Chapter 8
Future of Higher Education Financing and Governance

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Introduction

Vishwajeet project, a scheme aimed at allocating around Rs. 8700 crore to seven top Indian Institutes of Technology (IITs), as part of ongoing efforts to enhance their global standing, was turned down by the Finance Ministry of the Government of India. When V. Ramgopal Rao, Director of the Indian Institute of Technology (IIT), Delhi, expressed disappointment over it at a function in New Delhi, the Minister of Human Resource Development, Government of India, proposed an alternative to the centrally sponsored project in terms of the Higher Education Financing Agency (HEFA), the Uchchatar Avishkar Yojana and the Prime Minister's proposed scholarships of Rs. 75,000 a month (Hindu, September 12 2017). Another centrally funded project, called Rashtriya Uchchatar Shiksha Abhiyan (RUSA), to provide support to the state universities and colleges, having a low success in terms of gap between resource allocation during 12th plan and meagre resource disbursement during the same period, is also a pointer to the fact that less reliance has to be placed on centrally sponsored projects in the higher education financing in the future for which the budgetary resource comes from the taxes. The minister's suggestion to move towards Higher Education Finance Agency which is a debt-based financing to the institutions of higher education and Uchchatar Avishkar Yojana which is industry supported financing is clearly an indicator that there is a move towards market-based strategies in the financing of higher education in the future. Heavy reliance is also being placed on educational loan as a means of financing to the students which is clear from the fact that during 2013–2014 the total quantum of educational loans by commercial banks stood at Rs. 70,282 crore (Rani Geetha 2016, p. 183). The amount of scholarship disbursed is a meagre sum of Rs. 316 crore by the higher

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education department of central government during 2015–2016 (Department of Higher Education 2017). Furthermore, the tuition fees are enormously high with the spread of self-financing courses in higher education institutions (Bhushan 2008). The future of higher education financing is moving towards high tuition fee, from a scholarship to loan-based system to students and from centrally sponsored assistance to the institutions towards market-linked loans from commercial banks and support from industries. It is therefore clear that there is a paradigm shift in the financing of higher education in India (Errol D'Souza 2004; Chattopadhyay 2009).

Financing of higher education affects the mode of governance. Market-based strategies call for an efficient system whereby the debt is repaid to the lenders. Hence, the question of efficiency in higher education acquires importance. Question of efficiency affects higher education in many ways. First of all, resource allocation has to be based on the rates of return criteria. There are two types of rates of return, social return and the private return[1]. The market-based strategies of financing relegates the importance of social return and gives an important role to the private return. However, the primary and secondary education which has a much higher social return and a lower private return in comparison with higher education may be justified for government funding, whereas higher education financing may be left to the forces of market because of its high private return. Hence, the resource allocation in higher education in the future will be guided by the higher private return and financing from the private sources[2]. Second, the grant of the subsidy by the government will also be examined by the criteria of efficiency and not by the criteria of distributional benefit to the poor sections of the society. Efficiency will outweigh the distributional advantage. The question of educational finance in the higher education will be more guided through the targeted subsidy as it will be considered to be more efficient. Hence, once over all subsidy is reduced, higher education will be subjected to higher tuition fees. Third, the consideration of efficiency will affect the overall higher education system by the question of higher productivity. An overall policy drive may be seen to be guided by increasing productivity by increasing the hours of teaching and research, reducing salary payment to the teachers, increasing part-time teachers, ban in the recruitment of permanent teachers and increasing use of technology in governance as well as teaching learning. There might be cut in library, infrastructure, etc. and an advocacy for the use of technology may be intensified. Fourth, the question of efficiency will also give rise to increasing accountability not only for the teachers and staffs who are being paid by the government but

[1] Private return is based on wage differences at different levels of education, whereas social return is inclusive of externalities related to nonwage differences such as prestige, honour, civility, political participation, national development, etc. associated with different levels of education.

