

FINANCIAL PROBLEMS FACED BY UNAIDED EDUCATIONAL INSTITUTIONS
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ABSTRACT

India is looking forward to reap what is called the demographic dividend, thanks to its current demographic profile dominated by the youth. However for this to happen, education holds the key. Government has been seeking an active partnership from the private sector to augment its own effort in providing education particularly higher education that demands significant investment. Private sector has responded to this call from the Government and over the last 2 decades or so we have seen a phenomenal rise in the number of private unaided educational institutions in the higher education segment. However problems like delays in the payment of salaries to staff, poor infrastructure, sub-standard quality of education galore particularly in case of institutions in the semi-urban and rural areas. This article summarizes the research that was carried to understand the ground level difficulties faced by such institutions with reference to financial management practices and funding. Objective was to move one step forward from apparent symptoms like delays in payment of salaries towards real issues so that solutions can be found out. It is felt that small steps from each of the stakeholders – government, educational institutions and banks – can lead to a major overall improvement that can benefit billions of students who are the future of India.

INTRODUCTION

Faced with a steep demand for quality higher education on one hand and a declining quality supply on the other, the Indian education system is up against a stiff challenge of a huge demand-supply gap. The overall scenario is quite challenging. On one hand we are talking of reaping benefits of Demographic Dividend. This means education and higher education in particular is in huge demand. At the same time, Government expects private unaided educational institutions to play an active and in fact major role as a provider of education. 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. But on the other hand these institutions have their own set of finance related problems that are acting as road-blocks in the starting, survival and growth of these institutions. This is a matter of concern and hence the prime motivation for the study.

THE STUDY

The research "Study of Financial Management practices adopted by Unaided Educational Institutions in Ahmednagar District" was planned in order to understand grass root level issues in finances that are hampering the smooth functioning of the unaided educational institutions in Ahmednagar District. The District is the largest one in the state of Maharashtra and has a mix of almost all types of higher educational institutions. Further there are number of banks in the District of different categories, namely, public sector, private and cooperative. Following table presents the population and sample of such institutions selected for the study.

Table 1 – Summary of Population and Sample (Educational Institutions)

TECHNICAL GROUP			
Srl No.	Category	Population	Sample
1	Engineering	11	2
2	Polytechnic	21	3
3	B.Pharmacy	5	1
4	D.Pharmacy	5	1
5	MBA	11	2

6	Architecture	1	1
	Total	54	10
MEDICAL GROUP			
Srl No.	Category	Population	Sample
1	MBBS	1	1
2	Dental	2	1
3	Ayurved	4	1
4	Homeopathy	4	1
	Total	11	4
GRAND	TOTAL	65	14

The details of these institutes were collected from the website of Shikshan Shulka Samiti, Maharashtra (now known as Fee Regulatory Authority). Stratified random sampling method was used to select the sample. One set of questionnaires were given to the Institutes to identify specific issues related to –

1. Financial Management practices in general
2. Long-term funding practices
3. Short-term funding practices

Similarly questionnaires were given to 10 Bankers of different types to understand their comfort level with financing unaided educational institutions. Second set of questionnaire was given to confirm the effectiveness of the solutions suggested by the researcher.

Review of literature

In order to understand the macro perspective about the role of private sector or private educational institutes in the overall educational system, references were made to articles and publications of eminent writers and consultants.

- According to Anand Sudarshan and Sandhya Subraminan (2012), India's youth will be left behind in the global race unless radical changes are brought in the Indian educational system. They have highlighted the need for private sector to play an important role in the Indian higher education system.
- According to Ernst and Young (2011) high potential demand for higher education and insufficient government spend on capacity creation are expected to result in a significant infrastructure and investment deficit. They add on to highlight that in this backdrop, the role of private sector has assumed increased significance with immense opportunity for private sector players.
- Research agency India Ratings and Research Private Limited (2014), has estimated the Indian education market to be worth Rs.5.9 trillion in 2014-15 as against Rs.3.33 trillion in the 2011-12 financial year. The rating agencies observation on finances is worth noting - "Even though the fee reimbursements scheme (applicable only to HE) 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". It further says – "Due to tightly-regulated operations such as restrictions on student intake, fees and infrastructure, an institution's autonomy is restricted, leading to weak finances and credit indiscipline."
- Amit Kapoor (2014) writes that India has the third largest education system in the world. This in itself is a remarkable achievement. But the severity of challenges that the system faces is exceedingly high, daunting, and at times looks insurmountable. The challenges confronting the Indian higher education system are also challenging, complex and have different hues.

- An interesting observation is made by The British Council in its report (2014), Understanding India: The future of higher education and opportunities for international cooperation. The Indian higher education system is facing an unprecedented transformation in the coming decade. This transformation is being driven by economic and demographic change: by 2020, India will be the world's third largest economy, with a correspondingly rapid growth in the size of its middle classes. Currently, over 50% of India's population is under 25 years old; by 2020 India will outpace China as the country with the largest tertiary-age population. Despite significant progress over the last ten years, Indian higher education is faced with four broad challenges: The supply-demand gap, the low quality of teaching and learning, constraints on research capacity and innovation and uneven growth and access to opportunity.
- In their article Rajesh Tiwari et.al (2013) have highlighted the huge amount of funding requirements in the Indian education sector and have expressed that at the current budgetary allocations of the Government, the funds would be insufficient.
- Consultants Lohan and Co., (2011) in their research report, based on certain assumptions have forecasted education loan requirement aggregating Rs. 55,737 crore, Rs.156380 crore and Rs.300,950 crores for the year 2012, 2017 and 2020 to augment GER from 12.8% in 2011 to 15% by 2017, 22% by 2017 and 30% as proposed by Department of Higher Education, MHRD.

