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## **Financing of Higher Education in a Globalizing Indian scenario: Analyzing Opportunities and Threats.**

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### **History of Higher Education**

Indian economy devises the third largest higher education system in the world, after China and the United States. Access to higher education in India before Independence was very narrow, with enrolment of less than a million students across 500 colleges and 20 universities. According to Annual Report, MHRD 2006-07, after independence, the progress has been quite remarkable viz; the number of universities (as on 31st March 2006) has increased by 18-times, the number of colleges by 35 times and enrolment more than 10 times.

The system has now become broader and democratized with around 40% of enrolments coming from lower socio-economic strata, and women comprising of some 35% of the total enrolments. The GOI initiated a planned development of higher education in the country with the institution the University Grants Commission in 1953.

The degree of higher education is generally stated by enrolment ratio in higher education. There are three different methods to estimate the level of access to higher education like: Gross Enrolment ratio (GER), Net enrolment ratio (NER) and Enrolment of Eligible ratio (EER). The GER measures the access level by calculating the ratio of persons in all age group enrolled in numerous programs to total population in age group of 18 to 23. The NER measures the level of enrolment with respect to age specific groups namely those in age group of 18 to 23. The EER on the other hand measures the level of enrolment of those who complete higher secondary level education. These three concepts thus suggest the access to higher education from three different angles.

Three alternative sources namely Selected Education Statistics, (SES) National sample Survey (NSS) and Population Census (PC) delivers data on number of student enrolment. In 1950-51 the enrolment rate was 0.7%, which increased to 1.4% in 1960-61. For the early 2000 the GER based on the SES is 8% .The NSS and PC arrived at enrolment ratio of about 10% and 14% respectively. Thus the SES data under-reports gross enrolment rate by 4-5%. For 2003/4 the GER worked out to be 9%, 13.22% and 14.48% respectively.



The SES under estimates enrolment rates because of the underreporting of enrolment in unrecognized institutions and also because of non-reporting of enrolment data on an annual basis by few State governments. The problem with the NSS and also census data is that as it is collected from households. Due to this, it is likely to overestimate the student enrolment in colleges and universities since it also includes those who are enrolled in diploma or training programme in unrecognized institutions also.

As regards the quality assurance mechanisms, the Higher Education sector in India ensures quality of the educational process with the help of accreditation agencies established for the purpose. The main agency which accredits University and Colleges in general education is the National Assessment and Accreditation Council (NAAC) established by the UGC in 1994, whereas similar function is done for Technical Education by the National Board of Accreditation (NBA) set up by AICTE in 1994, and for Agricultural education by Accreditation Board (AB) set up by ICAR in 1996. Given this background about performance of higher education in India, one can witness ample need to complete the backlog of access, quality, accreditation and financing of institutions delivering higher education during the next few years. The article focuses on financing aspects of higher education in globalized India and suggests various avenues to achieve the same.

### **Introduction**

The quality and magnitude of higher education available in a country is in essence dictated by the amount of resources devoted to its education sector. Therefore a special focus on financing higher education becomes critical to personal, professional, socio political, economic mobility. Higher education is a part of the levelling force, an instrument of par excellence for the redistribution of societal wealth. Thus it is important to analyse how financing higher education in a country would contribute towards the strategic positioning of its economy in an increasingly globalized scenario.

The least developed countries have historically received significant foreign aid to help improve their weak higher education systems, particularly during the **1950s and 1960s**, when the developing world became a proxy battleground for the Cold War. The United States and other Western nations poured money into Latin America and Asia, hoping to promote capitalist economic models and reduce the threat of communism, while Russia targeted funds at Africa and Cuba in a bid to rival US influence. Each focused part of their funding on maintaining university systems in these countries. But a couple of decade's later higher education fell out of favour. This was partly because



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- Donors and recipient governments saw it as an **expensive and inefficient public service**, benefitting the wealthy and privileged and producing too many social science graduates with too few job prospects.
  - It was also because of **problems with 'brain drain'** — institutes in Africa and the Caribbean in particular still have a hard time retaining staff once they have been trained.
  - And it reflected a shift in donors' priorities, as **attention turned towards short-term poverty alleviation efforts in food, medical care and emergency response**. Many universities, especially in Africa, had become little more than prestige-seeking ivory towers, cut off from the real needs of the world around them, and were deemed unable to contribute to such efforts.