[2] The past literature on the rate of return on education is so far inconclusive as it mainly depends on the level of economic development. In a major study, Psacharopoulos (1994) noted that both private and social rates of return are higher at the primary and secondary levels in comparison with the higher education justifying the preference for resource allocation in favour of school education. However, estimates vary from country to country. The recent estimates on private returns to education in India suggest that "there is an incentive to acquire higher levels of education as returns to higher education are positive and monotonically increasing" (Geetha Rani 2016, p. 187).

also for the students in terms of attendance, discipline and control over student's union activities. Wherever the autonomy to the institutions will be granted, there will be a rider to the autonomy in terms of performance and responsibility not only in the areas of teaching and research but also in terms of efficiently raising resources through the market.

What all this amounts to in terms of the financing and governance of higher education in the future? As the financing of higher education will be linked to the forces of market in the future, the injustices to the marginalized sections of the society will grow. Surely, state will step in to mitigate the injustice by providing a concession to the marginalized sections, yet it will not prove to be sufficient and there will be growing dissatisfactions in the campuses of higher education institutions. This will lead to the failure of law and order in the University campus and growing strains on the academic leadership to control the situation. Another challenge will be that teachers will be subjected to much more discipline, accountability and performance in the face of rising shortage of teachers as the government will be withdrawing the resource to support the higher education. The discipline and command over teachers will grow through the regulatory mechanism and the substantive autonomy of the teachers will be much more threatened in the name of maintaining professional accountability. The teaching community will be subjected to authoritative control by the bureaucracy and will feel alienated from the system of higher education. They will be guided by rules rather than the passion and love for teaching and research. The third and the most important challenge in the future seems to be the crisis of the public system of institutions. The governance failure will loom large in the face of financial shortage and the resulting difficulties to manage the system. Public institutions will be discredited ultimately to find ways for private institutions to rule in the future. Thus, the problems of marginalization of poor students, alienation of teachers and surveillance and governance failure of public institutions will remain an important challenge for the future of higher education.

The objective of the paper is to show the shifts in the financing of higher education, structural changes in policy reform and the resulting problems and challenges in higher education.

Expenditure Pattern in Higher Education

It would be interesting to analyse the higher education expenditure by the central government during 2011–2012 to 2015–2016 to understand any shift in the pattern of financing. (i) The total plan expenditure of higher education during the first 3 years increased from Rs. 12,575 crore to Rs. 14244 crore, declining sharply to Rs. 12,591 crore in 2014–2015 and then increasing to Rs. 14,428 in 2015–2016 in nominal terms. During the 5-year period, the expenditure in real terms, adjusting for inflation and growth in enrolment rate, should have gone up over Rs. 18,000 crore, assuming at least 10% annual growth rate in nominal terms. The expenditure cut in higher education was sharply felt in the university and higher education, particularly grant to UGC. It has declined from Rs. 5341 crore in 2011–2012 to Rs. 3605 crore. The downfall since 2013–2014 may be noted. The expenditure cut to UGC has been felt in terms of shortage of plan allocation to the state universities and colleges. There has been a centrally sponsored scheme of RUSA for funding state universities and colleges initiated during the 12th plan period to compensate for the shortfall in the resource allocation to UGC. However, it may be noted that originally 12th plan earmarked Rs. 22,500 crore under RUSA. However, in the first 4 years of the 12th plan till 2015–2016, the disbursal under RUSA has been less than Rs. 2000 crore. Hence, overall even after making an adjustment for RUSA, there is a clear evidence of fall in the plan expenditure of higher education since 2013–2014. Hence, direct subsidization of higher education out of budget has been declining. (ii) Another interesting aspect of the financing of higher education is the increasing reliance upon student financial aid. It consists of two components – interest subsidy and scholarship. To compensate for the decline in direct subsidy, the interest subsidy component has been introduced since 2013–2014. The allocation to interest subsidy has been increased to Rs. 1960 in 2015–2016. On the other hand, there has been a nominal increase in the scholarship as compared to interest subsidy. The allocation for the scholarship stands at Rs. 228 crore in 2015–2016. It shows another trend in terms of a shift from plan direct subsidy to university and colleges to interest subsidy meant for students. It indicates a move towards encouraging education loan by the students in order to fund higher education studies. Fall in direct subsidy to universities and colleges would mean an increase in tuition fees will be encouraged to meet rising development cost. Hence, an increase in tuition fees will go hand in hand with increasing loan to students. (iii) It may be interesting to note that plan allocation for technical education has been stagnant in last three years in nominal terms, thereby indicating a fall in real terms. However, technical education has not witnessed a decline of the same magnitude as in the case of general education. The worst sufferer of the cut in the plan has been university and higher education and not technical education. (iv) In the case of open and distance education, too, there is no compensating increase, though in the last 3 years, it has registered a significant increase in the plan allocation (Table 8.1).

