

**CMDR Monograph Series No. - 61**

**FINANCING HIGHER EDUCATION:  
A STUDY OF EDUCATIONAL LOANS**

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Study Completed Under  
**Canara Bank Endowment**



**CENTRE FOR MULTI-DISCIPLINARY DEVELOPMENT RESEARCH**

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CMDR Monograph Series No-61

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First Published : December 2010

## **FINANCING HIGHER EDUCATION:**

### **A STUDY OF EDUCATIONAL LOANS**

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#### **Abstract:**

Education assumes significance as a provider of input for economic, political and social development, besides as a source of knowledge. Economic growth in recent years has been based on availability and quality of knowledge in any country, which in turn depends on access and affordability to education. Hence, importance of education has increased to supply adequate and qualitative human capital. Functioning of education sector depends on availability of various resources, of which to a large extent on financial resources. Finances for education are mobilized from different sources like government spending, fees, educational loans, and others. Among these, educational loan has been seen as an alternative way of financing for education. In this background the present paper tries to analyse the trends and patterns of educational loan in India. Further, an attempt has been made to understand pattern of student loans provided by selected commercial banks. The study finds that educational loan is increasing over the years.

**FINANCING HIGHER EDUCATION:  
A STUDY OF EDUCATIONAL LOANS**

Dr. S. Puttaswamaiah<sup>1</sup>

**1. INTRODUCTION**

Education and development are closely related, as education provides inputs for economic growth among which knowledge is an important one. Modern economic growth, as seen in recent years, is driven by knowledge, for which knowledge creation and utilization acquires significance. Development of knowledge is based on the quantity and quality of education system available, particularly of higher education, in a country. Therefore, higher education assumes significance as creator and supplier of knowledge. Access to and availability of higher education is crucial for creation, spread and application of knowledge for development. Importance of higher education can be understood from its functions like (i) creation and dissemination of knowledge, (ii) supply of manpower, particularly knowledge workers, (iii) attitudinal changes for modernization and social transformation, (iv) formation of strong nation-state, and (v) promotion of higher quality individual and social life (GoI 2005). Hence, development of higher education becomes significance.

Development of higher education depends on various factors, among which finance plays a major role. Financing higher education has attracted serious attention of policy makers and educational thinkers as higher education system is facing financial crunch (Varghese 2009, Rani 2009, GoI 2005) in recent years. Alternative ways of financing higher education are being explored and implemented to overcome the problem of deficit finance and cost-recovery. Among them educational loan is increasingly seen as an important source of finance. It is necessary to note that education loan has become a way transferring financial burden from government to consumers of higher education. In this background an analysis of pattern of educational loan or student loan is necessary to understand the existing scenario.

Studies, which have analyzed educational and student loans are few in number (Narayana 2005). The present paper attempts to fill this gap by examining the pattern of student loans. Before analyzing the educational loan pattern an overview of present higher education

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<sup>1</sup> Paper presented in the Workshop on Balancing Banking and Social Responsibility at CMDR, Dharwad, 08-06-2010

system, finances of higher education and problems have been examined, followed by an analysis of educational loan by public sector banks and selected commercial banks has been carried out.

## 2. Status of higher education

An analysis of growth in number of educational institutions, access to higher education institutions, and enrolment of students provides a view of status of higher education, which are discussed in this section.

### 2.1. Growth of higher education

Recognizing the need, the Indian Government gave significant attention to higher education system and as a result a huge higher education system has been developed. As shown in in Table 1 the number of colleges increased from 496 in 1947-48 to 25951 in 2009-10, while the number of universities grown from mere 20 to 504 during the same period. Similarly, the enrolment of students for higher education has seen tremendous increase over the period. During 1947-48 only 2 lakh students had enrolled for higher education which increased to 136 lakh in 2009-10, which indicates the rapid growth and increasing demand for higher education in India.

