there have been deliberations on the private sector initiatives in higher education in different forums, there is no clear perspective on the issue. Yet another important factor is the deteriorating quality of the higher education over the years has indirectly made the students to look for alternatives.

V.3. External Factors

In the phase of internationalizing higher education, foreign universities and institutions have been allowed to come into India and establish franchise centers in the country, offering degrees or diplomas, which are not necessarily recognized by the parent universities in their own countries. Indian providers also set up institutions in other countries.

Based on the rates of return analysis⁶, World Bank (1994) focus on basic education, whereas its involvement in higher education is guided by calls for equitable and cost-effective financing. It highly favours cost-sharing and the promotion of private higher education to free up scarce public resources for improving basic education. It recommends forcefully that further enrollment expansion in higher education should take place in the private sector. Further, World Bank (2002) indicates that the higher education systems in developing countries and the institutions can only survive if they are flexible for change. The message is clear that the most flexible systems as well as

⁶ It is argued that within the education sector, investments in higher education have lower social rates of return than those in primary and secondary education and that investments in these levels have a more direct impact on poverty reduction.

institutions survive and those do not, decay. More differentiated systems, including private and non-university institutions can help meet growing demand and make higher education more responsive to labor market needs. The examples are the successful higher education systems found in Australia and New Zealand other than US. It may also be noted that the European system, perhaps, many of the European countries are undergoing series of policy debates on financing higher education focusing on the extent and degree of cost recovery in higher education for enabling the transition from elite to mass-oriented higher education.

To sum up, even though, private institutions offer course on any discipline, the viability and sustainability depends upon their demand. However, it is to be noted that private institutions in developing countries like India are not efficient, competitive and complement as found in developed countries. The absence of a coherent long-term policy perspective on higher education is reflected on the government's ambiguity to regulate private institutions. The unfettered growth of private higher education (especially in engineering and management disciplines) combined with the international economic and political events created a surplus in the labor market in the recent years.

VI. CONCLUDING REMARKS

The indicators in terms of allocation of resources to higher education in GDP and intra-sectoral allocation to university and higher education and technical education show a declining trend. It is also evident that enrolment growth has not been accompanied by the growth in public expenditure. This rapid erosion of public resources for the rise in enrolment will have a negative impact on the quality of educational services. It is unambiguous that Policy of the Government of India and state governments now encourages augmentation of resources for covering a larger portion of cost of higher education. Recent policy changes in India often favour to divert resources from higher to primary level of education. While it is essential that the nation achieve universal elementary 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. Further, markets can crowd out important educational duties and opportunities (UNESCO, 2000).

Further, the recent policy directions in India exacerbate full cost recovery from students even in public higher education institutions including hike in fees. Under the deep waves of globalisation and competition, important economic rationale for government funding for higher education is neglected. Cost recovery measures comprising increase in fees, student loans currently operated by commercial banks and privatisation 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. 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, balance and quality of education system in the long run. This will also lead to lack of teachers and researchers in pure and basic disciplines in the near future as it is being experienced in United Kingdom.

Increasing reliance on student fees, student loans and privatisation 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, in addition to a strong student support system. Under the deep waves of globalisation and competition, important economic rationale for government funding especially for higher education is neglected. Public support for higher education remains essential to ensure a balanced achievement of educational and social missions, apart from surviving in the knowledge-based society.

Sequencing of policies, i.e., universal primary education first, secondary and higher education later (as and when resources are available or / and left to private initiatives) would be very costly strategies in the era of globalisation.

It is equally important to note the required fundamental transformation at both system level and at institutional level in higher education. Effective financial management at institutional level is mandatory. It is essential that funding sources must be diversified but cost-sharing with students has social and political limits, and excessive commercialization of higher education should be forbidden. Before concluding, the challenge to public policy on higher education in India remain to combine private providers with continuing responsibility of governments to guide, regulate, monitor and continuing the provision of subsidised higher education with a view to strike a balance between equity (assurance of access for the low-income students) and efficiency (quality and academic coverage for the needs of the globalised economy and society) principles.

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.
- Ambani, M. and K. Birla (2001), *Report on a Policy Framework for Reforms in Education*, Government of India, New Delhi.
- Carnoy, M. (1999), *Globalisation and Educational Reform: What Planners Need to Know*, Report No.63, International Institute of Educational Planning, Paris.
- 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.
- Government of India (2002-2007), *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*, Vol.14, No.2, pp.95-108.
- NSSO (1998), *Attending an Educational Institution in India: Its Level, Nature and Cost*, NSS 52nd Round, July 1995-June 1996, NSSO, Government of India.
- Rani, Geetha, P. (2001) "Methods and Practices of Student Loan Programmes in Developing and Developed Countries", *mimeo*, National Institute of Educational Planning and Administration, New Delhi.
- Rani, Geetha. P. (2002), "Financing Higher Education in India during the Post Reform Period: Focus on Access and Equity", *NIEPA Occasional Paper*, No.31, NIEPA, New Delhi, September, 2002.
- Rani, Geetha, P. (2003), "Financing Education in India in the Economic Reform Period: Focus on Intra-sectoral Allocation of Resources to Education", in *Globalisation and Challenges of Education*, (ed), NIEPA, 2003.
- Salmi, J. (1992), "Perspectives on the Financing of Higher Education", *Higher Education Policy*, Vol.5, No. 2, pp.13-19.