Overall, it may be observed that non-plan expenditure for university and higher expression has registered an increase in the first 3 years, and in the last 2 years, it has remained stagnant, thereby indicating a sharp fall in real terms. So far, as technical education is concerned, there has been an increase, at least in nominal terms, in the non-plan expenditure in the last 5 years. It shows that in real terms, university and higher education has suffered in comparison with technical education (Table 8.2).

Structural Shift in Financing: From Subsidy to Loan

Empirically, it was noted above that there is a structural shift to push the financing of higher education from tax-based subsidy suppressing the tuition fee to a lower level to a system of reduced subsidy allowing the rise in the tuition fee to be met by

Table 8.1 Central plan expenditure of higher education: Component wise (Rs. Crore)

		2011–2012	2012–2013	2013–2014	2014–2015	2015–2016 (RE)
1.	University and Higher Education (UHE)	6094	6112	5129	3613	3829
1.1	UHE of which UGC	5341	4990	4966	3474	3605
2.	Promotion of Indian Languages	165	227	240	183	295
3.	Student Financial Aid (SFA)	163	115	1719	1737	2188
3.1	SFA of which interest subsidy	–	–	1524	1544	1960
3.2	SFA of which scholarship to students	163	115	194	193	228
4.	Planning, Administration and Global Engagement	24	27	104	79	96
5.	Open and Distance Education	471	296	205	206	430
6.	Technical Education	5711	5926	6578	6354	6533
7.	RUSA			267	416	1055
8.	Total	12575	12726	14244	12591	14428

Source: Source: Outcome Budget, 2014–2015, 2015–2016, 2016–2017, Department of Higher Education, MHRD, Government of India, available on http://mhrd.gov.in/documents_reports?field_documents_reports_category_tid=11

Table 8.2 Non-plan expenditure of higher education: Component wise (Rs. Crore)

		2011–2012	2012–2013	2013–2014	2014–2015	2015–2016 (RE)
1.	Secretariat	58	62	66	67	99
2.	University and Higher Education	4471	4863	7387	7313	7397
2.1	UHE of which UGC	4400	4686	5124	5432	6095
3.	Promotion of Indian Languages	85	93	103	104	115
4.	Planning, Administration and Global Engagement	31	27	33	44	48
5.	Open and Distance Education	4	5	6	6	7
6.	Book promotion and IPR	17	30	215	275	300
7.	Technical Education	2262	2582	2654	3013	3272
8.	Total	6929	7718	10274	10577	10971

Source: Outcome Budget, 2014–2015, 2015–2016, 2016–2017, Department of Higher Education, MHRD, Government of India, available on http://mhrd.gov.in/documents_reports?field_documents_reports_category_tid=11

the students through borrowing in the financial market. The shift is evident from the very fact that Central grants through different schemes and programme do not commensurate with the increase in the enrolment. As a result, private institutions are flourishing with high tuition fees and government, and government-aided institutions have to resort to generating internal resources through raising the tuition fees in a regular programme or by means of self-financing courses. Government's new plan to encourage educational loans through the institutional arrangement to meet the cost of education is emerging as a new policy initiative. It is, therefore, important to understand the implications of subsidy versus loan.

