CHAPTER 11

Student Loans in Financing Higher Education in India

11.1 Introduction

The 1980s was a period of increasing financial austerity, and educational budgets began shrinking throughout the world. In most developing countries the share of education in total government expenditure declined compared to the early mid-1970s. In India, as in other developing countries, education faced severe financial constraints. Total expenditure on education declined in real terms, and the decline was even more marked in the case of expenditure per pupil. Economic problems, including graduate unemployment, rising oil prices, global inflation, and the world economic recession partly explain these trends in public spending on education.

Evidence appeared to be mounting that while education has significant effects on economic growth, income distribution, and social development, the rate of return to higher education is significantly lower than to investment in primary and secondary education. It was also suggested that substantial indiscriminate public funding of higher education had serious perverse effects on growth and distribution (see Psacharopoulos and Woodhall 1985; Tilak 1989).

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Thus in the overall context of (a) growing budget constraints in education, and (b) growing evidence in favour of priority for lower levels of education as against higher education, several influential reports argued strongly for reducing public subsidies for higher education (e.g., World Bank 1986). At the same time, the need for more financial resources for higher education is well recognised, as the costs of higher education are rising steadily, and more resources are needed, both for quantitative expansion and qualitative improvement of higher education. Accordingly, attempts to find alternative methods of funding higher education began in several developing countries. Among the various alternatives suggested, a system of financing higher education through student loans has been advocated as an innovative policy that promises reductions in the financial burden of higher education on government funds, and also improvements in equity in higher education, by reducing the regressive effects of public financing of higher education, and improving access to higher education.

A scheme of student loans has been in operation in India since 1963. This short chapter describes the details of the scheme as practised in India, examines its strengths and weaknesses, and suggests some marginal improvements needed for the better functioning of loans as a means of financing higher education. It may be noted at the very outset that it is not assumed here that as a method of financing higher education, student loans are superior to other alternative methods available, for example, reforms in fees (discriminatory fees), and graduate (payroll) taxes. The final section of the paper briefly compares alternative methods of raising additional finance for higher education. Section 11.2 begins with a short introduction on the pattern of funding higher education in India. Section 11.3 describes in detail the student loan scheme as operated in India. Section 11.4 discusses the major problems that threaten the efficient working of the scheme. The paper ends with a few concluding observations on the efficiency and equity of student loans in India.

11.2 Financing Higher Education in India

Higher education is financed in India largely by the government, and the long-term trends in financing show that higher education is increasingly becoming a state-funded activity. There are no private universities

in India, but a large number of private colleges, most of which are privately managed but publicly funded, to the extent of 80–90% of their recurrent budgets being provided by the government. From the point of view of finance, and from the point of view of efficiency and equity, the private sector's contribution to educational development is almost negligible (see Tilak 1992).

After independence, when economic and educational planning were first introduced in India, around 1950–51, the government (federal, provincial/state and local), met only about 40% of the total expenditure on higher education (excluding spending by students themselves and their families, on books, uniform etc., and other non-fee expenditure). The government contribution increased to 73% by 1982–83, as shown in Table 11.1. Correspondingly, the share of every other sector declined: the share of student fees, the only contribution from the students and their parents, declined from 37 to 12%, and the share of other sources such as endowments, donations, etc., remained more or less stable at about 14%. The 'other' sources are rarely considered as reliable sources of funds for higher education in India.

The pattern of fees appears to be particularly illogical. Fees are not related in any way to the actual costs of education, nor to the ability of students and their parents to pay for education. Students in arts and science courses (general education) on average meet about one-fifth of the cost of their education in the form of fees (of all kinds), while students in costlier, better-rewarding and more prestigious professional courses like medicine and business management

Table 11.1 Sources of funding higher education in India (%)

	Government	*Local bodies*	*Fees*	*Others*	*Total*
1950–51	49.1	0.3	36.8	13.8	100
1955–56	47.6	0.3	39.4	12.2	100
1960–61	53.1	0.4	34.8	11.7	100
1965–66	59.0	0.4	28.6	12.0	100
1970–71	60.4	0.5	25.5	13.5	100
1975–76	69.6	–	–	–	100
1980–81	72.0	0.8	17.4	10.8	100
1982–83	73.4	0.7	12.2	13.7	100

Source Education in India (various years), Ministry of Education, Government of India, New Delhi

pay only 5–7% of the costs of their education. Similarly, students in degree-level colleges on average meet 15% of the costs of their education, while students in universities meet 13% and those in research and other higher level institutions pay only 1–4% (Tilak and Varghese 1991; Tilak 1990).