Table 1: Growth of Higher Education in India

Year	Colleges	Universities	Enrolment (in 10 lakhs)
1947-48	496	20	0.2
1950-51	578	28	0.2
1960-61	1819	45	0.6
1970-71	3277	93	2
1980-81	4577	123	2.8
1990-91	6627	184	4.4
2001-02	11146	272	8.8
2002-03	15343	300	9.3
2006-07	18064	369	11.08
2008-09	22064	471	12.37
2009-10	25951	504	13.6

Source: GoI (2005)

GoI (2010), Annual Report, Department of Education

Technology is a key input in production and development process, hence creation and spread of technical knowledge assumes significance. India has not failed in giving adequate attention to this area as revealed by the increase in number of technical institutions (Table 2)

<b>Table 2 :Number of Technical Institutions</b>	
1. Indian Institute of Managements	6
2. Engineering, Technology and Architecture Colleges	978
3. Medical colleges	759
4. Teacher Training Institutions	873
Total	2616

Source: GoI (2005)

GoI (2010), Annual Report, Department of Education

## **2.2. Equity in higher education**

Educational contribution to social, economic and political development of a region is well recognized. Human capital, particularly with higher education, increases labour productivity and individuals' income and that of the economy. Hence, it is necessary to develop an education system which generates human capital for achieving social and economic development. However, in the process of developing education system some sections of the society might be left out for various reasons like non-affordability, lack of accessibility, etc. This creates inequity in growth of human capital and adversely impacts on development. Therefore, issue of equity in terms of enrolment ratio of students and disparity in enrolment in higher education assumes significance in understanding the educational system.

Enrolment ratio of students indicates the extent of higher education that has reached people (Thorat 2006). There are three alternative measures that indicate the reach of higher education; (1) Gross enrolment ratio (GER), (2) Net enrolment ratio (NER) and (3) Enrolment of eligible ratio (EER) (Thorat 2006). GER indicates access level by taking ratio of persons in all age group enrolled in various programs to total population in age group 18-23, while NER measures level of enrolment for age specific groups namely those in age group of 18-23. EER depicts level of enrolment of those who completed higher secondary level education.

The enrolment of students for higher education has increased over the years. In 2009-10 over 136 lakh students had enrolled for higher education in the country. The state-wise scenario of total enrolment and women enrolment to higher education is presented in Table 3 for the year 2004-05. It is interesting to note that enrolment by women is less than the national share of 39.4 per cent in large number of states. Even in states like Maharashtra, Andhra Pradesh, West Bengal, and Uttar Pradesh women enrolment is less than

Sl. No.	State/UT	Total enrolment	Women enrolment	% of women enrolment to total enrolment
1	Kerala	3,13,155	1,84,170	58.81
2	Goa	21,643	12,569	58.08
3	Andaman & Nicobar	2,706	1,479	54.66
4	Daman & Diu	619	325	52.5
5	Punjab	2,79,707	1,43,422	51.28
6	Pondicherry	20,199	10,326	51.12
7	Chandigarh	51,309	25,329	49.37
8	Delhi	7,09,169	3,42,469	48.29
9	Uttaranchal	1,31,742	62,447	47.4
10	Himachal Pradesh	1,03,628	48,813	47.1
11	Tamil Nadu	8,09,366	3,79,493	46.89
12	Meghalaya	30,716	14,284	46.5
13	Jammu & Kashmir	80,405	36,327	45.18
14	Manipur	38,679	17,422	45.04
15	Nagaland	13,644	6,139	44.99
16	Karnataka	7,06,241	3,13,202	44.35
17	Haryana	2,64,331	1,13,939	43.1
18	Gujarat	6,45,689	2,74,198	42.47
19	Tripura	22,447	9,491	42.28
20	Assam	2,14,342	88,732	41.4
21	Sikkim	6,596	2,711	41.1
22	Uttar Pradesh	15,07,991	5,81,460	38.56
23	Maharashtra	15,34,613	5,77,892	37.66
24	Andhra Pradesh	10,56,719	3,97,103	37.58
25	Arunachal Pradesh	6,745	2,519	37.35
26	West Bengal	7,46,509	2,76,298	37.01
27	Chhattisgarh	1,63,254	60,028	36.77
28	Jharkhand	2,09,176	76,559	36.6
29	Mizoram	12,180	4,325	35.51
30	Rajasthan	3,94,478	1,31,986	33.46
31	Madhya Pradesh	7,58,418	2,37,364	31.3
32	Bihar	5,53,693	1,35,423	24.46
33	Orissa	3,67,187	73,332	19.97
34	D&N Haveli	0	0	0
35	Lakshadweep	0	0	0
	Total	1,17,77,296	46,41,576	39.41

