

Education Loan and Inclusive Growth

Education Loan and Inclusive Growth:
India in a Comparative Perspective

By

Jacob John

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P U B L I S H I N G

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PREFACE

Higher education sector in most developing countries faces a major crisis of funding as we move into the 21st century. This crisis threatens the fundamental right of a person to higher education. A paradigm shift in the pattern of funding of higher education is urgently needed. Education loan can be popularized as an alternate source of funding of higher education.

The book has five chapters. The first one is an introduction which talks about equity issues in higher education and the relevance of education loan in India, a developing country. In the second chapter I discuss the distinguishing features of educational loan schemes of select countries in a comparative perspective. There are wide variations among countries in respect of administration of education loan. These disparities are mainly in respect of targeting of the loan programme and loan recovery. From the experiences of different countries, four different models of education loan schemes can be drawn: (1) education loan: government guarantee to commercial bank, (2) education loan: government direct lending, (3) education loan: outsourced with core public management and (4) education loan: loan repayment integrated with the taxation system. The Indian model of student loan is in an evolutionary stage. However, the Indian education loan system has similarities with Model 1 that provides a guarantee of repayment of student loan to the commercial bank by the government. As a case study of a developing country, the salient features of education loan in India with special reference to procedures for availing education loan, student loan schemes of select banks and operational issues of its implementation are discussed in the third chapter.

In the fourth chapter various socio-economic impacts of education loan are discussed in detail. Using the field survey data, it is examined whether the education loan facility reaches target beneficiaries or not, and whether banks are insensitive to the needs of the poor students or not. The role of loan mechanism in promoting the inclusion of excluded communities and minorities in availing higher education is focused on.

In fact these education loan models do not provide any perfect system. Indeed a perfect system of education loan has not yet been developed in any country. An optimum model of an education loan system fitting to a country needs to be formulated considering its socio-economic and educational conditions. Fourteen case studies of various types of loan

beneficiaries in India are also covered in the fourth chapter. These cases explain specific issues and experiences related to foreign education loan, recognition of a professional institute in availing loan, premature closure of loan during the period of study and poor/low income family's difficulties in availing education loan, repayment of education loan and job insecurity, suicide of a student due to denial of education loan by commercial banks, and denial of education loan by commercial banks and subsequent judicial interventions. Some of the case studies also provide insight into the risk factors as perceived by the lenders. The last chapter provides a summary of the findings of the study along with a brief reflection on the relevance of the Indian experience to developing countries. This book derives in large part from the insights contained in my study on education loan in India sponsored by National University of Educational Planning and Administration, Delhi.

Throughout the process of writing this book, many individuals have taken time out to help me. First and foremost, I would like to thank my wife, Dr. Mercy Jacob, who is also Associate Professor, *Sri Venkateswara College*, University of Delhi, for encouraging me to complete the task of writing this book. She has been my inspiration and motivation for continuing to improve my knowledge and move my career forward. I dedicate this book to her. My daughter Megha Jacob, a post graduate student of *Madras School of Economics*, has helped me in improving the quality of the book by giving constructive suggestions. I am indebted to Dr. N. J. Kurian, President, KDS–Delhi, for his constant support and valuable advice in writing this book. I would like to express my deep gratitude to Professor R. Govinda, Vice Chancellor, National University of Educational Planning and Administration, for writing the foreword to this book. I express deep gratitude to members of the Governing Body of KDS–Delhi for encouraging me to initiate work in this area of research.

I have interacted with officials of various commercial banks, a cross section of students and parents and officials of government agencies and educational institutions for collecting data and eliciting information for this book. Special thanks to all of them. Research support provided by Ms. Seema Chelat and Mr. Sreejith P. S. is gratefully acknowledged.

Dr. Jacob John

FOREWORD

Higher education in India has been growing at a fast pace in recent years, partly fuelled by increasing school completion rates and partly by rising aspirations. However, liberalization of the economy has made it difficult to find public resources that match the increasing demand for expansion and quality improvement of the system. There is indeed a fear that inept handling of higher education financing may seriously derail the economic growth process. The 12th Five Year Plan proposes to at least double the level of gross enrolment in higher education in the country, keeping expansion with equity and excellence as the overall vision. But, notwithstanding these pious intentions, rising and prohibitive costs of procuring higher education threaten to leave out a large section of the aspiring population from the ambit of higher education.

