



NEED FOR AN EXCLUSIVE EDUCATION FUNDING AGENCY

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Keywords: Banks, Education, Educational Institutions, Funding.

Abstract

Like any other sector-specific finance, educational finance too has some peculiar characteristics. Experts from the field are always in a better position to assess the requirements than those who are generalists. With rapid changes in the environment, specific variables impacting education sector need to be understood. For example, when the government is delaying reimbursement of scholarship payments to the educational institutions, it is important for the institutions to have a working capital facility in place so as to avoid funding problems. One not in the field of education may express surprise at the very thought of something like cash-credit facility for educational institutions. Therefore, this article highlights the need for an exclusive education funding institution in India like a HDFC dealing exclusively with housing loans. The market is huge given the current demographic profile of our country. The specialized institution can play an important role in the education sector which in itself is a strategic area.

Need For an exclusive education funding agency

Introduction

Sectoral finance has been active in India since quite long. 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. Yet 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? This article takes a look at the various dimensions of establishing a dedicated education funding bank or organization in India.

Need

Advantages of specialized funding agency

A specialist understands the things better. 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 who 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.

Education a strategic sector

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. 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.



Huge market

Table 1 presents the different segments of the education industry market and their financial needs –

Srl. No.	Sub-segment	Financial Needs
1	Educational Institutions	a. Long-term requirements for infrastructure like Buildings, Equipment's, 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	Employees of educational institutions	Funds for their various financial requirements like housing, vehicles, education of their children etc.

Table 1 – Segments of the education industry market and their financial needs

Just to get a small idea of the magnitude of the numbers involved we will refer to 2 reports published by the All India Council for Technical Education (AICTE). In its report (2013), it has highlighted the growth in number of educational institutions in higher education. From a total of 4491 technical institutions (Engineering, Management, MCA, Pharmacy, Architecture and HMCT) in 2006-07, the number of institutions have grown-up to 8598 in 2012-13. For the same courses the student intake has grown from 7.51 lacs in 2006-07 to 22.37 lacs in 2012-13. Thus, a specialized education funding bank or institution has a tremendous market – both institutional and personal.

Practical problems

Statutory problems –

These are problems from the Government side. For example in Maharashtra, we have provisions of Maharashtra Land Revenue Code, 1966 that prevents educational institutions that are established on Government granted lands from mortgaging such lands to private banks. Further even after obtaining sanction for loans from banks, permission of Charity Commissioner is not easily available in some cases.

Problems with institutions –

One big problem with majority of our educational institutions is that they lack professional approach. Lot of ad-hocism, political control, corruption, nepotism etc., are issues that have lent a bad name to this sector. Banks are not very keen to finance educational institutions given a number of grey areas like repayment capacity, genuineness of property being mortgaged etc.

Problems with educational loans -

A reference to the report by The Parthenon group titled Financing Indian Higher Education, 2011, reveals that as compared to 58% of students taking loans for education in the USA, only 8% of students take loans for education in India. Unfavorable loan terms, complicated process, lack of awareness are some important obstacles.

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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