Source: Government of India Annual Report 2006-07,

URL: [www.education.nic.in/AR/AR0607-en.pdf](http://www.education.nic.in/AR/AR0607-en.pdf).

the national ratio. This issue needs to be addressed by increasing the number of women enrolling for higher education. State-wise GER for the year 2002-03 (Table 4) indicates that the number of people attending higher education is very less, as GER at all-India level is around 9 per cent. The state-wise picture reveals that Goa recorded a higher GER followed by Manipur, Himachal Pradesh, Maharashtra, Uttaranchal and others. But, in states like Nagaland, Jammu & Kashmir, Tripura and others the GER is very low. This lower participation in higher education results in lower human capital formation.

States with above national level GER	GER	States with below national level GER	GER
1. Goa	13.47	1. Rajasthan	8.77
2. Manipur	13.19	2. Orissa	8.71
3. Himachal Pradesh	12.76	3. Assam	8.67
4. Maharashtra	12.30	4. Punjab	8.53
5. Uttaranchal	12.25	5. West Bengal	8.21
6. Meghalaya	10.94	6. Jharkhand	8.12
7. Tamil Nadu	10.91	7. Madhya Pradesh	7.77
8. Haryana	10.56	8. Kerala	7.66
9. Karnataka	9.92	9. Bihar	7.30
10. Gujarat	9.65	10. Chattisgarh	7.27
11. Andhra Pradesh	9.51	11. Uttar Pradesh	7.03
12. Mizoram	9.51	12. Arunchal Pradesh	6.37
		13. Sikkim	6.29
		14. Tripura	5.84
		15. Jammu & Kashmir	4.95
		16. Nagaland	4.33
<b>All States</b>			<b>8.97</b>

Source: GoI (2005)

Besides total GER, it is necessary to examine GER across gender and social categories to know equity in higher education in a deeper perspective. There is a wide difference in GER across gender and social categories (Table 5), as per results from three different sources of GER – (1) Selected Educational Statistics (SES), (2) Census and (3) NSS. According to SES, GER is 9.7 per cent during 2006-07, while estimation by Census and NSS show it over 13 per cent. The SES under estimates enrolment rates because of the under-reporting of enrolment in unrecognized institutions and also due to non-reporting of enrolment data on an annual basis by some of the State governments (Thorat 2006). Extrapolations are used to fill the gaps



arising from non-reporting by some states. The problem with the NSS and also Census data is that as it is collected from households, and it is likely to over estimate the student enrolment in colleges and universities as it might include those who are doing diploma or training programmes (e.g. computer training) in unrecognized institutions also. A further problem with the population Census data is that it does not distinguish between enrolment in professional degree and diploma programmes (Thorat 2006).

GER by gender indicates that female enrolment is low as shown by all the sources (Table 5). According to Census while 17 per cent of men are pursuing higher education, it is over 10 per cent for females. The NSSO estimation on GER of social categories presented in the table reveals that SCs (5 per cent) and STs (7.5 per cent) are still lagging in joining higher education. The rural-urban GER also presents disparity in enrolment for higher education, where over 27 per cent of urban youth are joining for higher education it is nearly 8 per cent for rural youth according to Census data. Other measures of equity in higher education i.e., NER and EER estimated by NSSO illustrate that NER is over 13 per cent at all India level, while EER is over 59 per cent. The NER also shows disparity in the extent of higher education across gender and social categories.

