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The great funds chase

There are many critical issues that affect the financing of higher education. DR. RAMAMIRTHAM GOPAL provides a 360-degree perspective.

The All India Council for Technical Education (AICTE) debarred some institutes from admitting students in 2014. Additionally, the Shikshan Shulka Samiti (SSS) issued notices to several colleges regarding the fees these institutions charged. Many of these institutions were accused of charging more than the sanctioned fees (fees approved by the SSS).

Financing of higher education in India is the key theme today. On the one hand is the inability of a vast majority of Indians to self-finance their higher education due to rising costs, and on the other, is the inability of the government to finance or even part finance the education.

Broadly defined, the term "higher education" in the Indian context covers the entire spectrum of education beyond 12 years of formal schooling. Generally, it comprises three levels of qualification: bachelor or undergraduate degree programmes, master's or postgraduate degree programmes, and the predoctoral and doctoral programmes.

Students expect the cost of the fee to be recovered from future earnings. PHOTO: NAGARA GOPAL

India has established a huge complex system of higher education. The higher education system is mostly based on the system of affiliation wherein a university develops the programmes, conducts the exams and publishes the results whereas the colleges affiliated/associated with the university acts as a teaching institute whose sole job is to impart teaching or knowledge or other skills.

The correlation between economic development and the development of higher education is of paramount importance to the economic and social development of any country. To a large extent, the success of the Indian economic system is also dependent on the complex educational system which provides for useful and usable skills.

Historically, the financial burden of education has been borne by both the State and Central Government. The bulk of this spending goes to Central and the State universities in the form of maintenance or development grants from the University Grants Commission (UGC). Most of the public institutions are administered by the States and so they pay for up to 90 per cent of their operating costs. The State government funds almost 74 per cent of total expenses and 26 per cent from the Central government. The UGC uses almost 60 per cent of its budget to finance the operating expenses of the central universities and some Delhi colleges. Most of the private universities and the deemed-to-be universities are expected to meet all their expenses from their own revenue sources, namely, tuition fees or contribution from promoters and/or promoter trusts.

For accelerating public expenditure, the government had introduced a cess of two per cent for elementary education, one per cent for secondary and higher education. However, with the increasing difficulties of the government in raising funds for its own development plans, the investment in education sector has been constantly reducing resulting in a huge gap between what is required and what is available and also as a percentage of GDP and also in comparison to the fund allocated in the case of other countries.

With the objective of reducing this gap, the government has allowed the private sector to invest in the education sector through self-financing institutions. These institutions charge tuition fees on the basis of full cost recovery which is again not affordable for the vast majority of the people, and consequently, there is a need for adequate government financing. Additionally, the cost of higher education results in a vast majority of the students linking this cost to the amount that the student would earn when he starts working in an organisation. The student would in the normal course be happy to pay the fees in case he is able to do so himself or raise funds from the banks or any other credit institutions.

The SSS has laid down certain guidelines with respect to what the colleges can charge.

The credit disbursement schemes are normally skewed towards the middle and upper middle class of the society, thus depriving the lower strata of the society. Banks normally tend to give loans to those who are able to provide collaterals or to those who have a reasonably good financial background and thus there is less chance of these loans becoming non-performing assets or bad debts.

Thus, low financing from the government and the full cost charged by these private institutions have resulted in the objectives of the government — access and equity — not being met. With the government not being able to meet the fund requirements of higher education, the private-public partnership arrangement was formulated resulting in unaided, private universities, deemed-to-be universities being accorded permission to enter the education field.

One of the most critical issues in all these non-government institutions is the debate on "profit" or "not-for-profit" institutions. Most of these institutions even though on paper claim to be not-for-profit organisations, they at least would like to recover all the costs that have been incurred and have some surplus for future expansions. The Supreme Court in its earlier judgments has also said that private institutions should be allowed to make some profit. This profit would be dependent on the fee structure that the institutions are allowed to charge.

The SSS has laid down certain guidelines with respect to what the colleges can charge. According to these guidelines, the fees charged by the private institutions could comprise recovery of faculty charges, administrative expenses, development charges and so on. Costs incurred in brand building, provisions of extra payment to faculty and other costs are not included in the fees calculation.

To a certain extent, 60 per cent to 65 per cent of the fees is accounted for by the salary of the faculty. This amount increases in the case of faculty members who are highly experienced or in case one tries to rope in foreign faculty so as to give a global feel, 15 per cent is towards administrative expenses and around 10 per cent to 15 per cent is towards depreciation and so on. Depreciation calculations also do not reflect the true reality.

These calculations do not consider the costs included in brand building, advertisements, conducting conferences, securing admissions, providing placements, etc. The students expect that the cost of the fees should be recovered from the future earnings in at least a maximum of one or two years.

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In contrast to this expectation of the student, a faculty earns as an Assistant Professor Rs. 50,000 per month as per the Sixth Pay Commission. Consider the case of an industrial personnel who wishes to join academics. The salary of such a personnel with a minimum of two years' experience would be more than Rs. 50,000.

The issue then is would this person be ready to join academics and how can institutions then bridge the industry-institution gap. In the arena of higher education, placements play a major role in student admissions and this calls for reducing the industry-institute gap. In view of the above, the costs incurred would be higher and hence the fees that should be charged would be considerably higher than that provided by SSS. Critics would then argue that the gap in the accessibility would increase tremendously. In other words, even as banks are willing to disburse educational loans mainly to the upper strata of the society and the private colleges not being able to recover the costs, and there would be considerable shortage in the government's objective of accessibility.

So, what needs to be done. One of the solutions could be to reserve, say, around 25 per cent of the seats at a subsidised level and the other 75 per cent free floating in line with the market price. The better branded institutions would then be able to command a higher price while the not-so-lower brand would command a lower price. The IIMs, for example, have a differential pricing mechanism.

Not all 16 IIMs charge the same fee structure. IIM Ahmedabad, Bangalore and Calcutta charge a premium price compared to IIM Khozikhode or Indore. Through this method, institutes which are not able to impart quality education would fall by the wayside and thus only the cream would remain. Perhaps this would result in Indian schools figuring in the global rankings.

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