All these trends are indeed alarming for educational planners in the country, particularly in the context of economic shortages in general and in the education sector in particular. There appears to be a consensus in the thinking of Indian planners on the need to halt these trends, and to search for ways to increase the share of non-governmental sources in the financing higher education, without affecting equity and efficiency. It is accepted that relatively poor levels of living, with about 40% of the population living below the poverty line, and attempts to achieve greater democratisation of higher education necessitate a dominant role for the government in financing higher education. At the same time, the need for mobilising additional resources for higher education is widely recognised (see Tilak 1993).

Accordingly, various alternative measures are being discussed, including reforms in fees, introduction of a payroll tax, student loans, earmarked taxes, etc. One proposal, that of a uniform increase in fees, is generally rejected on the grounds that it would result in a decline in the access of the socially and economically weaker sections of society to higher education. Arguments have been put forward in favour of discriminatory fee structures (Tilak and Varghese 1985, 1991), while graduate or payroll taxes are believed to be cumbersome, adding to the complexities of the already complicated tax structure in the country. Experiments with earmarked taxes or special educational levies (e.g., education cess) have not proved encouraging. Few higher education institutions in India generate any sizeable resources on their own, except for a few recently started private institutions that charge high 'capitation' fees, and require hefty donations, while receiving no financial aid from the government. Thus, the main policy choices revolve around one or two measures such as discriminatory fees, and loan financing.

11.3 The National Loan Scholarship Scheme

Loan financing is not new in India. The National Loan Scholarship Scheme was started in 1963–64, with a view to improving access to higher education without the government bearing the total burden of financing higher education.[1]

Student loans are advocated on the ground that they will, in the long run, reduce the burden on the public exchequer of financing higher education, so that scarce public resources can be allocated to sectors like primary education that have higher social rates of return (Tilak 1987). As the consumers of higher education belong to a relatively privileged sector of society, this kind of self-financing is also believed to be equitable in nature and effect. Particularly in India, student loans may also be felt to be more equitable than high levels of public subsidy, as general tax revenue is made up largely of indirect taxes, which account for 85% of tax revenue and these regressive taxes are paid by a vast majority of the poor, whereas higher education subsidies cater largely for the needs of relatively economically advantaged groups. Thus, to finance subsidies that benefit the rich from general tax revenue contributed by the poor can be seen to be highly inequitable. Hence it is argued that student loans would reduce the extent to which higher education transfers resources from the poor to the rich.

On the part of students and their parents, student loans shift the burden of investment in higher education from the present generation to a future generation, i.e., from the parents to the students themselves. Normally the present generation undertakes and finances investment, which benefits future generations, as in the case of education which is financed from taxes paid now but offers benefits in the future. Student loans, on the other hand, require the students to fund their own education. They pay later for the education they receive earlier. At the same time, no poor student desirous of higher education will be prevented, for economic reasons, from pursuing higher education.

It was originally anticipated that student loans would help to establish a revolving fund in 5–10 years, so that the scheme would become self-financing in the long run. It was also advocated on the grounds that such a scheme would prevent wasteful expenditure, as only the needy

students would borrow from the government for their further education. Students would also become more serious in making educational and career choices, because of the need to repay their debts. Moreover, it would increase the value of education in the eyes of the consumers, as anything provided free tends to be less valued than goods or services sold at a price. Finally, advocates of loans argued that students would become more cost-conscious, and know how much society invests in their education, which would increase the internal efficiency of higher education. These arguments have been put forward in India and elsewhere; the next section examines actual experience of student loans in India.

11.3.1 The Operation of the Loan Scheme

The National Loan Scholarship Scheme provides interest-free loans to needy and able students to help them finance full time higher education in India, starting from the post-matriculation level to the completion of higher education; loans are renewable on an annual basis. The value of the loan-scholarship ranges between Rs. 720 per annum (for pre-university and undergraduate courses) and Rs. 1750 per annum (for doctoral or for post-second degree education in professional courses such as medicine, engineering, technology, etc.) depending upon the nature and type of higher education. (The official exchange rate in November 1991 was Rs. 25.70 = US$1.) The scholarships are awarded on the basis of both merit and financial means. All those who secure marks of 50% or above in qualifying examinations, and whose parental income does not exceed Rs. 25,000 (the limit was Rs. 6000 until 1987–1988), and who do not receive any other scholarship, are eligible for the loans. Parental income is not taken into account in the case of post graduate studies (second degree and above), for which merit forms the sole criterion for final selection among the eligible applicants.