	GER			NER	EER
Source/Year	SES	Census	NSS	NSS	NSS
	2006-07	2001	2003	2003	2003
<b>All</b>	9.7	13.8	13.2	13.2	59
<b>Gender</b>					
Male	11.1	17.1	15.3	12.3	62.9
Female	7.9	10.2	11	8.7	54.1
<b>Caste</b>					
Schedule Tribes	4.6	7.5	5	4	57.4
Schedule Castes	7	8.4	7.5	5.9	56.4
OBC				11.34	
Others				24.89	
<b>Rural/Urban</b>					
Rural	9	7.8	6.1	51.5	
Urban	24.5	27.2	21.9	66	
Poor (2000) (urban)				2.43	
Non Poor (urban)				12.81	

Source: Thorat (2006)

Table 6 illustrates information on different social groups with lower enrolment ratio in higher education during 1999-2000. Among religious groups Muslims have lowest enrolment (5.34 per cent) and Hindus have over 10 per cent. Among Hindus, Muslims and Sikhs, SCs have the lowest enrolment in higher education compared to other social groups. It can be noticed that SCs, STs and OBCs have lower enrolment ratio compared to non-SC/ST, and OBC groups. This pattern indicates inequity among social groups in getting higher education. The female (total) enrolment ratio is just over 8 per cent, and that of rural female is still low at 3.5 per cent. In all social groups rural women are deprived of higher education as indicated by their low enrolment ratio. The occupation-wise enrolment ratio illustrates lower participation in higher education among all categories. For instance, in rural area only 1.41 per cent of wage labourers have enrolled for higher education. The ratio is still low (less than 1 per cent) for landless poor people in rural area.

<b>Table 6: Groups with lower enrolment ratio in Higher Education - 1999-2000</b>						
<b>(Figures in %)</b>						
		Social Groups				
Category		SC	ST	OBC	Non-SC/ST, OBC	All
<b>Religion</b>						
Hindu		4.88	6.16	7.06	19.71	10.44
Muslim		1.83	4.41	3.94	5.91	5.34
Sikh		1.81	NA	NA	18.94	11.28
<b>Gender</b>						
	Female (total)	3.16	5.57	4.7	16.52	8.05
	Rural (Female)	1.64	4.75	2.08	7.1	3.56
Rural	Rural	3.3	5.15	4.11	10.58	5.72
	Poor	1.69	1.32	2.42	5.57	2.43
Poor	Poor Rural	1.31	0.89	1.25	2.5	1.3
<b>Occupation</b>						
	Wage labour (rural)	1.63	0.67	1.16	1.93	1.41
	Wage labour (urban)	NA	1.53	3.34	4.3	3.26
	Land less (Total)	2.96	11.46	4.15	8.85	5.59
	Rural					
	Land less (Poor)	1.05	1.38	0.73	0.85	0.94
	Rural					
<b>Total</b>						
10.00%						

Source: Thorat S. (2006)

The above information reveals that equity in higher education in terms of reaching large number of people is yet to be achieved. From the point of view social and economic equity increasing enrolment of these marginal groups is very essential. Particularly, in the era of globalization human capital is a necessary input to gain advantages. Hence, large human resource pool available in the country needs to be equipped with skills, training and technology, which can be achieved only through increasing enrolment of youths in higher education.

### **2.3. Problems in higher education:**

Though, higher education system has grown significantly in India over the years, it is facing several problems. Despite the huge higher education system the enrolment ratio is still around 9 per cent (GoI 2005). As observed above during 2002-03 the gross enrolment ratio was lowest (4.33) in Nagaland while highest (13.47) in Goa. India's enrolment ratio is very low compared to middle income countries and higher income countries. A threshold level of 20 per cent enrolment is critical for gaining economic benefits from higher education (GoI 2005). But, India's enrolment ratio is abysmally low. Hence, necessary measures need to be taken up to address the issue of low enrolment ratio and bring more number of students in the network of higher education.

Economic reforms have led to privatization in higher education, and private sector is becoming a major supplier of higher education. But, this development needs attention from policy makers, state and also consumers of higher education. Because, this process may keep marginal groups out of higher education, which is against the policy of providing access to higher education for all concerned. Further, higher education is considered as a public good, and hence private market may not be able to deliver education service to marginal groups of the society.