In the literature, the implications have been examined primarily from the point of view of efficiency, equality and equity perspective of subsidy and loan as policy instruments. (Cecilia García-Peñalosa and Klaus Wälde 2000). There is the traditional argument that subsidy, by depressing the tuition fees, enables equality of opportunity to higher education to all sections of the society irrespective of which income group they belong to. Whether subsidy also supports the equity objective of higher education can be substantiated only if there is a net transfer of income from the rich to the poor as a result of the introduction of subsidy. This can certainly happen when tax to support the subsidy is collected from the rich (relatively to the poor), and the introduction of subsidy leads to an increase in the potential as well as actual increase in the income of the poor in comparison with the rich who graduate from higher education. In this case, there is a net transfer of income from the rich to the poor and the introduction of subsidy also results in the fulfilment of equity objective. Moreover, if all the graduates of higher education, whether rich or poor, acquiring higher skills, are employed in the labour market at higher wages, the effect of subsidy may be said to increase overall income without any wastage, i.e. without any efficiency loss (i.e. loss in output). However, it may be argued that whereas subsidy provides equality of opportunity, there is an efficiency-equity trade-off in actual practice.

Efficiency may be achieved if higher access to higher education as a result of subsidy leads to the generation of higher skill and higher income in modernized system in comparison with a state when there is no subsidy and production takes place with the low skill and low wages in traditional system of production. However, it is argued that in actual practice, the greatest beneficiary of higher education are those who belong to the rich. Either the poor class do not get admitted because of merit-based admission policy or even if they get admitted, they drop out implying a lower graduation rate of the poor. In such a scenario, when the graduates of higher education are students who are relatively from rich background, they have high probability of getting a high-skilled higher-wages job in the labour market. In such cases, if on a net basis taxes collected from poor (in relation to the rich) to support the subsidy go to the benefit of increasing the income of the rich through the intermediary of higher education, then it is a case of reverse distribution: there is a net transfer of income from the poor to the rich. In such a scenario, there is no doubt that there will be efficiency gain due to higher employment and income, yet equitable distribution of income suffers due to reverse distribution from the poor to the rich. There is an efficiency-equity trade-off, namely, higher access of relatively rich leads to gain in efficiency (increase in output) with the reverse distribution of income, exacerbating inequality in income. Alternatively, even assuming that all the graduates of higher education – rich or poor – are the beneficiary of the tax subsidy and, in particular, relatively the poor benefits with resulting distribution of income in their favour, it is quite likely that this may result in graduate unemployment due to oversupply of skilled labour. In such a case, there may be a possibility of redistribution of income from rich to the poor, yet there will be a loss in the efficiency due to unemployment of skilled labour graduating from higher education institutions.

It may be noted that in spite of efficiency-equity trade-off, politically, the instrument of subsidy was found favourable for a longer time in Indian higher education as also the worldwide on the ground that it serves social justice. In the phase of mass expansion of higher education, however, state found it increasingly difficult to mobilize sufficient resources without adversely affecting the rate of growth supported by consumption good and financed by the private corporate sector. An increase in taxes to mobilize resources for higher education would have meant disincentivizing private sector. In such a scenario state was caught in a contradiction. Either it could cut the rate of growth of economy through taxing corporate sector and support subsidy or encourage the rate of growth of economy through a reduction in tax and curtailing subsidy. The problem acquired greater dimension when the phase of expansion of higher education was seriously marred by lack of desired growth of subsidy. Educational institutions could not maintain the quality of higher education due to the shortage of infrastructures and teachers along with the unrestricted entry of students. It was argued that higher education institutions are inefficient in the sense that they are only capable of producing unemployable graduates through insufficient resources. The equity argument was replaced in the policy discourse by the efficiency argument. The old political ideology of subsidizing higher education gives way to the new political ideology of loan-based higher education to improve the efficiency and increasing quality by generating sufficient resources and help in reducing the unemployable graduates. Private corporate sector created a new discourse on "unemployable graduates" which are becoming a burden on the economy. Such was the effect of reduction in the government grant on a real per capita basis to the universities and colleges. It was thought necessary to search for an alternative to the tax-based subsidy if the government wanted to improve the efficiency of higher education without harming the interests of private corporate sector. It may, of course, be argued that subsidy by allowing larger participation in higher education has much higher social return due to the externalities of education. However, many arguments in favour of externalities may not be quantified and proved. Ultimately, the strength of subsidy being the basis of financial support to higher education supporting equity objective was getting weaker and weaker in the policy discourse dominated by elite circles (Windham Douglas 1976). Subsidy argument being discredited, it gave rise to a new discourse – loan-based financing of higher education.