Resource crunch for higher education development is not unique to India. Most other developed as well as developing countries have also been experiencing a similar phenomenon. Governments across the world are exploring alternate routes to support the growth of the higher education system. It is this search for alternatives that has led India also to adopt student loan as a possible means of higher education funding. How has the programme of student loan fared in the Indian context? While the education loan schemes have been in operation for quite some time and several banks have been involved in implementing the schemes, practically no systematic empirical evidence is available on their value in financing of higher education in the country. This book entitled *Education Loan and Inclusive Growth: India in Comparative Perspective* by Dr. Jacob John is perhaps the first and the only comprehensive analysis of the operational features, issues of implementation and impact of student loans in India. The study is timely and illuminating as it not only makes a critical assessment of the Indian scene but also examines it in the context of experiences from several other countries. It is indeed an invaluable addition to the scanty literature available on the subject of educational financing in India and should serve as a guide for policy makers and planners on higher education. While Dr. Jacob John endorses the idea of expanding the student loan scheme and even recommends for establishing a national body for coordinating all such efforts across the country, he cautions us of the undesirable effects of this approach for raising resources

on issues of equity if it is not carefully calibrated and implemented with sensitivity to the needs of students from socially and economically marginalized sections of the society. I am sure that students and teachers of economics as well as education would find the book an essential source of reference on the subject.

Professor R. Govinda

Vice Chancellor

National University of Educational Planning and Administration

INTRODUCTORY NOTE

There has been increasing recognition in all parts of the world including India of the need to have adequate access at affordable cost to good quality higher education for all eligible members of the society. In-depth studies reveal that universal higher education of high quality requires mind-boggling resources. Higher education in India, like in many other developing countries, has not been inclusive of poorer sections of society especially from the rural areas.

It is a matter of concern that the problem of finance is a major constraint for a significant section of students to pursue higher education. Among the major countries, India has one of the lowest proportions of young persons in the relevant age group who pursue higher education. Several recent studies indicate the need for non-government sources of funds for higher education. In this context, there is an urgent need for enhanced use of education loan to augment resources for higher education within an appropriate framework of inclusiveness.

This book is an attempt to analyze different models of education loan systems across the world. It deals with various models of education loan that have been prevailing in various countries. These models of education loan have certain encouraging features. Four such models of education loan are drawn from the experiences of different countries. These are (a) government guarantee to commercial bank for loan repayment (b) government direct lending, (c) education loan management outsourced with core public management and (d) loan repayment integrated with the taxation system. Education loan system in India does not belong to any of these four models. It is now at an evolutionary stage and it can be reformulated as a model for developing countries.

The book discusses Indian system of education loan with special reference to its significance as a tool for financing higher education of all sections of students in India. Findings of field studies conducted in four Indian states show that access to education loan for students from low income families is poor. Incidents of suicide by students after the denial of education loan by bank managers indicate the friction between banks and students on various issues related to loan sanctioning. Some of the case studies presented in the book are related to the denial of education loans to students from low income families by commercial banks and

subsequent judicial interventions. The main finding of bankers' preference for lending to students whose parents are well-to-do to reduce banks' non-performing assets is hardly surprising. Certain suggestions made in the book—(a) special efforts should be made to popularise these loans among students and parents and (b) an independent authority should be set up to oversee the functioning of the scheme—are well worth consideration.

Dr. Jacob John has spared no effort to keep the quality of the book high. I heartily congratulate him for this effort. I found this book quite informative, illuminating and educational. It highlights strategies for enhancing the resources available for higher education in developing countries like India to make it truly inclusive. I am sure that this book will be useful to educational planners and policy makers not only in India but also in other countries.