### **3. Finances of Higher Education: looking for alternative sources**

Education is a necessary factor in the process of development, and is considered to be an activity in between consumption and investment. Financial resources become crucial input for development of education. Hence, financial aspects of education sector like sources of finance assume significance. There are different sources of finances for higher education, viz, public expenditure, fee income from students and other sources of income from

philanthropy, industry, sale of publications, etc. (Rani 2009). In India, educational system is mainly state funded and hence government spending doubled from 49.4 per cent in 1950-51 to 75.9 in 1986-87, while income from fees declined drastically from 36.8 per cent to 12.6 per cent in the same period (Rani 2009). In India, both Centre and state governments incur expenditure on higher education, however the role of states is relatively more.

Government spending on higher education has increased over the years i.e., from 0.19 per cent of GNP in 1950-51 to 0.56 per cent in 1991-92 (Varghese 2009). Public spending on higher education increased at a rapid rate during 1950s and 1960s. In 1970s the growth rate declined and again picked up in 1980s. But, introduction of economic reforms made a turnaround of spending on higher education by government (Tilak 1993, Tilak 1996, Varghese , GoI 2005). During 1990s public expenditure on higher education declined (GoI 2005). In nominal prices there was an increase by 70 per cent between 1997-98 and 1998-99 and by 43 per cent between 1998-99 and 1999-00. However, this was followed by a decline of 30 per cent in the following year.

In order to overcome this financial crunch various measures like creation of corpus funds in institutions; establishment of an Educational Development Bank of India; reducing share of salaries in recurring expenditure; and enhancing fees to recover at least 20 per cent of the recurring expenditure were suggested by Swaminathan Committee (AICTE 1994). These measures were aimed at cost-recovery in higher education by diversifying revenue through student fees, student loans and privatization (Rani). In other words cost-recovery targeted reduction in subsidies to higher education, and transferring the incidence to beneficiaries and users. Student loan or educational loan is one of the measures suggested for cost recovery. In India, educational loan scheme was introduced in 2000-01 and is implemented by commercial banks. The loan scheme includes various courses of higher education in India and abroad covering instructional cost and living expenditures. A student studying in India may get an educational loan up to Rs.10 lakh, while those studying abroad may get around Rs. 20 lakhs (Indian Banks Association 2011).

In recent years student loans are seen as an important way for financing higher education, as both government and lending institutions are encouraging students to obtain the facility to meet their educational expenditures. Thus educational loans are mechanisms envisaged to

shift the burden to beneficiaries of higher education (Varghese 2009), since students bear the cost of higher education. Student loan scheme has some advantages like providing support to those who are in need of financial assistance for their higher education, and allowing students to repay loan after completing their education and obtaining job, within stipulated time. However, student loans have distortions too, such as lenders and borrowers may prefer courses which have employment potential, and in the undeveloped educational credit market like India those who are incapable of meeting the conditions laid down by lending institutions might not be provided with educational loan. All these could have equity implications. Further, it is opined that the new educational loan scheme is insensitive to the needs of poor students (Rani 2009).

### **3. Pattern of Educational Loans**

Introduction of economic reforms has reduced government spending on higher education and allowed private sector participation. As a result educational loan is becoming an important way of financing higher education while meeting the objective of cost recovery. An analysis of educational loan is necessary to understand the pattern, its magnitude, etc., which has been carried out in the following section. We have information on educational loan distributed by public sector banks, under priority sector lending. The priority sectors of public sector banks include agriculture, small-scale industries, retail trade, education, consumption, housing, and other sectors. But, the information on educational loan is limited in nature as it does not indicate details like whether this loan is given only for students or given to educational institutions also; amount of loan by courses; state-wise distribution; loan by social categories, etc. Keeping these limitations in mind, and assuming that the information available pertains to student loan, an attempt has been made to understand the pattern of educational loan in terms of number of accounts, amount and relative priority across sectors of lending by public sector banks.