Does financial market guarantee that there is no efficiency-equity trade-off and is therefore a policy instrument of loan to be preferred over subsidy? It needs a closer examination as to what reason justifies it. There could be four types of loan-based system. Commercial banks borrowing without interest subsidy, commercial banks borrowing with interest subsidy to the banking system, income contingent loan and graduate taxation. In India, interest subsidy to the commercial banks to encourage education loan to the students and a new policy of higher education finance through Higher Education Financing Agency (HEFA) to the higher education institutions have been introduced recently. Let us first understand the implications of education loans without or with interest subsidy. If tax-based direct subsidy is falling, the tuition fees will have a tendency to rise. This will discourage poor students to access higher education due to the lower level of affordability of poor students. Equality of opportunity will be severely curtailed. However, if the government assures that any student who cannot afford higher education can avail loan facility which may be paid back to the banks with interest after graduation from the higher education, probably the equality of opportunity is restored under conditions of no risk and uncertainty. Graduates trained from higher education, if they are able to get a job in the labour market, will also contribute to the economy through higher income and will presumably pay back the loans with interest. There might be efficiency gains due to higher output without a fall in output as subsidy withdrawn from higher education will be utilized by the government in other employment avenues. Equality and equity-based argument with loan-based financing of higher education can be sustained only when risk and uncertainty associated with the student loan is taken care of by guaranteeing perfect financial and capital market and the perfect labour market. Only then the fear in the mind of students can be removed about the uncertainty of getting the loan or getting a high wage job in the labour market so as to repay the loan with interest. Since commercial banks insist on some collaterals, the poor students' probability of joining the higher education institutions will be much less in comparison with the rich. This might give rise to reverse distribution phenomenon or at least resulting income opportunities in favour of graduates of privileged sections thus jeopardizing the equality as well as equity objectives. In any case, the fear of uncertainty of getting a decent high wage job will also come in the way of poor students availing the loan facility by the commercial banks. Therefore, loan-based system of financing of higher education is a way to restrict the entry to higher education institution which might result in efficiency gains, but the equality and equity objectives of higher education will suffer.

In order to assure the commercial banks that if there is default in the repayment of loan by the students, government will compensate for the default through the interest subsidy. The instrument of interest subsidy is not so much to assure the students of non-repayment of loans if they do not get a decent job. Hence, it is not going to incentivize the students of resorting to student loans. It is simply an insurance to the commercial banks and therefore some sort of encouragement to achieve higher volume of lending on account of education. Commercial banks might be willing to park some of the surplus for education loan, given interest subsidy support by the government. Interest subsidy is not directly going to help poor students in any way to provide premium against risk and uncertainty associated with borrowing or with the labour market.