In the **1980s and 1990s** 'return-on-investment' arguments became increasingly important to many large funding agencies. In **1994**, the World Bank stressed that HE should not be prioritised in development strategies and cut its HE spending — from 17 per cent of its education funding in 1985–1989 to just seven per cent in **1995–1999**. Other donors followed suit. The **2000** World Education Forum in Dakar, Senegal, confirmed the international community's neglect of HE in the developing world, advocating only primary education as a driver of broad social welfare improvements. The policies adopted by developing country governments reflected the big donors' disregard for HE. A **2005** review by Harvard University found HE was missing from most African countries' poverty reduction strategies. And countless HE facilities, including research laboratories and university libraries, fell into disrepair because of a lack of funding. Research too was hard-hit. In the last five years, several factors have combined to get HE back on the agendas of major donors. A growing body of literature suggests conventional economic measures of **returns on educational investment** do not accurately reflect the social value added by HE, which includes job creation and enhanced entrepreneurship and mobility (the ability to move across job sectors). The development community is now more accepting of HE's economic benefits, realising that these include **creating public knowledge, exchanging skills between industry and academia and better technology**.

In a **globalised world** where knowledge equals power, **'falling behind the knowledge curve'** can have severe consequences. In such a global knowledge economy,

- HE can help developing countries **compete** with more technologically-advanced societies.
  - And with intellectual property restrictions limiting technology transfer, developing countries can **no longer rely on trickle-down effects** to address their development problems.
  - In the face of modern threats such as **climate change, changing disease patterns and food insecurity, producing the skilled labour** needed to carry out and apply **location-specific research** becomes even more important.
  - Ideas about 'brain drain' have also changed. Developing countries see the potential of **bringing 'brains' back once they've received further training overseas** — so called
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'brain circulation'. But achieving this relies on being able to offer good **quality research facilities in universities at home.**

**This calls for strong basis of financing higher education in the current globalized world.**

There are various methods and measures which form the basis for calculating the extent of such funding. These include the **influence of Rates of Return** on Higher Education Financing Policy, the Concept of **Cost-Sharing** in Higher Education, the Concept of **Income-contingent Student Loans** etc. The analysis of HE finance on a whole is dependent on the policy preferences across economies.

### **Financing Higher Education in India**

Universities in India are set up either through state legislation or through the acquisition of a 'Deemed University' status through UGC. While a number of universities have Deemed University status, institutions offering traditional undergraduate degrees do not have this option open to them. In a Supreme Court judgement in the Chhattisgarh case, the Court had decreed that each University set up should not only conform to the UGC norms but also be created through a legislation. This makes setting up of universities not only a long and tedious process but also a costly one. Such measures increase the cost of setting up institutions. Regulation, therefore, needs to be well structured and thoroughly researched to take full account of relevance, requirements, practical constraints and market realities. This calls for global understanding of issues both on **demand and supply side** that act as a concern for the development of the this sector:

**On the demand side**, we need to have clear objectives. These are as follows:

- The gross enrolment rate of higher education in India is roughly 6per cent. This will need to be doubled in the next decade. This involves thousands of crores of Rupees of **investment**. Since the Government will not be able to meet the requirement, all other sources of funds need to be tapped as well. There is a **serious mismatch of demand and supply**.
- The size of demand and its projected growth, clearly indicate the need for new institutions imparting **quality education** in subject areas of contemporary relevance and job opportunities. Quality can be ensured only if there is sufficient **competition among institutes to attract talented students** and provide choices and innovative subject combinations. Unfortunately, the Indian regulatory regime tends to stunt supply rather than increase it.
- There is no doubt that an ideal education system should be **without any financial discrimination**. However, fee caps tend not only to bring down quality but also reduce overall supply of education. Under these circumstances, there is a great need to go in for major **financial innovations in education planning both at student financing level and also at the level of educational institutions.**



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- There is an effort on the part of the Government to block the **entry of foreign universities into India**. While Singapore, Dubai, Bahrain and China are encouraging foreign universities to set up operations in their countries so that students can have easy access to degrees from those well recognized universities, there is a tendency to block such entry into India. There is a statutory requirement of partnership with Indian institutions, which curbs their autonomy and their standing or ‘brand equity’ in the market. **Restriction on foreign investment in higher education is biased against economically weaker students, who cannot afford to go abroad and acquire foreign degrees.**
  - Entry of foreign universities into India, like foreign investment, should be allowed freely, placing restrictions only on universities and institutions based on religious affiliations. **We should welcome foreign universities to set up campuses, with or without their own investment, in India.** This would also make our universities and colleges more conscious of the current global best practices and more competitive from the demand point of view.