#### **3.1. Pattern in Number of Accounts**

Among the priority sector advances of public sector banks, agriculture occupies a larger share in terms of number of accounts (over 68 per cent in 2009 – Table 7) indicating that more number of people have availed loan. The number of accounts of educational loan is 1580 thousands in 2009, which increased from 70 thousands in 1991. Accounts of educational loan

constituted about 3.66 per cent of total number of accounts during 2009, which was 0.20 per cent during 1991. This shows that number of students who have taken education loan for their higher education is increasing over the years. This may be due to the availability of educational loan, simplified procedures, etc.

<b>Table 7: Lending for priority sectors by public sector banks</b>								
Year	Agriculture	Small Scale Industries	Retail trade	Education	Consumption	Housing	Other Sectors	Total Priority Sector
Number of Accounts (in thousands)								
Mar-91	20299	2830	4629	70	153	288	6590	34859
Mar-95	19842	2884	4623	70	101	204	6129	33853
Mar-00	16047	2241	3425	80	103	344	4217	26457
Mar-01	18753	1986	3310	112	155	523	3937	28776
Mar-02	15777	1851	3150	157	153	748	3954	25790
Mar-03	16765	1723	3051	239	252	1147	4096	27273
Mar-04	18992	1709	3022	347	288	1618	4105	30081
Mar-05	20171	1395	3365	470	123	2048	3802	31374
Mar-06	23798	1729	3117	641	142	2521	3892	35840
Mar-07	25113	1685	3224	1002	331	3458	4095	38908
Mar-08	27597	-	3241	1215	-	3357	4664	40074
March 2009 (provisional)	29368	-	3416	1580	-	3605	5171	43140
Percent								
Mar-91	58.23	8.12	13.28	0.2	0.44	0.83	18.9	34859
Mar-95	58.61	8.52	13.66	0.21	0.3	0.6	18.1	33853
Mar-00	60.65	8.47	12.95	0.3	0.39	1.3	15.94	26457
Mar-01	65.17	6.9	11.5	0.39	0.54	1.82	13.68	28776
Mar-02	61.17	7.18	12.21	0.61	0.59	2.9	15.33	25790
Mar-03	61.47	6.32	11.19	0.88	0.92	4.21	15.02	27273
Mar-04	63.14	5.68	10.05	1.15	0.96	5.38	13.65	30081
Mar-05	64.29	4.45	10.73	1.5	0.39	6.53	12.12	31374
Mar-06	66.4	4.82	8.7	1.79	0.4	7.03	10.86	35840
Mar-07	64.54	4.33	8.29	2.58	0.85	8.89	10.52	38908
Mar-08	68.87	-	8.09	3.03	-	8.38	11.64	40074
March 2009 (provisional)	68.08	-	7.92	3.66	-	8.36	11.99	43140

Source: GoI, Economic Survey, various issues

### 3.2. Pattern in amount across Priority Sectors Loan

Information presented in Table 8 reveals the amount outstanding across priority sectors, which has increased significantly over the years. For instance, during 1991 the total amount disbursed by banks through priority sector lending scheme was over Rs. 42 thousand crores, while it was over Rs. 720 thousand crores in 2009. Among the various headings of lending educational loan constitute over 3.7 per cent, which is much lower compared to sectors like retail trade, housing and others. This indicates that lending by public sector banks to education is still low as compared to other priority sectors.