There are two other loan-based policy instruments being tried out in Australia, New Zealand and England, namely income contingent loan and graduate loan. These two policy instruments have so far not tried out in India. In the case of income contingent loan, the repayment to loan to cover the tuition fees is activated only when the graduates after finding the job have income levels higher above the stipulated level of income. When graduates fail to obtain a high wage job or remain unemployed, they are free from the repayments of loan. Whatever is the loss on account of non-repayment to the banking system is fully compensated by the government. Income contingent loan might increase the chances of equality of opportunity, might result in efficiency gain but may not necessarily promote equity. There might be reverse distribution as taxes (out of poor in relation to the rich) financed for the non-repayment of income contingent loan may outweigh the resulting income of the poor graduating from the higher education institutions. The graduate loan takes care of this because in this case the graduates with higher income have to pay not only the loan plus interest but also some sort of a tax component in the repayment of loan so that it compensates for the non-repayment of those graduates who fail to obtain the decent job and repay back the loan. In this case, the banking system does not get compensated for the loss out of tax collected. Only the graduates who have got decent job, having acquired the capacity to pay surplus over and above their own repayment, are asked to pay the tax element in the repayment.

Reality Check

Loan: P Geetha Rani (2016) from the unit level data has examined loan as means to financing higher education in India. Some of her findings are worth noting:

- (i) Number of educational loans increased from 1.1 lakh in 2000–2001 to 25.9 lakhs in 2013–2014.
- (ii) Amount of education loans released increased rapidly from Rs. 1028 crore in 2000–2001 to Rs. 70,282 crore in 2013–2014 at an annual average growth rate of 38%, while rate of growth of government expenditure was at 15%.
- (iii) Share of education loans constituted around 8.8% in total expenditure on higher and technical education in 2000–2001, the share exceeding 100% in 2013–2014.
- (iv) Education loans and interest subsidy were highest for medical, followed by architecture, law, fashion and management.
- (v) Loan sanctioned and interest subsidy were higher for top quintile in comparison with bottom quintile across all social groups, general, OBC and SC and ST students; besides general category students got highest benefits of loan sanctioned and interest subsidy followed by OBC and SC and ST students.

From the above, it is clear that the structural shift towards loan as means to financing higher education is becoming popular. It has already exceeded the quantum of government expenditure on higher and technical education. Besides the advantage of education loan and interest subsidy has tilted in favour of rich income class.

In 2016, the education loan facility has been extended to central and state government-supported institutions of higher education. If the grant to these institutions are withdrawn the institutions will be forced to take loan. In the first stage, technical and professional institutions supported by the central government who may expect to charge user fee for any facility extended to students supported by loan may come forward. State government-supported universities and colleges imparting general education will hesitate to borrow money the from Higher Education Funding Agency due to their inability to charge user fee from students.

This will increase hierarchy of – technical and general and central and state funded – institutions of higher education. HEFA has the provision of zero interest rate financing. Since the central government has not announced subsidy on this account, it is not clear how HEFA will manage to raise money from the financial market? Heavy reliance being placed on donors and Corporate Social Responsibility fund for subsidizing the loan programme is to be tested when the loan scheme is rolled out. Besides the borrowing capacity is restricted to five times the annual collection of fees from the students, institutions charging lower fees will have lower borrowing capacity than the institutions higher fees. It also implies the scheme will have the tendency to increase fees from the students in order to have larger borrowing capacity. The reality check of education loan to students and in the future education loan to institutions points towards future of higher education in India favouring rich class and privileged communities affording higher education in view of the fact that subsidy component has a tendency to decline.

GST: Another reality check is the introduction of Goods and Services Tax (GST) in 2017. It is said to result in 42% devolution of pooled resources to states, as recommended by the 14th Finance Commission, up from 32% recommendation by the 13th Finance Commission. The consequence of this much greater devolution to the States is that the fiscal space for the Centre will reduce in the same proportion. This will have the effect of Centrally Sponsored Scheme (CSS), in fact, Central assistance to State Plans as a whole, to reduce (PIB 2015). The effect may be felt in higher education. RUSA as CSS will have much lower scale of assistance to state universities and colleges in the years to come. Higher education, being in the concurrent list, is the responsibility of both the centre and the state. Yet the state governments in a new regime of GST will have to take greater care of development needs of state universities and colleges, whereas centre will be more responsible for centrally funded institutions, and only residual fund will be devoted to maintain the quality by the centre which is the responsibility of the central government. To fulfil the responsibility of the maintenance of the standards of higher education, as per the Constitution of India, the central government will resort to various policy measures rather than support through plan assistance. The future of higher education will, therefore, witness the central government's role in higher education reform through policy directives by the centre. GST is said to support fiscal federalism. The implication of GST-supported fiscal federalism will be that the state governments will have to find ways to support the social sectors, including higher education.