**With globalization, there is a great need for Indian higher education to provide a platform for gradual integration of its degrees with the best available in the world. This is so because as mobility of skilled manpower increases and India evolves into a knowledge-based society, skilled professionals from India will be in great demand both in India and abroad.**

A major shortfall in this direction is the **inability of our institutions of higher learning to attract and retain qualified and trained faculty of high order**. As the bureaucratic process of administration continues to stifle Indian academia, it will further reduce the competitive edge of Indian higher education institutions. There is, therefore, a need for institutes of higher learning, even in the public sector, to allow teaching staff more allowances, freedom to enter into consultancy arrangements and avail of attractive perks such as housing facilities in case higher salaries are not possible. In some cases collaborative efforts between Indian public institutions and foreign institutions fail as India institutions do not provide for higher salaries to foreign teachers.

#### **On the Supply Side:**

This immense demand supply gap, the inability of most Indian students to pursue studies abroad, as well as the value accorded to foreign degrees in India has provided an attractive opportunity that many western universities and technical colleges are beginning to explore. Indian institutions are also entering into **partnerships with established foreign universities and institutions to offer well structured professional courses in business management and media studies**. It is observed that in anticipation of educational services coming into the fold of the GATS, well established names like Lancaster University, Purdue and Sunderland are looking towards India for new markets for their courses and programmes. Concordia



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Universities of Canada are also in the process discussing collaboration possibilities with Indian Universities.

While for these universities it is **both an economic opportunity as well as a matter of expansion into new territories, for Indian students, it is an opportunity to earn a much prized 'foreign' degree at home at an affordable cost.** Many students aspire to migrate to the US or the UK. For them such degrees signify the first step in that direction. Management degrees are also popularly offered by western institutions. Today, some of the degrees available in India are vocational diplomas from Western International University Fairleigh Dickenson University, and Wigan and Leigh College, IT from IIT educational services (with NIIT of India), Architectural Degrees from Clemson University, USA, Tarleton State University USA, and Coastal Carolina University-USA, in collaboration with Ansal Institute of Technology, Gurgaon.

The **Government of India in its wisdom has decided not to open any new IITs but upgrade seven existing regional engineering colleges to the standard of IITs** (*Hindustan Times*, 8 November 2005). This is in contrast to China, which is opening new institutions with and without collaboration with the leading universities of the West. It is also inviting **FDI in higher education through Joint Ventures and various co-operative learning** programmes. All this has led to 24per cent increase in enrolment over 2004 in postgraduate programme.

### **The way forward: opportunities and threats**

The road ahead for India is directly linked to creation of quality Higher Education Institutions in a big way to meet the challenge of the knowledge Hub, which India is fast becoming.

1. India needs to have a proactive demand based policy towards **private higher education including foreign institutions/universities** desirous of setting up campus in India or entering into joint-ventures. India could offer tax concessions/fiscal incentives for setting up campuses.
2. The issue of raising **the fees upwards to meet the cost of education** is critical if we are to maintain and sustain the quality of our government and aided institutions as private institutions are already using a higher fee structure. In a competitive setting there is no reason why the fees should not meet a reasonable proportion of the cost of education.
3. The need for financing of 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 and his family income. For this innovative financial mechanism needs to be evolved incorporating some of the salient features of the systems existing in UK, USA.



4. **Special Education Zones** to be set up in order to encourage priority investment in education sector in general and HE in particular. These zones will not employ any unnecessary regulations and constraints and would work on similar lines of special economic zones.
5. Broad-band services and provision of computers is an essential requirement of higher education. A Committee for this purpose needs to be constituted to look into providing **broad band connectivity to all students along with low priced computer accessibility.**
6. **Open Universities need to be encouraged to offer quality programmes at the least cost.** This becomes the most cost-effective way of providing higher education, including technical and vocation education.
7. In view of the expanding role of WTO, higher education would soon become an item under it. We should **encourage foreign universities to come to India to set up independent operations or collaborate with existing Indian Institutions, colleges/institutes.** There is no need for government approvals in FDI in education.
8. While a regulatory set up is required to ensure that there is no cheating or hoax, fixation of fees should not be in state control. On the issue of admissions, **private player may be given the discretion for admission, but will have to justify merit.** Perhaps a Tribunal on Admission Disputes can be set up for those aggrieved by the admission policy of an institution.
9. It is also important that a **lobby or association of non-aided private colleges be organised,** which could then articulate the needs and demands of such institutions and provide a platform to counter the tendency of the bureaucracy to dominate its workings.
10. We need to develop a **system of student loan financing as well as fiscal tax exemptions/credits in case of loans.**
11. There is an apprehension in the minds of many that **unregulated private sector education will also invite ‘fly by night operators’** who will open bogus universities and colleges and cheat students of their money. This apprehension is well founded but should not deter from encouraging private colleges and universities. **Effective surveillance and better regulation needs to be brought in** and, once supply is adequate and competition to attract talented students gains pace, students too will be able to discern quality and will not be at the mercy of unscrupulous business-persons.
12. Creation of both **regional and national Education Hubs** in order to attract foreign universities and students to domestic campuses. Pune in India, near Mumbai, is an attractive educational hub for students both in India and abroad. In this context, Dubai has set up a ‘Knowledge Village’ after 11 September 2001 for wealthy Gulf students no longer interested in heading to the US. It has already attracted 15 foreign universities and business schools to set up campuses. It provides a host of facilities and excellent infrastructure.