The scheme is funded by the national (central) government, but administered through the provincial (state) governments. The loan is actually paid through higher education institutions. The national government fixes the number of loan scholarships (presently around 20,000), and the regional distribution is based on the distribution of the population. In each state, the distribution is made proportionate to the number of different qualifying examinations, subject to a minimum of one for each category.[2]

11.3.2 Repayment of Loans

The selected students are required to execute a bond with the government to abide by the terms and conditions of the scheme and to repay the loan. The bond is signed by the students and by their parents, who stand surety for the students, meaning that the parents would pay in case of default by the students.

The students are expected to repay the loan in easy monthly instalments, equal to one-tenth to one-sixth of monthly income, subject to a minimum of Rs. 25 per month. Borrowers who earn no income, including housewives, have to pay the minimum, i.e., Rs. 25 per month. The repayment is expected to start one year after the scholar begins to earn an income (excluding any paid practical training), or three years after termination of scholarship or studies, whichever is earlier. Generally, the loan becomes recoverable about 8–10 years after commencement of the loan award, and full recovery of the loan takes around 10 years. There are certain rebates or repayment concessions given to particular categories of students or graduates. Those who join the teaching profession or armed forces are given a rebate of one-tenth of the loan amount for each year of service. Loans are also written off, in case of death of the student borrower. Emigrants to foreign countries are expected to fully repay the loan or to obtain the consent of the government before leaving, to pay later. In case of delays and defaults in repayment, it was originally planned to charge interest (10% per annum), and recover the whole recoverable loan amount as an arrear of land revenue (from the agricultural landholding families).

On the basis of the recommendation of the Sixth Finance Commission (Finance Commission 1973), the recovered amount has been equally shared between the national and provincial governments since 1974.

11.3.3 A Review of the Indian Experience

The scheme has been in operation in India since 1963. In the very first year, although 18,000 loan scholarships were initially announced, only 9600 were actually given. The number of loan scholarships touched an all-time high level of 26,500 in 1965–66; and immediately declined to 18,000 in the following year (1966–67). The figure stabilised over the years around 20,000, except in 1973–74 when due to ‘economy’ measures (necessitated by high rates of inflation, etc.) the number was halved to 10,000.

Originally, the scheme started with Rs. 13.3 million in 1963–64, and now the budget for the scheme is of the order of Rs. 30 million (Table 11.2). The budget for the scheme fluctuated significantly, and was around Rs. 40 million during the 1970s.[3] As the number of scholarships is fixed, the actual total amount depends upon the distribution of scholarships by levels/types/courses of higher education. Table 11.7 in the Appendix presents such a distribution for the latest year (1990–91). The total amount invested in student loans from their introduction in 1963 until 1987–88 is of the order of Rs. 869 million.

11.3.4 Recovery of the Loans

How much of the investment made in the loan scholarships is being recovered from the graduates? Detailed data on this question are not available, but there is a strong general feeling that the rate of repayment is very poor; it is possible to derive a few estimates from the available data.[4] In 1977–78 the government invested about Rs. 42 million in the loan scholarship scheme, and in the same years Rs. 4.4 million was

Table 11.2 Public expenditure on student loans in higher education (National Loan Scholarships Scheme) (Rs. in millions)

Year	*Budget estimate*	*Revised estimate*	*Year*	*Budget estimate*	*Revised estimate*
1963–64	13.3	13.3	1978–79	40.6	40.6
1964–65	29.5	–	1979–80	40.4	40.0
1965–66	41.9	35.5	1980–81	40.0	40.0
1966–67	41.8	–	1981–82	42.2	42.2
1969–70	52.5	51.3	1982–83	42.4	32.4
1970–71	63.0	57.1	1983–84	42.4	42.4
1971–72	44.4	44.4	1984–85	42.4	–
1972–73	42.7	38.3	1986–86	37.4	32.4
1973–74	40.7	33.4	1986–87	33.2	–
1974–75	36.2	31.2	–	–	–
1975–76	34.4	34.2	1988–89	33.2	33.2
1976–77	42.8	42.8	1989–90	33.7	32.0
1977–78	44.4	42.2	1990–91	30.1	28.5
			1991–92	30.0	–