Dr. N.J. Kurian
President,
Kerala Development Society–Delhi

LIST OF ABBREVIATIONS

AICTE	All India Council for Technical education
B.Com	Bachelor in Commerce
B.Sc	Bachelor in Science
BA	Bachelor in Arts
CA	Chartered Accountant
CABE	Central Advisory Board of Education
CFA	Chartered Financial Analyst
EMI	Equated Monthly Installment
FDLP	Federal Direct Loan Programme
FFELP	Federal Family Education Loan Programme
GDP	Gross Domestic Product
IBA	Indian Banks' Association
ICMR	Indian Council of Medical Research
ICWA	Institute of Cost and Works Accountants of India
IIIT	Indian Institute of Information Technology
IIM	Indian Institute of Management
IISc	Indian Institute of Science
IIT	Indian Institute of Technology
MBA	Master in Business Administration
MBBS	Bachelor of Medicine, Bachelor of Surgery
MBM	Master in Business Management
MCA	Master in Computer Application
MD	Doctor of Medicine
NAAC	National Assessment and Accreditation Council
NIFT	National Institute of Fashion Technology
NIT	National Institute of Technology
NPA	Non Performing Assets
NSC	National Saving Certificate
OBC	Other Backward Class
PG	Post Graduate
PGDM	Post Graduate Diploma in Management
Ph.D	Doctor of Philosophy
PLR	Prime Lending Rate
PSU	Public Sector Undertakings
RBI	Reserve Bank of India
SBI	State Bank of India

SBT	State Bank of Travancore
SC/ST	Schedule Caste/Schedule Tribe
SIB	South Indian Bank
SLBC	State Level Bankers Committee
UGC	University Grants Commission
UIN	Unique Identification Number
XLRI	Xavier Labour Relations Institute

CHAPTER ONE

EDUCATION LOAN AS AN EMERGING ALTERNATE SOURCE OF FINANCING HIGHER EDUCATION

1.1 Introduction

The trend of financing higher education through education¹ loan has spread far and wide in different parts of the developed world, while developing and underdeveloped nations have taken certain initiatives towards it. The recent trend clearly shows that higher education cannot be entirely funded from government funds and, so, developing countries are compelled to make education loan an alternate source of financing higher education. While grants and scholarships remain the two main sources of financing higher education, education loan has not been successful in attracting the attention of stakeholders as an alternate source of financing higher education in the developing and underdeveloped countries.

The educational system in India, a prominent developing country, is predominantly a state-funded and state-controlled activity. Given the financial constraints of various Indian states, it has become difficult to meet the ever-increasing financial needs of an expanding education system. The higher education system in India is the third largest after the United States and China. India has 348 universities, 17,625 colleges, over 500,000 teachers and above 10.5 million students. India has 14 open universities and a network of 150 distant educational centers which constitute 20 percent of the higher education system. Without any doubt the Indian higher education system has been growing rapidly, covering all the major disciplines, and to a great extent, meeting the manpower requirements of India. It covers arts and science colleges, medical and engineering colleges, agricultural, pharmacy and management schools. However, it is a matter of serious concern that the Indian higher educational system cannot meet the growing demand. According to the National Knowledge Commission, India would need 1,500 universities by 2015 to meet its growing human resource needs. At present, according to

¹ In India and some other countries education loan is also known as student loan.

the UGC, there are 620 Universities in India (as of February 11, 2013). While launching the Knowledge Commission, the Prime Minister of India, Dr. Manmohan Singh, said:

“At the bottom of the knowledge pyramid, the challenge is one of improving access to primary education. At the top of the pyramid there is a need to make our institutions of higher education and research world class. The time has come for India to embark on a second wave of nation-building. Denied this investment, the youth will become a social and economic liability” (Government of India, 2006).

While the higher education system has helped India become self-reliant in many fields, concerns such as market mismatch, quality variations, diminishing and skewed public funding, system inefficiencies, poor accessibility, low quality and regional disparities need urgent attention. These issues are to be tackled to make India a knowledgeable society. Indeed, the restructuring of India’s higher education system has caught the attention of policy makers, and some of the major policy initiatives in this respect are listed below:

- National Policy on Education(1986/1992/2000)
- Establishment of the National Assessment and Accreditation Council
- Technology Vision of India 2020(1996)
- Information Technology Action Plan(1998)
- Encouraging private investment in professional education
- Liberal grant of autonomy—Deemed University status, IITs, NITs
- Installing an educational satellite (2003)
- Transforming India into a knowledge superpower—vision (2003)
- Draft National Biotechnology Plan(2004/2005)
- Upgrading the technical education system—Tech Ed.I, II and III
- Setting up a Knowledge Commission (2005)

India has a vision to achieve an annual gross domestic product (GDP) growth of 8–10 percent per year through a knowledge-based economy. Financing of higher education is one of the critical areas of growth identified in order to become a knowledge superpower by 2020.