NITI Aayog: Another reality check is end of an era of central plan funding with the abolition of Planning Commission. National Institution of Transforming India (NITI) Aayog was established in India on 1st January 2015 as a policy "think tank" of the Government of India. NITI Aayog is chaired by the Prime Minister of India so as to shape up the direction of policy of the government in the spirit of fiscal federalism noted above through the greater devolution of resources from centre to states. Hence, NITI Aayog will be instructed to give policy directions from time to time. As a major step towards this, NITI Aayog has been asked to prepare vision 2030, 7-year strategy and 3-year plan of action (2017–2018 to 2019–2020) for the economy, including higher education. The salient feature of action plan is five-point policy direction: (1)

designation of World Class Universities; (2) autonomy for top colleges and universities (3) reform of the regulatory system – a tiered system of universities; (4) establish system of project/researcher-specific research grants; and 5. increased focus on vocational and profession-led education. A detailed 7-year strategy and 2030 vision is yet to come to determine policy direction of higher education in the medium and long run. World class universities have now been designated as Institutions of Excellence and a scheme has been launched with an invitation bid to select 10 from among public and 10 from among private universities. Action plan under the heading reform of regulatory system notes the three-tier university system having differing autonomy and performance-based funding. The first tier with research universities will have freedom from regulatory control. The second tier with teaching (and a focus on employability) will have relatively lower degree of freedom. The third tier will be residual category with the aim of universalizing higher education, having least degree of freedom. Movement from one tier to another will be permitted depending on the performance, and a third tier university, if it is continuously a non-performer, may be closed down as well. Above action plan of NITI Aayog notes the objective of future governance to be driven by accountability, efficiency and performance.

Memo of Understanding: Another reality check is the move of the Ministry of Human Resource Development to develop a memo of understanding with all centrally supported institutions and universities. The objective of the MOU is to enhance the performance through target setting by the institution/university on the critical parameters of the organization. Institutions/universities are sought to be provided autonomy with delegation of financing powers so as to raise internal resources. General Financial Rule of the Ministry of Finance on user charge (Rule 47) notes that “Ministries/Departments must ensure that the user charges recover the current cost of providing services” (GFR 2017, p. 17). Subsequently, the MHRD issued instructions to raise internal resources to the extent of 30% of total income of the organization. No doubt, many centrally funded institutions/universities will shy away from signing an MOU and committing to raise the internal resources to the tune of 30%, yet it will become a benchmark for the years to come.

The reality checks of various recent changes pronounced by the government indicates that the future of higher education financing will move towards raising internal resources through fees. Loan as component of financing households and institutions of higher learning will rise. Institutions of higher education will acquire more autonomy to raise resources and will be subjected to market risks. Institutions will furthermore be subjected to prove the accountability and fund support will be linked to performance of institutions. Hierarchy among institutions, as a result, will grow with three-tier system of autonomy and funding. Institutions of higher education located in rural areas will have to be closed down for want of funding or if they continue they will impart low quality of education to the masses. The claim of fiscal federalism and resource transfer to states, if not translated to higher funding support to state universities and colleges, will siphon away resources to meet populist demands rather than meet the ambitions of poor to study in higher education institutions with subsidized support. What will be its effects on governance of higher education institutions?