– Not available

Source Annual Report(s) (various years), Department (or Ministry of Education), Government of India, New Delhi

recovered as repayment of loan scholarships. The rate of recovery could be estimated as about 10% in 1977–78, and it is estimated to be about 15% in 1990–91, as shown in Table 11.3. This overall all-India average is not uniform across all the states as shown in Table 11.4, which is based on more detailed data on the loan scholarships given and the amount recovered in each state since the inception of the scheme until 1987–88. These figures show that the rate of recovery varies between less than 1% in Assam to 50% in Tripura, the overall average being only 6%.

It may also be noted that the scheme is administered by the central government through the state governments, and the amount is actually paid through the institution. When it comes to recovery, however, the institution has no responsibility. The central government has to recover loan repayments through the state government.

11.3.5 Write-Offs

As mentioned earlier, loans can be written off by one-tenth of the loan amount for every year of service of graduates in the teaching profession or in the armed services. In fact, one of the stated objectives of this provision in the scheme was to attract academically brilliant graduates to the teaching profession. While data are not available on the number of loanees joining the teaching profession, some scanty information is available on the quantum of write-offs, which includes write-offs for those who

Table 11.3 Recovery of student loans in higher education (Rs. in millions)

	Amount recovered	*Total amount invested*	*Percent recovered*
1977–78	4.4	42.2	10.4
1981–82	3.2	40.0	8.0
1982–83	3.2	30.0	10.7
1983–84	3.2	40.0	8.0
1984–85	3.2	40.0	8.0
1985–86	3.2	30.0	10.7
1986–87	4.4	30.0	14.7
1988–89	4.4	30.0	14.7
1989–90	4.2	28.5	14.7
1990–91	4.4	28.5	15.4

Note Some figures are budget estimates or 'revised' estimates.
Source Annual Report(s) (various years), Department (Ministry) of Education, Government of India, New Delhi

Table 11.4 Loan scholarships in higher education in India (National Loan Scholarship Scheme) (Rs. in millions)

State	*Amount sanctioned until 1987–88*	*Amount recovered until 1987–88*	*Percent recovered*
Andhra Pradesh	87.5	1.8	2.1
Assam	48.4	0.01	0.0
Bihar	67.9	–	–
Gujarat	46.2	8.6	18.6
Haryana	11.3	0.2	1.8
Himachal Pradesh	2.3	0.3	13.0
Jammu and Kashmir	5.5	–	–
Karnataka	57.7	8.2	14.2
Kerala	75.2	9.5	12.6
Madhya Pradesh	24.6	0.7	2.8
Maharashtra	86.1	7.4	8.6
Manipur	0.5	0.06	12.0
Meghalaya	0.1	–	–
Orissa	42.4	0.6	1.4
Punjab	11.4	3.1	27.2
Rajasthan	38.4	4.9	12.8
TamilNadu	80.1	5.7	7.1
Tripura	0.2	0.1	50.0
Uttar Pradesh	124.4	0.2	0.2
West Bengal	59.1	0.2	0.3
Total	869.1	51.5	5.9

– Not available

Source Department of Education, Ministry of Human Resource Development, Government of India, New Delhi

join the teaching profession or armed services. For example, in 1989–90, Rs. 1.5 million was written off, compared to a total of Rs. 30 million spent on loan scholarships. Between 1972–73 and 1990–91, the amount of write-offs varied between Rs. 0.6 million and Rs. 1.5 million a year, as shown in Table 11.5.