“While access, equity and excellence are the goals, these cannot be achieved without a high degree of institutional autonomy, decentralization, innovative structures and systems, and tapping additional resources through a public-private partnership. The stifling oversight of government of which University Grants Commission and All India Council for Technical Education have become willing surrogates, needs to be removed

and replaced with a helping hand. Major educational reforms are long overdue. Only then can India become a global educational hub, as it once was" (Karnaik, 2008). In the context of educational reforms, formulation of a viable and suitable tool of educational financing deserves special attention. In order to deal with the issues of poor accessibility and low quality of services in India's higher education system, a suitable tool of educational financing needs to be formulated. As a part of economic reform measures, Government of India is compelled to explore possibilities for additional resource mobilization to reduce the burden on the exchequer. A general trend in these reform measures is to shift the burden of cost of higher education from the public to private and household domains. Education loan has become a mechanism envisaged to shift the burden to the beneficiaries of education. Under this scheme, individual students are expected to meet the cost of higher education. Recently, the government of India has made some interventions for expanding the scope of the educational loan system.

1.2 Education Loan for Financing Higher Education in Developed and Developing Countries: Literature Review

Various researchers have attempted to study the role of different sources of funding for higher education in developed and developing countries. By and large, there are three major sources of financing higher education: parent/student fund, taxpayer/government fund and contribution of philanthropists. While the cost of higher education is met mainly by parents, students and taxpayers, an institution or philanthropists can also be an important source of financing. Several scholars had pointed out the need for student aid programmes to improve accessibility. "It is essential that a policy requiring the student to pay a portion of the costs be supported either by governmental guarantees, as in the US Guaranteed Student Loans, or by direct provision of governmental capital, as in the Swedish study means, German BAfoG or US National Direct Student Loans"(Johnstone,1989). Woodhall (1970) analysed the objectives of any type of student aid policy, quoting Eide, a Norwegian economist who cited five major purposes:"(a) stimulating demand for education in general (b) stimulating demand for education in particular groups (c)increasing the effective utilization of students' time (d) promoting student independence and (e) improving the conditions of graduates". Some studies have highlighted the efficiency of education loan in the context of developing

countries. “A partial switch to loans could increase efficiency in at least three ways. First, higher education benefits society as a whole and it therefore aids the efficient allocation of resources if the state pays part of the cost. However, a degree also confers private benefits on students (higher pay, greater satisfaction) and so it is both efficient and equitable if students pay part of the cost themselves. Second, is the issue of capital markets. If capital markets were perfect (i.e. if all students could borrow against their future earnings) the private market could supply loan itself. Since many students are not able to obtain long term private loans, government intervention is necessary, either to guarantee private loans or to provide loan itself. Third, loan reduce the public costs of higher education, making it easier to expand the system to a larger and (it can be argued) more efficient size” (Barr, 1989). The experience of developed nations gives an encouraging scenario. Total cost of higher education in the United States is estimated at 42 percent of GDP per capita per year while that of France is 25 percent. On account of efficient operation of education loan and grant schemes, the actual cost of US higher education has become more affordable at 18 percent of GDP per capita against 19 percent in France (World Bank, 2008).

Various aspects of educational loan are studied in the context of escalation of cost of higher education. The overall trend in India, especially since the 1990s, is towards privatization of higher education. The southern states of Andhra Pradesh, Karnataka and Kerala have witnessed a tremendous growth in self-financing colleges, especially in engineering and management. “In 1997, the Government of India in its proposals for subsidies accorded higher education the status of a ‘non-merit good’ for the first time while elementary education remained ‘merit-good’. The Ministry of Finance reclassified higher education into ‘merit 2 good’, which need not be subsidized by the state at the same level as merit good. Several states have been encouraging self-financing colleges to reduce the public funding of higher education” (Kaul, 2006). Many educational experts have been advocating for drastic reduction in the public funding for higher education (Tilak, 2004). Private cost of education comprises both academic and maintenance cost. Academic cost are related to library and laboratory fee, tuition and examination fee, cost on books, stationery, journals, instruments and payments for private coaching. On the other hand expenses on boarding and food, transport, clothes and related sundry items are considered as maintenance cost (Kumar, 2008). Along with the gradual reduction in the subsidy of higher education in India, the cost of higher education has been increasing in almost all the Indian states. Now let us discuss some of the state-specific

studies to examine the cost structure of higher education. Ajit Kumar's estimates drawn from a field survey show that the average annual private cost per student is Rs.21,360.53 for MBBS day-scholars, Rs.31,083.84 for MBBS resident students, Rs.14,436.23 for B.Sc. nursing day-scholars and Rs.19,226.21 for B.Sc. nursing resident students. This study found that admission to medical courses in Kerala is "largely restricted to the elite groups in terms of financial as well as social background", while students from majority of households in Kerala face difficulties due to the lack of capacity to meet the high cost of attending medical courses.

