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### EDUCATIONAL FINANCE CORPORATION OF INDIA

**\*Prof. Shirish Raibagkar, Prof. Dr. D B Raghuvanshi**

\*Professor, PDVVP Foundation's IBMRD (MBA Centre), Ahmed Nagar, India and Research Scholar, RTMN University, Nagpur, India

Associate Professor and Head of the Department, Commerce, Shri .K. N. Goenka Arts and Commerce College, Karanja and Research Guide, RTMN University, Nagpur, India

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#### ABSTRACT

India is looking forward to reaping Demographic Dividend, thanks to its current composition of the population where the youth dominate with a good majority. But it all depends on the kind of education these youths get in order to contribute positively. Whether demographic dividend will be a reality or turn out to be a demographic burden will be determined to a great extent by the quantity and quality of education that is provided to these youths. Education, no doubt is the game-changer. Providing education to millions of students is an uphill task. The Government is actively seeking partnership of the private sector and figures indicate that the private sector so far has responded well to this call from the Government. Finance has a vital role to play in the educational sector. So far the Government has been a major provider of funds including to the students studying in Private Unaided Colleges by way of scholarships based on criteria of caste and economic backwardness. However with the kind of demand that exists for education today and the one that is anticipated in the next 10-15 years, it is felt that there is a strong requirement for a dedicated educational funding institution much on the lines of a housing finance corporation. Education is a strategic sector and it definitely calls for a well planned funding both for the suppliers and the consumers of education. This article highlights this need for establishing an exclusive educational funding agency.

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#### INTRODUCTION

Specialized finance has been active in India since quite long. Housing Finance is a classic example of the same. Starting in the 70's housing finance took off with the launch of HUDCO and HDFC. Housing finance specialization was followed up with a number of other niche area segmentation of the financing business that included vehicle finance, personal finance, gold finance, equipment finance, tourism finance etc. Banks and finance companies did exist to finance in general all types of requirements but the kind of specialization that we see today is quite amazing. Surprisingly one sector that has remained untargeted as a niche segment is education finance. Yes, educational loans are offered by banks. Even educational institutions are also financed by banks. But point is unlike other sectors, why still there is no exclusive and dedicated education funding bank or organization? R Vaidyanathan (2015) has made a strong point in his article demanding an exclusive educational financing institution. This article takes a look at the various dimensions of establishing a dedicated education funding bank or organization in India.

#### EDUCATION A STRATEGIC SECTOR

First up let us appreciate the significance of the educational sector. Education beyond any doubt is a strategic sector. It is a game-changer for a country like India. It is a widely consumed service as well. Quality of education affects quality of life. In a country like India with huge young population and with limited resources with the Government, private sector has to play an important role. If the Government is really serious about education it should establish dedicated education funding institution on lines similar to specialized housing finance institutions. And with the younger generation who as of now are in a big majority equipped with quality education India can definitely look forward to reap the benefits of the demographic dividend. On the other hand, if timely action is not taken, there is danger that this so called demographic dividend might become a demographic burden.



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### PRIVATE SECTORS ROLE IN EDUCATION AND THEIR FEATURES

Unaided private colleges and schools are expected to play a major role in higher education in a country like India where the Government doesn't have adequate funds to cater to the huge demand particularly in the wake of the current demographic profile that is dominated by the youth. In the landmark Unni Krishnan Judgment delivered by Honorable Supreme Court of India (1993), paragraph 61 of the order states that private unaided educational institutions are a must for a country like India especially in higher education where the Government does not have financial strength to meet the requirement of capital for medical and technical education. According to the All India Survey for Higher Education (AISHE) provisional report 2012-13, Gross Enrolment Ratio (GER) in Higher education in India is 21.1, which is calculated for 18 - 23 years of age group. Thus, still huge part of the population is struggling to seek education. Given these numbers and the current demographic profile of our country where the youth population holds a huge share, undoubtedly the need for private sectors role in the education sector is clearly of a great significance. Before we discuss the current position of fees it would be pertinent to note some peculiar characteristics of the private unaided educational institutions –