Hypotheses and its testing

The purpose of the research was to test the following main hypothesis-

“If some technical and legal issues are resolved, Unaided Educational Institutions can bring about improvement in their general financial management practices and Banks can play a more active role in financing long-term and short-term requirements of Unaided Educational Institutions in semi-urban and rural areas.”

The entire study had 2 dimensions – Study of ground level *problems* and Suggesting practical *solutions*. Further both the problem and solution dimensions has four aspects – Financial Management Practices, Long-term Financing, Short-term Financing and Issues from Bankers perspectives

As a part of primary data collection responses were sought from the educational institution and bank respondents to establish that in the first place problems do exist. Null hypotheses were set as “All is well”, that is, problems do not exist and everything is going on smoothly. Statistical analysis of the responses and the resultant conclusions are set out in Table 2

Table 2 - Summary of Data analysis of responses

Q No.	Title	Sample Size	Sample Mean	Sample SD	Ho	H1	p-value	Result
1.1.1	Review of FM Practices	14	1.36	0.195238654	3	< 3	0.000000000000058	Reject Ho
1.1.2	Review of LTF Practices	14	1.21	0.142341101	3	< 3	0.000000000000000	Reject Ho
1.1.3	Review of STF Practices	14	1.84	0.287682097	3	< 3	0.0000000000637737	Reject Ho
2.1	Review of Banking problems	10	1.47	0.233068633	3	< 3	0.0000000003205501	Reject Ho

Problems Reported

After an overwhelming rejection of the null hypotheses that problems do not exist, the respondents were also asked to list major problems in all the 4 areas, namely, Financial Management Practices, Long-term Financing, Short-term Financing and Issues from Bankers perspective. Table 3 summarizes the ground level difficulties as reported by the respondents

Table 3 – Problems reported by the respondents

Sr.No	Area	Problems reported	No. of respondents	% of respondents
1	Financial Management Practices	Poor Computerization Lack of professionalism Lack of Training	13 10 12	37% 29% 34%
2	Long-term Financing	Legal Problem Data Submission Credit Rating Others	11 13 2 8	32% 38% 6% 24%
3	Short-term Financing	No cash credit facility Data Submission Others	12 12 9	37% 36% 27%
4	Issues from Bankers perspective	Data Submission Legal problems Others	10 10 2	46% 45% 9%

Suggested Solutions

Suggested solutions with reference to problems in each area are tabulated in **Table 4** below.

Table 4 – Summary of suggested solutions to overcome problems faced by unaided educational institutions

Sr.No.	Area	Suggested solution
1	FM Practices	1. Training 2. Computerization 3. Professional consultation
2	Long term funding	1. Access to private banks 2. Rationalization of legal procedures 3. Support from banks 4. Better consultation 5. Specialized bank
3	Short term funding	1. CC against fee receivable 2. Factoring service 3. Support from banks 4. Better consultation 5. Specialized bank

Respondents from both unaided educational institutions and banks were asked to evaluate the effectiveness of the suggested solutions through questionnaires. By not accepting the null hypotheses that suggested solutions will not be effective ($H_0=0$), respondents have accepted the alternate hypotheses that the suggested solutions can work ($H_1>0$).

Discussion on major suggested solutions

a. Access to private banks

Government can provide access to private banks by a small amendment in the Maharashtra Land Revenue Code, 1966. There is actually nothing of substance that should prevent private banks accepting these lands as security particularly when the cooperative banks are allowed to accept these lands as security.



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Thus, a small amendment in the MLRC can pave the way for a host of Private Sector banks to finance the PUEIs with Government granted lands.

b. Provision for working capital facilities

Banks should appreciate the working capital requirements of PUEIs and should actively finance these. The working capital requirements of PUEIs are very typical requirements and these can be easily financed by way of standard facilities like cash credit. Outstanding fees of the educational institutions are very much the same like receivables of any other business and these can be hypothecated as securities. Further it is very much possible to link the cash credit limit with the drawing power based on the submission of monthly fee outstanding position.

c. Establishing a specialized educational finance institution

Government should establish a specialized Education Finance Institution on the lines of specialized Housing Finance Institutions. Education in a county 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 PUEIs and millions of students studying in these PUEIs who would like to opt for educational loans.

d. More support from Banks

The present banking arrangements are not really able to cater to the typical requirement's of educational institutions. One can understand this with the help of a small example. When one fills the CMA format for the data submission to the bank, the educational institutions are confused as to what is to be filled against "Cost of Goods Sold", that is, typically applicable for business organizations in general. Banks should establish special cells to deal exclusively with education finance.

e. Rationalization of procedures

Government should rationalize tedious procedures like obtaining permission from Charity Commissioner etc. There should be on-line mechanisms to deal with the permissions. Moreover, there should be provisions that should grant deemed permissions beyond specific time after the date of application.

f. Provision for specialized services

Specialized services like Factoring can also play an active role in not only just financing the receivables but managing the entire fee receivables management portfolio. One advantage with this arrangement can be that the educational institutions can concentrate on academics rather than an administrative task of collecting fees.

CONCLUSION

Education is a strategic sector. 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. Unaided private educational institutions have their own set of problems with reference to financial management practices and funding. There is a big scope for active bank finance in private education. Time has come for the banks to give up their cynical attitude towards the private educational institutions. A big market both in terms of institutional and retail customers exists. A positive mindset with the support of Government can really lend a much needed helping hand by the PUEIs. If the Government is really serious about education it should establish a dedicated education funding institution on lines similar to specialized housing finance institutions. The PUEIs themselves will have to bring about some professionalism to ensure that they stay in the business. Thus small contributions from the Government, Banks and the Educational Institutions can overcome problems faced by the Educational Institutions. The ultimate beneficiaries will be millions of young students who are still struggling to find affordable and quality education. 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.

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