- 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*, Vol.16, No.2, pp. 327-33.
- 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. (2001), "Education and Globalisation: The Changing Concerns in Economics of Indian Education, Editorial", *Perspectives in Education*, Vol.17, Special Issue, pp.5-8.
- Tilak, J.B.G. and G. Rani (2002), "Changing Pattern of University Finances in India", *Journal of Services Research*, Vol.2, No.2, No. pp.5-46.
- UGC (1993), *UGC Funding of Institutions of Higher Education, Report of Justice Dr.K.Punnayya Committee, 1992-92*, 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.
- UNESCO (2000), *Higher Education in Developing Countries: Peril and Promise*, The Task Force on Higher Education and Society, World Bank, Washington, D.C.
- Woodhall, M. (1991), *Student Loans in Higher Education: No.2, Asia*, International Institute of Educational Planning, Paris.
- World Bank, (1994), *Higher Education: Lessons from Experience*, Washington, D.C.
- World Bank, (2002), *Constructing Knowledge Societies: New Challenges for Tertiary Education*, Washington, D.C.
- 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.

Table 1
SHARE OF EDUCATION EXPENDITURES⁷ IN GDP AND REVENUE
EXPENDITURE

	1981-82	1985-86	1990-91	1995-96	1999-00	2001-02(B)
% of GDP in						
Total education	2.49	3.00	3.59	3.60	4.22	4.18
Elementary	1.09	1.39	1.58	1.44	1.58	1.66
Secondary	0.81	0.92	1.10	0.98	0.94	0.98
Higher	0.38	0.42	0.36	0.37	0.47	0.43
% of Revenue Expenditure in						
Total education	9.09	11.11	9.23	13.34	17.01	14.46
Elementary	3.98	5.14	4.06	5.32	5.44	5.34
Secondary	2.94	3.42	2.82	3.61	3.80	3.40
Higher	1.39	1.56	0.94	1.35	1.88	1.49

Based on new series of GDP with base 93-94 = 100.

Source: Analysis of Budgeted Expenditure on Education, various issues

Table 2
ROLE OF CENTER-STATES IN FINANCING DIFFERENT LEVELS OF
EDUCATION (TOTAL EXPENDITURES)

	Elementary			Secondary			Higher		
	Center	States	Total	Center	States	Total	Center	States	Total
	(in %)		(Rs in crs)	(in %)		(in crs)	(in %)		(in crs)
1980-81	1	99	1537	2	98	1036	20	80	484
1985-86	1	99	3448	4	96	2293	20	80	1047
1990-91	3	97	7956	7	93	5531	21	79	2312
1995-96	8	92	15218	7	93	10344	18	82	3871
1996-97	9	91	17850	6	94	11735	17	83	4288
1998-99	11	89	25115	6	94	16721	26	74	6117
1999-00	10	90	27905	5	95	20845	27	73	8248
2000-01(R)	10	90	31756	6	94	20489	25	75	10342
2001-02(B)	11	89	34489	6	94	21444	19	81	8577

Source: Analysis of Budget Expenditure, various issues

⁷Public expenditure on education includes total revenue expenditure on education by the department of education and other departments. The expenditure on education under capital account is negligible in the education sector.

Table 3
SOURCES OF INCOME FOR HIGHER EDUCATION

	Government	Fees	Others	Rs in Crs
1950-51	49.4	36.8	13.8	114.38
1960-61	53.5	34.8	11.7	344.38
1970-71	61.0	25.5	13.5	1118.28
1980-81	72.8	17.4	10.8	3766.71
1986-87	75.9	12.6	11.5	9011.98

Source: Education in India vol.II (S)

Table 4
PUBLIC HIGHER EDUCATION INSTITUTIONS AND STUDENTS ENROLLED THEREIN
IN INDIA

Year	Institutions			Enrolment (in lakhs)		
	Colleges ⁸	Univ & Research ⁹	Higher Education	Colleges ¹⁰	Research & PG ¹¹	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
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.

⁸Colleges include Arts, Science and Commerce colleges, Engineering & Technical colleges, Medical colleges and Teacher Training colleges.

⁹University and research institutions include universities, deemed universities, Institutions of national importance and research institutions.

¹⁰Enrolment in colleges include the students enrolled in BA, BSc, BCom, BE, BEd, and MBBS.