11.3.6 The Strengths and Weaknesses of the Scheme

A few striking features of the scheme may be briefly noted that highlight the merits and weaknesses of the current student loans programme in India:

Table 11.5 Loan funds written off in higher education (Rs. in millions)

	Amount written off	*Total amount*	*Percent written off*
1972–73	0.88	42.7	2.1
1973–74	0.55	40.7	1.4
1975–76	0.60	34.4	1.7
1976–77	0.60	42.2	1.4
1981–82	0.60	40.0	1.5
1982–83	0.80	30.0	2.7
1983–84	0.82	40.0	2.1
1984–85	0.83	40.0	2.1
1985–86	0.80	30.0	2.7
1986–87	1.00	30.0	3.3
1988–89	1.00	30.0	3.3
1989–90	1.42	28.5	5.0
1990–91	1.40	28.5	4.9
1991–92	1.50	30.0	5.0

Note Some figures are budget estimates or 'revised' estimates
Source Annual Report(s) (various years), Department (or Ministry of) Education Government of India, New Delhi

(a) The loan scholarships are meant for 'higher' education. But higher education includes not only various types of degree level courses, such as general, professional, technical, etc., but also includes different levels of higher education, such as below first degree, first degree and above. In fact, a large part of so-called higher education in India is not truly higher education by international standards (see Tilak and Varghese 1991). More than four-fifths of the loan scholarships are meant for below first degree education (including diploma courses, intermediate or pre-university courses). As can be noted from Table 11.6, only 3.75% of the loan scholarships are allocated for first degree, 13.7% for second degree (post graduate) and 0.5% for doctoral (and other post second degree) courses—in all only about 10% for 'higher' education in the strict sense.

(b) The student population in higher education has increased from 1.3 million in 1963–64 when the scheme was started, to 9.2 million in 1988–89, the latest year for which such data are available. But the number of loan scholarships remained fixed at the initial number, 20,000. Thus there is no correspondence between the size of the student numbers and the number of loan scholarships.

Table 11.6 Number of national loan scholarships in higher education in India 1990–91 (allocation by level)

Level of education	*Number*	*Percent*
Post-Matriculation/ Ten Plus (New Scheme/ Higher Secy. (Old Scheme) etc.	16,409	82.0
First Degree/University Course/ Plus 2 (New Scheme)/ Intermediate Stage	750	3.8
Post Graduate (Second Graduate)	2741	13.7
Post Second Graduate	100	0.5
Total	20,000	100.0

Source Department (or Ministry of) Education, Government of India, New Delhi

(c) The maximum amount of the loan varies between Rs. 720 and Rs. 1750 per student per annum. These limits were fixed in 1963–64, and even today they remain unchanged. During this period the price levels have increased significantly, the consumer price index (1960 = 100) registering an eightfold increase, from 102 (in 1960–61) to 803 in 1988–89 (Ministry of Finance 1990). Thus the real value of the loan amount has declined significantly.
That tuition fee levels remained more or less unchanged during this period may provide partial justification for the above. But the loan scholarships cover not only tuition and other fees, including examination fees, but also hostel charges, etc., and other costs.[5] The charges in hostels for boarding and lodging, though subsidised, have increased. The prices of books and stationery and other items of student living have increased remarkably since 1963. All this suggests the need for revision of the loan scholarships, just as some research fellowships have been recently revised.

(d) Government expenditure on higher education increased by 45 times between 1963–64 (Rs. 408 million) and 1988–89 (Rs. 18,210 million budget estimate). The expenditure on loan scholarships increased by barely three times. It might be expected that at least the total loan funds should have increased in line with the increase in total public expenditure on higher education so that as a proportion, the share of loan funds in the total government expenditure would remain the same.

(e) The concept of student loans assumes a strong relationship between education, employment and earnings. Specifically, the scheme, as it operates today, does not give any allowance for unemployment and under-employment. Even if a borrower does not secure employment after completion of studies, he or she has to start repaying the loan three years after completion of the studies. Non-earning graduates, including women who voluntarily or involuntarily do not participate in the labour force, could be exempted from repayment, but at present, there is no such provision in India.

(f) Lastly, it seems that the loan scholarship programme was planned and is being implemented without any relation to the fee structure. Low levels of fees in general, together with student loans for tuition and other costs, result in not only shortage of finance for higher education institutions, but also produce perverse effects on income distribution, as the rich get public subsidies in the form of low levels of fees, and the poor pay back for their education, in the form of loan repayments.

11.4 Problems Involved in Student Loans in Financing Higher Education in India

The National Loan Scholarship Programme in India has encountered several major problems.