Salim estimated the annual total private cost as Rs.5,640 for technical and Rs.4,645 for general education at degree and the postgraduate levels in Kerala (Salim,1997). In 2008, he raised the concern that the government has "introduced a large number of self-financing courses in both the government and the private sectors. However, while introducing these measures, the capability of the students, whose academic and non-academic costs constitute a considerable part of their household expenditure was overlooked or not given due consideration" (Salim, 2008). A survey of 223 colleges affiliated to 3 universities in Punjab found that the overall per unit annual recurring cost was Rs.13,018 during 2000–04 (Brar, Singh and Ghuman, 2008). The recurring costs have been clubbed into nine broad components: teachers, administrative, repair and maintenance, electricity, consumables, communication and related services, extra mural activities, scholarships and concessions, and miscellaneous or contingencies. This study shows that in the state of Punjab, "per unit cost level was quite high keeping in view the level and distribution of per capita income in the state". It is also found that private sector colleges, especially the unaided and self-financing, fix the supply price of education on cost plus basis and students incur many other varieties of direct monetary expenses such as costs on books, stationery, living expenses and transport. In this context, the study raises concerns about the possible threat of pricing out meritorious students who cannot afford the cost. It is quite reasonable to see that the cost of higher education witnesses a consistent and an ever-increasing trend. Due to this continuous increase in the cost of supply of education along with the diminishing budgetary support, higher education institutions resort to internal resource mobilization through the enhancement of existing fees and charges and introduction of new varieties of fees and charges. A study by Guru Nanak Dev University, Amritsar, showed that about 60 percent of the revenue of a typical university originates from non-governmental sources (Raikhy, 2003). In the state of Punjab, a majority of higher

educational institutions have introduced “several self-financing and marketable courses of professional variety. Attempts have also been made to finance traditional courses with extra income earned from self-financing courses” (Brar, Singh and Ghuman, 2008).

In view of the constraints on resources, now there is a trend of steady withdrawal on the part of the government in financing higher education. Several self-financing, unaided educational institutions are being set up in many states. This has led to the increasing use of educational loan in several Indian states. Scholars hold different views on the merits and limitations of the educational loan system in India. “The need for financing higher education for students, especially those coming from low income households needs special attention. Like in the United States, we may also evolve a guarantee system, where students coming from low income households are eligible for a student loan without parental security or guarantee so that there is no discrimination due to the financial background of the student. Subsidization of the interest rate for students should be based on his/her family income. For this, innovative financial mechanism needs to be evolved incorporating some of the salient features of the systems existing in UK and USA”(Kaul, 2006).

The effort to provide access to higher education has focused on keeping fees low, rather than raising access to educational finance and scholarships. This increases the dependence of the university on the University Grants Commission and the state government which limits its autonomy, thus compromising its work environment and constraining diversity within the system (Basant and Mukhopadhyay, 2008).

Some scholars have tried to study the role of various sources of funding for higher education in India, such as scholarships, fees and loans. Altbach (2009), while making a comparative assessment of higher education system in India and China, made some observations: “In both countries, increasing tuition costs in both public and private sector institutions has shifted the growing burden for funding higher education to students and their families. Neither country contains an adequate system of grants or loans to ensure equal access to higher education, although both have some financial aid programmes in place and have made efforts to provide access to education for the poor students and students from the deprived populations.” According to Tilak (2004), fees were raised in more than six universities in order to regenerate more than 50 percent of their recurring income. Another 13 universities revised their fee structure to generate 20 percent of their recurring income. He emphasized the need for continuation of the crucial role of the state in funding higher education. However, there is a need to raise more resources which include fees and

loans to meet the different components of cost of higher education, that is, academic cost, academic support cost and student welfare cost. He observed that several recent studies reveal the need for serious efforts to raise resources from non-governmental sources to fund higher education.

According to Rani (2002), financial non-viability of educational loan and its psychological impact of the burden and societal attitude (“negative dowry” for women) are adverse on students, family and the society. “The concept of student loans does not also recognise the uncertainty of the relationship between higher education and jobs. It is wrong to assume that the link between higher education and occupations is either perfect or even strong” (Tilak, 1999). India has experienced low demand for educational loan due to the poor credit culture of its students.