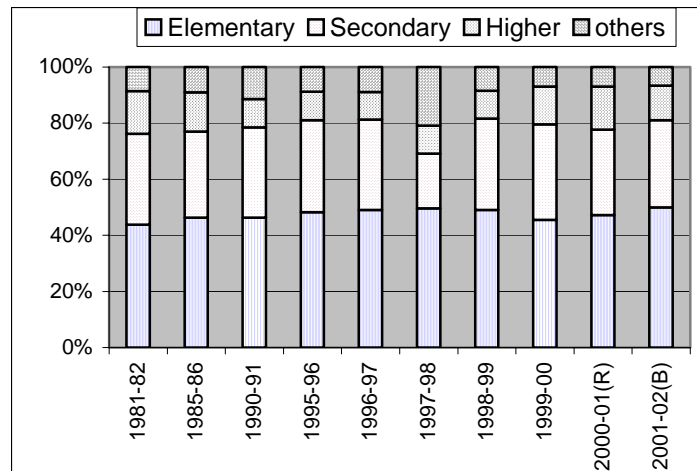
¹¹Enrolment in universities and postgraduate include PhD, MA, MSc, and MCom.

Table 5
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

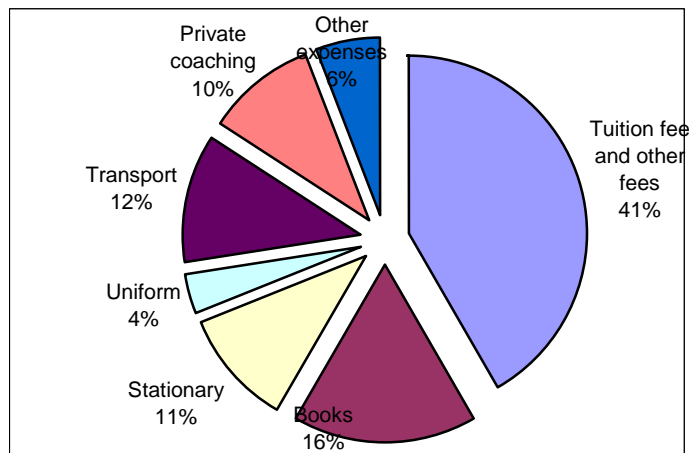
Source: UNESCO,(1999); *Altbach and Ogawa,(2002)

Chart 1
INTRA-SECTORAL ALLOCATION OF RESOURCES IN EDUCATION



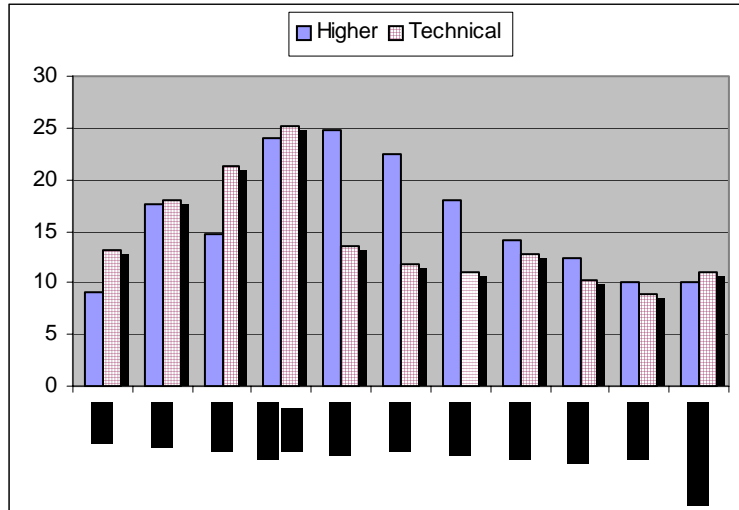
Source: Based on Analysis of Budget Expenditure, various issues

Chart 2
SHARE OF COMPONENTS OF HOUSEHOLD EXPENDITURE ON HIGHER EDUCATION



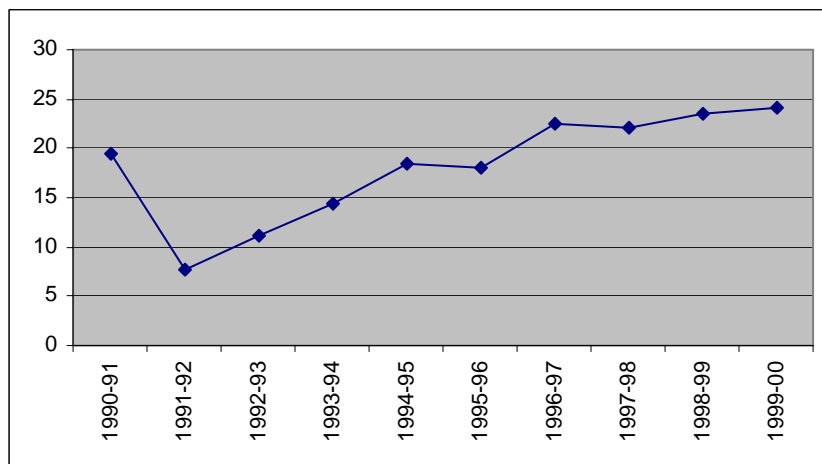
Source: Based on NSSO (1998), p. A117.

Chart 3
**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. **Approved outlay; Tenth Plan (2002-2007).

Chart 4
**FEE INCOME AS PERCENT OF RECURRING EXPENDITURE IN VARIOUS
 UNIVERSITIES**



Source: Tilak and Rani (2002)