(a) First, psychologically, loans, in general, are not welcome in the Indian society. Even if the need for loan finance for investment is recognised, people may not mind borrowing for investment in physical capital, or other productive sectors that generate benefits in a short period, and for necessary consumption activities like marriages, but not for 'invisible' human capital formation, whose benefits are not easily identified, nor quantifiable, nor certain, and which in any case only flow after a long period. Graduates do not wish to start their career with a burden of debt, and women graduates, in particular, fear the prospect of a 'negative dowry'. Yet it must be noted that each year the full quota of 20,000 loans is being taken by students, and even though detailed data are unavailable, the likelihood is that demand for loans exceeds the supply, suggesting the need to increase the number of loans.

(b) When education does not guarantee employment and as repayment of loans becomes compulsory, people from relatively poorer families will be worst affected. This problem is further aggravated in the case of women graduates, among whom the rate of participation in formal (non-household) labour market activities is quite low in India. As a result, the loan amounts add to the 'dowry' burden.

(c) Thirdly, the credit market in India is not well developed to provide educational loans. The organised credit market in India is in the public sector, and that is not prepared to get involved in educational loans. Given the fact that even in some developed countries, such as the United Kingdom, the banking sector is unwilling to participate in student loan programmes, it is not surprising that the underdeveloped credit market in India is reluctant to shoulder this responsibility.

For the banking sector to be interested in this programme, it was felt that the banking sector in India should be (i) given the discretion to choose the borrowers; (ii) adequately compensated for the services it renders; and (iii) fully reimbursed by the Government for the defaults in repayment. But if the banking sector were to be given discretion in the selection of the borrowers, the scheme may be self-defeating, as the scheme is essentially meant for able but poorer sections of the student population. If the commercial banks were to judge by the criterion of the borrower's capacity to repay a loan, a criterion justified in the case of commercial loans, many poorer students would not necessarily benefit from the student loan scheme, and on the other hand, relatively better off sections of society may take advantage of interest-free (or low interest) educational loans, and use them not necessarily for educational purposes. Further, if the banking sector is to be fully compensated by the government both for the services it renders, and for defaults, the net effect on the financial burden of the government may be the same as it is now.[6]

(d) Unlike in some developed countries, such as the United States, where student loans are provided by commercial banks, in India student loans involve considerable public funding. By providing student loans, governments in developed countries may save resources which otherwise would have to be spent on social security systems,

unemployment allowances, housing benefits, etc. Therefore, the real burden on public funds of student loan programmes in developed countries is only the difference between the actual amount spent on student loans and the amount which would have otherwise been spent on social security payments. In the absence of social security schemes in India, the burden on the government regarding large-scale programmes of student loans will be extremely high in the short run, and this may be true in the long run too unless the rate of recovery is very high.

(e) The most important problem faced with respect to student loan programmes in India, as in most other developing countries, relates to non-repayment of the loan.[7] Looking at the poor rates of recovery, it is not surprising if some argue for the abolition of the loan scholarships in India, or merger of this scheme with the other scholarship schemes such as the National Scholarship scheme.

Alternatively, it is also argued that the responsibility for the recovery of the student loans should be given either to educational institutions or to the state government, and that the state government will have to be made to repay the loan to the central government, irrespective of its actual recovery from the students. This seems to raise detailed questions regarding the sharing of responsibilities between the central and the state governments, but is not a solution to the main problem.

(f) Lastly, the loan scholarship scheme is considered inferior to general scholarship schemes by many educational administrators, as the former involves a huge administrative machinery and costs. The administration has to keep track of loanees, their movement and career, and has to devote extra efforts to recover the loan. Given the poor rates of recovery in India, it is felt that the costs of administration of the scheme, including costs of recovery are so high that the amount actually recovered becomes rather insignificant, if not less than the costs incurred.

11.5 Concluding Observations

Confronted with declining public budgets for education on the one hand, and the need for more resources on the other, many developing countries including India, have been in search of alternative methods

of generating additional resources for education. Prominent among the several alternatives are revision of fees, graduate tax and student loans. This chapter has described the student loan scheme in India and considered some of its problems. It does not attempt a detailed comparison between loans and other alternative methods of funding higher education in India. Nor does it explicitly subscribe to the view prevalent among some researchers and policymakers that student loans are necessarily more efficient than other methods of financing higher education. Indeed, it has earlier been argued that discriminatory pricing would work better than student loans and graduate taxes in India, both from efficiency and equity points of view (Tilak and Varghese 1991). In a recent study on Botswana, (Colclough 1990) argued that payroll taxes would satisfy equity and efficiency criteria more effectively than student loans. Payroll taxes are not a popular option in India. In the overall context of growing financial requirements of higher education systems in India, the choice is not simply between one or the other. In fact, one may have to experiment with a set of alternatives available, rather than relying on a single method of financing.