Some studies have raised the limitation of education loan as a source of funding higher education in India. According to some scholars, educational loan can be availed only by a small section of the society mainly due to the weaknesses of the credit market in India. The capital market for higher education loan is imperfect (Lleras, 2005). The major reasons for the imperfect market include information asymmetry and adverse selection. Some scholars hold the view that educational loan is not the solution to the problem of higher education financing. It is inadequate to solve the problems of financing higher education primarily due to market imperfections, discrimination by commercial banks and insecurities in the job market. “On account of the inherent imperfections in this market and discrimination practiced by banks (overtly or covertly), education loans cannot be a solution for students willing to pursue higher education. The uncertain nature of the job market complicates this by subjecting both students as well as lenders to uncertainty. There is an emerging consensus that the government has to find ways to make educational loans softer and more student-friendly” (Chattopadhyay, 2007).

Notwithstanding various limitations of the educational loan system, there is a need for popularizing loan as a source of funding higher education in view of the ever-increasing cost of education, and the declining public funds for higher education in countries like India. The principle behind educational loan is that lack of finance should not prevent students from pursuing higher education. It has become an obligation rather than a duty on the part of the society, including banks and the government, to give due importance to preserve a good educational loan system in the country. “The CABE’s [Central Advisory Board of Education] report has suggested the setting up of a Higher Education Finance Corporation by pooling resources from the corporate sector and

the government to coordinate loan schemes being operated by banks” (Chattopadhyay, 2007). Notwithstanding divergent views on merits of student loan mechanism, it is gaining much significance as a tool for financing higher education in India.

The moot question, in the context of educational needs of developing and underdeveloped nations, is how to provide financial access for students from low income families for undergoing higher education of their interest and choice. Here providing access to quality institutions for these students is also significant. By availing an education loan the student defers the paying of the actual costs of education to coincide with the benefits. Various studies indicate that there is good scope for using educational loan as a tool for financing higher education of students of even low income families. A well-designed educational loan system can not only empower students to get access to quality higher education but also allow cost sharing without affecting accessibility and equity.

1.3 Equity Issues in Higher Education and Relevance of Education Loan in India, a Developing Country

The Indian educational sector needs to address different challenges starting from improving literacy to universalizing access to basic and secondary education. Moreover, it needs to supply trained manpower and higher skills to meet the growing requirements of the nation. It is essential to create a level playing field where backward sections get equality of opportunity in the field of education, especially higher education. Various steps are being taken in the Twelfth Five Year Plan (2012–2017) to improve the higher education system in India. Emphasis is also being given in making higher education more inclusive and more responsive to economic needs. Though the Eleventh Plan (2007–2012) had a sharp focus on education, reduction in the growing mismatch between supply and demand was difficult because of the undue dependence on the government funds. The Twelfth Five Year Plan which focuses on education as a priority sector is expected to give a special emphasis on educational loan as a source of financing higher education.

Just about 10 percent of the 16–23 age groups get higher education in India against 50 percent in developed countries. In countries like India a large number of students cannot join higher education, and after joining many of them discontinue their education because of lack of finance to meet the costs of education. The problem of finance, which prevails among a sizable section of students, is a serious issue. The present

enrolment in higher education is only 9–11 percent in India as against 45–85 percent in the developed countries. About 35 percent of India's population in the age group of 20–25 aspires for higher education (Government of India, 2006).

Development of human capital is a national priority issue. Education is a key factor in the development of human resources in India and its national as well as state level policies are framed to meet the growing educational needs through appropriate public and private sector initiatives. The recent trend is to provide primary education to all on a universal basis with government funds, while higher education is progressively moving into the domain of the private sector. There is a gradual reduction in government funds for higher education. In the neo-liberal regime, the costs of higher education in India is on rise and hence there is a need to ensure that no deserving student is denied opportunity to pursue higher education for want of financial support. In this context, educational loan should be seen as an alternate source of financing higher education, an investment for economic development.

Higher education has become very expensive in India. Varied fee structures are followed by different educational institutions. Moreover, the expenditure on non-free components of education has been increasing at a much faster rate. Poor accessibility of higher education to a sizable section of the Indian society has become a serious issue. In view of this trend, a proper student aid policy needs to be formulated. "A large section of students may get an opportunity for education in private and government colleges if a liberal loan facility is available to the persons being included in the under-privileged students category"(UGC, 2011). In this context, it is important to enhance the use of educational loan within an appropriate framework of inclusiveness, as a non-government source of finance.