- Generally established as Trusts or Cooperatives
- Management under Trustees/Executive Committee Members
- Absence of profit objective. Operate as charitable institutions.
- Education as a common service rendered as a charitable activity.
- Common set of regulations and norms for approvals, fee fixation etc.
- Regulated academically and administratively by agencies like All India Council for Technical Education (AICTE), Medical Council of India (MCI) and by State Universities.
- Fees fixed by State Fee Fixation Committees that have been established in the backdrop of the landmark Supreme Court judgment in the case of T.M.A. Pai Foundation v/s State of Karnataka in 2002.
- Cash flow patterns that are cyclical in nature - concentrated at the beginning of the academic year and drying-up during the second-half of the academic year.
- Revenue streams made up of Tuition and Development Fees
- Typical expenditure patterns with salary as the dominant recurring expenditure.
- Peculiar financial problems like delays in receipt of scholarship from the Government

### BENEFITS OF SPECIALIZED FUNDING AGENCY

A specialist has a better understanding of things as compared to a generalist. If you approach a commercial bank for a vehicle loan, the bank manager or credit manager would only have a general idea of the entire matter. Compare this with the expert and specialized knowledge of the person working in an exclusive vehicle funding agency. Same thing applies to education. When an educational institution approaches a bank for a facility like cash credit for its working capital, manager from a commercial bank will fail to understand this requirement in the first place. Because, not being a specialist in education, he will not have an idea of the peculiar factors like the typical cash flow pattern, the amount of fee blocked due to non-receipt of scholarship from the Government etc. Such types of problems require a slightly deeper understanding of the dynamics of the education sector. If one refers to the news that had appeared in the Indian Express (Pune Edition) (2013), it would be clear that there are number of educational institutions including those of repute that are facing a working capital problem and are not able to pay salaries for months together. Report of research agency India Ratings and Research Private Limited (2014), corroborates the Indian Express news. The research agency report says - "Even though the fee reimbursements scheme (applicable only to Higher Education) propelled enrolments and made education affordable to certain educationally disadvantaged sections of the society, delays in reimbursements by a few states tightened the liquidity for education institutes". Such problems can be understood only by specialists who are experts from the field of education.

### MARKET POTENTIAL

Those requiring finance in education can be categorized in 3 segments – Educational Institutions, Students and Teachers & Employees. Further their financial needs can be summarized as presented in the following table –

*Table 1 – Segments for educational finance and their funding requirements*

Sr. No.	Sub-segment	Financial Needs
1	Educational Institutions	a. Long-term requirements for infrastructure like Buildings, Equipments, Furniture, Library Books etc. b. Short-term requirements for working capital gap due to delays in receipt of fees
2	Students	a. For paying tuition fees and related expenses like books etc, b. For paying hostel and mess fees
3	Teachers and other Employees of educational institutions	Funds for their various financial requirements like housing, vehicles, education of their children etc.

Thus there exists a huge potential for funding in the educational sector not just restricted to the students educational loan but extending to the requirements of the educational institutions. Further these requirements of the educational institutions include working capital finance due to delays in reimbursement of scholarships by the Government in respect of category students.

### EXISTING SPECIALIZED EDUCATIONAL FUNDING INSTITUTIONS

As of now there are hardly any specialized educational funding institutions operating in India. One such institution is the Indian School Finance Company Private Limited (ISFCPL) that specializes in funding private schools. As per the information on the website of the Company as accessed in January 2016, the Company claims to have disbursed around 2000 loans to schools and school entrepreneurs. It has variety of products on offer that includes unsecured loans, school/college loans, used bus loans, play school loans, loans for opening new institutions, loans for vocational colleges, coaching institutes etc. This company has been funded by a US based global impact fund.

### CONCLUSION

Government should seriously consider establishing a specialized Education Finance Institution on the lines of specialized Housing Finance Institutions. Education in a country like India is a strategic area. Given the current demographic profile of our country where the young population is a major share, education definitely deserves a special attention in terms of finances. This institution has a market comprising of thousands of educational institutions and millions of students studying in these private educational institutions who would like to opt for educational loans. The present funding arrangements are far from satisfactory. Given the benefits of specialization, there is a strong case for establishing an exclusive education financing institution. Funding in the strategic sector of education will improve significantly if we have a specialized education finance institution.

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