To summarise, therefore, student loans are not a new phenomenon in India. The National Loan Scholarship Scheme has been in existence for the last three decades. The scheme is envisaged in India as a potential mechanism for financing educational expansion and improvement of quality in due course, but the relative importance given to the scheme so far seems to be insignificant in terms of the overall education budget. While expenditure on the National Loan Scholarships Scheme forms the single largest proportion of the central government's expenditure on scholarships for education as a whole (nearly one-third in 1990–91), loan scholarships form only 7% of the total (central plus state government) expenditure on student aid.[8]

Basically, educational planners in India avoid answering some important questions on the design of a student loan programme. Woodhall (1987, also 1989) lists such questions as: what are the main objectives of the loan programme? What is the corresponding policy on student fees and other forms of financial assistance? What proportion of students need to be given loans? What should be the size of the loan for each student in relation to costs such as tuition fees, expenditure on hostels, books, stationery, and other living costs? Can loans be used as an incentive mechanism to reward students or motivate them in their studies? How best can loan programmes reduce rates of default? Can the scheme be made flexible to adjust to

changing socio-economic conditions? etc. These questions assume much importance for the success of the programme in India, but have never been satisfactorily resolved, but simply tackled on an ad hoc basis.

Student loans are advocated on the grounds of (a) resource potential; (b) equity in sharing the costs of higher education; and (c) efficiency by making students more serious with respect to their education and careers. On the other hand, critics reject student loans on the grounds of (a) reducing equity by limiting access to higher education; (b) administrative difficulties in general; and (c) problems of recovery. All these arguments are open to empirical verification, but detailed data for a critical analysis of these questions are not available in India. Nevertheless, this chapter has discussed some evidence on these questions in the Indian context. There is not much evidence in support of the arguments made in favour of student loans, while the scanty evidence available suggests that many of the arguments made against student loans appear to be valid in India.

The main conclusion, therefore, is that unless student loans are accompanied by carefully formulated policies regarding fees, loans may aggravate rather than reduce inequities, with the rich getting public subsidies through low levels of fees, and the poor paying back in full for their education through student loans. All this may lead to inequality of access and declining participation in higher education by ethnic minorities, as American critics of student loans suggest (Hansen 1989, p. 62). In all, access to higher education may be seriously reduced by student loan programmes, as critics maintain. Hence student loans must be judged more in terms of generating finances for higher education, rather than as a measure to improve access and equity in higher education, and this chapter suggests that the existing loan programme in India is disappointing in this regard also.

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The statistics presented in the paper are drawn from annual publications, viz., *Annual Report*(s) and *Education in India*, both published by the Department (or Ministry) of Education, Government of India, New Delhi, unless otherwise stated.

Notes

1. Purely to improve the access to higher education, the national and state governments offer a variety of scholarships for disadvantaged students, such as financial and merit scholarships for scheduled caste and scheduled tribe students, scholarships for rural talented secondary students, national merit scholarships, research fellowships, scholarships for students in residential schools, scholarships for foreign students, etc. These types of financial assistance are in addition to positive discrimination in favour of disadvantaged students in admission policies, and other non-monetary incentives.
2. Statewise distribution of these scholarships is shown for the latest year [1990–1991] in Table 11.7 in the Appendix.
3. Data on actual amounts spent on the scheme are not readily available. Table 11.2 gives the original budget proposals and 'revised' estimates of the budget expenditure (estimated towards the close of the budget period, but not after the period). Actual expenditure differs from budget estimates, but is not expected to be very different from the revised estimates.
4. Since 1974, the recovered amount is shared equally between the central and state governments. According to the available figures, for example, in 1977–78 Rs. 2.2 million was transferred to the states on this account. This means that the total recovery in that year was Rs. 4.4 million.
5. For example, in 1982–83, the latest year for which such data are available, total fees (i.e., including all kinds of fees) averaged Rs. 199 per pupil in colleges and in the whole sector of higher education, the average was Rs. 280.
6. It may be noted that a few commercial banks in India offer a limited number of educational loans to students mainly for higher education. These loans are relatively large in value, are given at very high rates of interest, about 12–18% per annum, and are not necessarily based on merit and need (parental income) of the students, but rather on the ability to repay. The rates of default in these cases are not high, as the banks require full collateral in the form of bonds, or reliable sureties. However, these represent sporadic experiments being made by a very few banks in a few places in the country, and on a very small scale.
7. In India, non-repayment of loans is, however, not confined to student loans. Barely 50% of agricultural loans are recovered. See Kulshrestha (1990).
8. It may, however, be noted that all kinds of scholarships, stipends, and other financial assistance to students in higher education amount to only 5% of the recurrent budget in higher education in India (1980–81).