1.4 The Objectives of Study

The broad objectives of the present study are to

- Review different models of educational loan system in various countries,
- Study the operational issues of educational loan in India, a developing country,
- Examine the socio-economic background of beneficiaries and gender aspect of student loan schemes in India,
- Investigate the sensitivity of banks to the needs of the poor or low income students,

- Study the financial inclusiveness of the educational loan schemes,
- Suggest measures to improve the effectiveness of student loans as a viable tool for financing higher education, to increase its potential in enhancing investments in higher education in India, and
- Recommend an action plan to popularize the educational loan scheme as a significant source of financing higher education for inclusive growth in India and other developing countries.

1.5 Methodology

1.5.1 The study is primarily empirical and the data from the field is supplemented by secondary sources. Besides the field survey, elaborate discussions were held with a cross section of stakeholders.

1.5.2 Sampling Design

The study is carried out based on a sample survey. It has used a multi-stage purposive sampling method. Four Indian states, one each from north, south, east and west regions were covered (Table 1.2). Uttar Pradesh (U.P.) as a backward state in respect of higher education from north, and Kerala as a better-performing state from south were taken for the study. From west, Maharashtra, a relatively better-performing state, and from east, Orissa, a backward state, were taken.

Table 1.1
Multi-stage Purposive Sampling: Selection of Indian States

Region	State	Justification for Selection
Northern Region	Uttar Pradesh	Backward state
Western Region	Maharashtra	Better-performing state
Eastern Region	Orissa	Backward state
Southern Region	Kerala	Better-performing state

From each state, 3 districts were selected mainly based on the concentration of educational institutions and students. As it is evident from Table 1.2, the selected districts were Lucknow, Meerut, Ghaziabad (Uttar Pradesh); Pune, Mumbai city, Mumbai Suburban (Maharashtra); Cuttack,

Dhenkanal, Baudh (Orissa); and Trichur, Kottayam and Thiruvananthapuram (Kerala).

Table 1-2
Multi-stage Sampling: Selection of Districts

State	Districts	Justification for Selection
Uttar Pradesh	Lucknow, Meerut and Ghaziabad	Concentration of educational institutions
Maharashtra	Pune, Mumbai city and Mumbai Suburban	Concentration of educational institutions
Orissa	Cuttack, Dhenkanal and Baudh	Concentration of educational institutions
Kerala	Trichur, Kottayam, Thiruvananthapuram	Concentration of educational institutions

The survey covered both rural and urban areas. Three categories of students were selected. Students who had availed loans are the first category. Students who could not avail loans for higher education due to various reasons as a result of which they could not join higher education courses are covered as the second category. The third category includes those students who had applied for educational loan but could not avail it because of their failure in meeting the requirements of the banks. However, these students managed to join higher education courses using other sources of funds.

Purposive sampling technique was used to select students and the selection of samples was primarily based on the following factors:

- a. Annual income of families who had taken loan: the sample covered families of low, medium and large income groups.
- b. All courses which are funded by the banks are covered: job-oriented professional courses, technical courses, graduation and post-graduation.
- c. Financing of courses in India and abroad are covered.
- d. Both public sector and private sector banks which gave loans are covered.
- e. Geographical location: both rural and urban areas are covered.

Table 1.3
Sample Selection: Distribution of Student and Non-student Categories

States	Students	Parents, teachers, officials of educational institutions, local government representatives, NGOs, officials of private and public sector banks	Total
Uttar Pradesh	100	100	200
Maharashtra	100	100	200
Orissa	100	100	200
Kerala	100	100	200
Total	400	400	800

As it is shown in Table 1.3, a total of 400 students from four states and from three categories of students are studied. From each state 50 cases of students who had taken loans in the last 10 years, making a total of 200, were covered under the study (Table 1.4). Under the category of students who could not avail loans for higher education and as a result could not join higher education courses, 25 such students from each state, making the total of 100, are covered. Again, from the third category of students, those who could not avail loans for higher education but managed to join higher education courses, 25 students are taken from each state, making the total of 100.

Table 1.4
Sample Selection: Details of Students from Four States

Category	Number
Students who have taken loans in the last 10 years	200
Students who could not avail loans for higher education and as a result could not join higher education courses	100
Students who could not avail loans for higher education, but managed to join higher education courses	100
Total	400