Governance Failure

First of all, it is necessary to understand the governance failure on account of over regulation by UGC. In recent years, the UGC has been trying to cover up the failure of its schemes and programmes through a maze of regulations. While failures of its schemes and programmes were the result of the failure of the state to mobilize resources sufficiently to fund the mass higher education, it was thought that traditional model of governance through regulation cannot be sustained. It is in this light that the NITI Aayog, 3-year plan of action, states that "We should introduce a system of regulation that focuses on information disclosure and governance rather than micro management of universities" (NITI Aayog 2017, p. 139). This is suggested in the context of UGC's failure to micro manage the universities "as an overarching regulator of every aspect of higher education from student fees to curriculum to teaching and course hours" (ibid., p. 139). The body like UGC which could steer the growing system of higher education in 1960s and 1970s to some benchmark of standards of higher education through uniform regulations, today it stands discredited due to failing regulatory system. The expansion of public and private higher education was not in the hands of UGC. It grew in response to demand without any quality check by state governments and university system run under the command of state governments. When the public university system began to crumble with the shortage of teaching and non-teaching staff and physical resources and infrastructure, it was impossible for UGC to correct the public system of higher education through regulatory control. Besides, UGC also failed to check the growth of large private higher education institutions and practices to privatize higher education as it has no authority such as seizing degree granting power to control them. Today, in spite of regulations the private system of higher education is not effectively under the control of UGC. UGC is running without the substantive appointment of Chairman and Vice Chairman for little less than a year. This is an ample proof that the government may think of overhauling the regulatory regime. The action plan of NITI Aayog mentions about that, too. In fact, it also speaks about "rationalization of the role of professional councils" (ibid. p. 139). What direction it takes may be given in the 7-year strategy document? At present, the central government's constitutional responsibility to maintain the standards through regulatory method seems to be in limbo. Control is directly exercised by the central government, UGC's role becoming perfunctory in nature. The hint of voluntary disclosure means that institutions will have to survive through market competition but at the same time individuals and institutions will be subject to control through the strict accountability in output terms.

It would be not out of place to understand the new decision-making process in the government and its implications. There are now groups of secretaries on various sectors which are constituted by the Prime Minister. There are also additional secretaries and Joint secretaries meet with the Prime Minister. Sometimes ideas picked up take place in a meeting of Prime Minister with young CEOs. The group of secretaries then come up with the ideas and suggestions in line with the party manifesto of the government such as Skill India, Digital India, Make in India, start-up programme, etc. The ideas relate to transforming India through transparent governance. Such ideas are then carried forward through the Prime Minister's office to the NITI Aayog and respective Ministries to translate into proposal which is approved with its financial allocation by the Finance Ministry. The proposal is then passed to the respective ministries for implementation. Group of secretaries' discussion and proposed transformation into projects or programmes for implementation suffers from many problems. The proposal suffers from absence of autonomous decisions of the respective ministry where there used to be large-scale consultation with experts and various stakeholders. There is over centralization of ideas and decision-making at the level of Prime Minister's office. NITI Aayog makes consultations and simply ensures the proposal finalization with the help of respective Ministry. Group of secretaries thinking may have no connection with the reality of the situation. New approach to decision-making is important to highlight as it negates the role of UGC and professional councils to take autonomous decisions and perform the role of maintaining standards through regulations. It rather points out the burden of regulations. The projects put its faith on performance-driven approach which can be monitored through targeted output indicators.

Conclusion

The future of higher education financing relying on education loan will have consequences for governance that need to be understood. Reliance on market borrowing will link higher education to market principles of governance. With the financial restructuring taking place and centralized decision-making process at the level of group of secretaries, the governance will be steered through accreditation and ranking process in place. NAAC and National Institutional ranking framework will ensure that more and more institutions are under its ambit. The new move towards tiered autonomy as state in the action plan of NITI Aayog will give greater autonomy to a group of higher-ranking research-dominated universities, and lesser autonomy will be available to teaching and rest of the institutions. The scheme of institutions of eminence will be another category in the hierarchy of institutions. In the future, the academic and financial autonomy will be given to the universities, and institutions will be more self-governing. They will have to be competitive for and generate more and more resources.

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