Appendix

See Table 11.7.

Table 11.7 Number of loan scholarships in higher education in India, 1990–91 (National Loan Scholarship Scheme)

State	*Post-matric./ Higher secondary./ Ten plus/ etc*		*Post-PUC/ Plus 2/ Inter*		*Post graduate*		*Post Post-graduate*		*Total*	
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Andhra Pradesh	1240	79.7	65	4.2	242	15.6	8	0.5	1555	100
Assam	522	87.1	28	4.7	46	7.7	3	0.5	599	100
Bihar	1606	78.9	85	4.2	334	16.4	10	0.5	2035	100
Gujarat	787	78.5	41	4.1	170	16.9	5	0.5	1003	100
Goa	24	92.3	1	3.8	1	3.8	–	–	26	100
Haryana	298	78.2	15	3.9	66	17.3	2	0.5	381	100
Himachal Pradesh	105	84.7	6	4.8	12	9.7	1	0.8	124	100
Jammu and Kashmir	145	81.9	8	4.5	23	13.0	1	0.6	177	100
Karnataka	863	79.2	45	4.1	175	16.1	6	0.6	1089	100
Kerala	626	85.8	33	4.5	67	9.2	4	0.5	730	100
Madhya Pradesh	1308	85.8	–	–	208	13.6	8	0.5	1524	100
Maharashtra	1490	81.5	78	4.3	253	13.8	8	0.4	1829	100
Manipur	33	78.6	2	4.8	7	16.7	–	–	42	100
Meghalaya	35	87.5	1	2.5	4	10.0	–	–	40	100
Nagaland	22	91.7	1	4.2	1	4.2	–	–	24	100
Orissa	653	86.0	34	4.5	68	9.0	4	0.5	759	100
Punjab	373	76.3	20	4.1	93	19.0	2	0.4	489	100
Rajasthan	832	81.5	–	–	184	18.0	5	0.5	1021	100
Sikkim	8	80.0	1	10.0	1	10.0	–	–	10	100
Tamil Nadu	1136	82.3	60	4.3	178	12.9	7	0.5	1381	100

(continued)

Table 11.7 (continued)

State	*Post-matric./ Higher secondary./ Ten plus/ etc*		*Post-PUC/ Plus 2/ Inter*		*Post graduate*		*Post Post-graduate*		*Total*	
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Tripura	49	79.0	3	4.8	9	14.5	1	1.6	62	100
Uttar Pradesh	2745	84.7	144	4.4	334	10.3	16	0.5	3239	100
West Bengal	1302	82.2	69	4.4	205	12.9	8	0.5	1584	100
A and N lslands	6	100.0	–	–	–	–	–	–	6	100
Arunachal Pradesh	17	89.5	1	5.3	1	5.3	–	–	19	100
Chandigarh	7	46.7	–	–	8	53.3	–	–	15	100
Dadra Nagar Haveli	3	100.0	–	–	–	–	–	–	3	100
Delhi	141	73.1	7	3.6	44	22.8	1	0.5	193	100
Daman and Diu	3	60.0	1	20.0	1	20.0	–	–	5	100
Lakshdweep	1	100.0	–	–	–	–	–	–	1	100
Mizoram	13	86.7	1	6.7	1	6.7	–	–	15	100
Pondicherry	15	88.2	1	5.9	1	5.9	–	–	17	100
INDIA	16,409	82.0	750	3.8	2741	13.7	100	0.5	20,000	100

Source Department of Education, Ministry of Human Resource Development, Government of India, New Delhi

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