The government of India aims to increase the gross enrolment ratio (percentage of people aged 18 to 23 in higher education) from 19.4% (All India Survey of Higher Education 2013, AISHE) to 30% by 2020-21. This means—accounting for population growth—adding about 19 million to the 28 million currently enrolled in higher education programmes. As the studies point out, most of this addition will be in professional streams. The professional streams are being fuelled



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by private sector participation. As of 2012, 86% of engineering colleges and 51% of medical colleges were privately managed. The share of the private sector in enrolment had risen from 32.9% in 2000 to 58.9% in 2012.

More importantly, the expenditure pattern indicates that the government has failed to recognize that areas such as professional education, where private participation has grown significantly, are best linked to the market. To ensure equality for all streams, the GOI should adopt following regulations: First, private sector participation, wherever it is strong, should be supported by streamlining the paperwork needed, thereby also controlling the corruption that arises when a plethora of approvals is required. Second, making higher education eligible for receiving corporate social responsibility (CSR) funds should generate money for academic chairs, departments, merit and means-based scholarships, and physical infrastructure. Third, donations towards merit-cum-means scholarships should be made tax-exempt, addressing concerns about affordability of private sector higher education. Also, non-professional courses may not attract business proposals since there is limited private willingness to pay for them. The perceived social benefits, on the other hand, may be high enough to justify state support. Fourth, the government should follow the grant-in-aid (GIA) model for such purposes. Such institutions should be allowed to charge fees to match the GIA and cover their legitimate costs. As in the case of professional courses, scholarships for needy students can be instituted. Through the above regulations, the government can signal to society the real costs of higher education while ensuring that lack of resources does not come in the way of access to higher education.

### **Conclusion: Global commitments and prospects**

Higher education is already a global business. The days when higher education was a matter of national policy and government regulation are rapidly fading. Higher Education provisioning is now globalised and in many ways, a commercialized affair and the way that the State had in the goings on is vastly diminished. Hence a University is no longer a place where students apply to study. Universities are now actively pursuing students, especially foreign ones using a wide variety of strategies to market their courses. The student is now the customer or client. With globalization, Universities are spreading their reach beyond geographical and political borders. The British, Australian and American Universities are setting up campuses in Singapore, China and the Gulf. Universities realise that they can examine many more students than they can teach. Hence many of them are collaborating with other institutions or franchisees to teach their courses under their brand name without getting involved in the direct business of imparting the education. The example of Professional Training Colleges best illustrates this point : the US CFA (Chartered Financial Analyst) is prominent. While universities and the academic community in general would like higher education to be viewed as a public good, the prevailing argument in the WTO Secretariat is that higher education is akin to ‘private consumption’ directly benefiting the consumer by way of higher income. WTO has also adopted the Principle of Most Favoured Nation. This WTO rule, which is binding on all members, will have its implications for educational services. The Principle of the Most Favoured Nation implies that each party ‘shall accord immediate and unconditionally to services and service providers of any



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other party, treatment no less favourable than it accords to the service and service providers of any other country.’ Another important issue of GATS and WTO, which is fundamental to its principles, is the notion of National Treatment. This implies an obligation to treat both foreign and domestic service suppliers in the same manner. It has been contended that this would imply, if implemented rigidly, that a foreign educational institution of, say, distance education, can demand subsidies similar to those received by public universities in an individual country. As demands for higher education grow the world over, the governments are also finding it difficult to provide adequate budgetary allocation. GATS cover educational services of all types for all countries whose educational systems are not exclusively provided by public sector or those systems that have a commercial purpose. Hardly any country has education exclusively in the public sector domain and therefore, almost all the world’s educational systems come within the purview of GATS. Given the above considerations it may be comprehended that the consequences of funding strategies and recommendations/suggestions relevant for one nation would indeed affect the funding of HE in rest of the world.

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