Table 8: Advances to priority sectors by public sector banks								
Year	Agriculture	Small Scale Industries	Retail trade	Education	Consumption	Housing	Other Sectors	Total Priority Sector
Amount Outstanding (Rs. Crores)								
Mar-91	16871	16756	2563	77	23	367	5655	42312
Mar-95	23328	25636	3893	158	31	1068	6688	60802
Mar-00	45296	46045	8224	543	386	9215	17769	127478
Mar-01	53571	48400	8711	1028	686	17029	19691	149116
Mar-02	88143	54268	10298	1527	579	25027	-8357	171485
Mar-03	70502	53029	12077	2870	914	38702	22075	200169
Mar-04	84435	58311	14252	4179	1923	56647	24709	244456
Mar-05	109917	67999	19888	6398	898	78791	23155	307046
Mar-06	155219	82434	40069	10804	1302	85832	34088	409748
Mar-07	202614	102550	28992	14012	3137	133057	37014	521376
Mar-08	249397	-	40519	19748	-	146868	153918	610450
March 2009 (provisional)	298211	-	43061	26913	-	156590	195308	720083
Percent								
Mar-91	39.87	39.6	6.06	0.18	0.05	0.87	13.37	42312
Mar-95	38.37	42.16	6.4	0.26	0.05	1.76	11	60802
Mar-00	35.53	36.12	6.45	0.43	0.3	7.23	13.94	127478
Mar-01	35.93	32.46	5.84	0.69	0.46	11.42	13.21	149116
Mar-02	51.4	31.65	6.01	0.89	0.34	14.59	-4.87	171485
Mar-03	35.22	26.49	6.03	1.43	0.46	19.33	11.03	200169
Mar-04	34.54	23.85	5.83	1.71	0.79	23.17	10.11	244456
Mar-05	35.8	22.15	6.48	2.08	0.29	25.66	7.54	307046
Mar-06	37.88	20.12	9.78	2.64	0.32	20.95	8.32	409748
Mar-07	38.86	19.67	5.56	2.69	0.6	25.52	7.1	521376
Mar-08	40.85	-	6.64	3.23	-	24.06	25.21	610450
March 2009 (provisional)	41.41	-	5.98	3.74	-	21.75	27.12	720083

Source: GoI, Economic Survey, various issues

### 3.3. Composition of Priority Sector Loan

Relative share of priority sectors loan in total bank credit of public sector banks, in Table 9, illustrates that the percentage of agricultural credit is high, followed by other sectors and housing. The share of educational loan stands at 1.59 per cent of the total credit in 2009, which is increasing over the years, i.e., from 0.07 per cent in 1991 to 1.59 per cent in 2009.

Year	Agriculture	Small Scale Industries	Retail trade	Education	Consumption	Housing	Other Sectors	Total bank credit (Rs. Crores)
Mar-91	15.76	15.65	2.39	0.07	0.02	0.34	5.28	107049
Mar-95	14.11	15.5	2.35	0.1	0.02	0.65	4.04	165377
Mar-00	14.31	14.55	2.6	0.17	0.12	2.91	5.62	316427
Mar-01	15.7	14.18	2.55	0.3	0.2	4.99	5.77	341291
Mar-02	22.37	13.77	2.61	0.39	0.15	6.35	-2.12	394064
Mar-03	14.53	10.93	2.49	0.59	0.19	7.98	4.55	485271
Mar-04	15.06	10.4	2.54	0.75	0.34	10.1	4.41	560819
Mar-05	15.32	9.48	2.77	0.89	0.13	10.98	3.23	717419
Mar-06	15.25	8.1	3.94	1.06	0.13	8.43	3.35	1017656
Mar-07	15.42	7.81	2.21	1.07	0.24	10.13	2.82	1313840
Mar-08	18.28	0	2.97	1.45	0	10.77	11.28	1364268
March 2009 (provisional)	17.61	0	2.54	1.59	0	9.25	11.53	1693437

Source: GoI, Economic Survey, various issues

### 3.4. Growth of Credit Among Priority Sectors

The average annual increase in priority sectors credit by public sector banks (Table 10) indicates that total credit has increased at 17.03 per cent during 1991-2009, while the total priority sector lending increased by 17.24 per cent during the same period. It can be noticed from the table that agriculture lending has increased by over 18 per cent, that of small-scale industries by 5.6 per cent, while the annual increase of lending for education is over 47 per cent, followed by housing (44 per cent) and consumption (39 per cent). It shows that there is a scope for increasing educational loan by public sector banks as during 1991 to 2009 the increase is over 47 per cent and its share in total priority lending is less compared to other sectors.



<b>Table 10: Average annual increase in priority sector lending (in per cent): 1991-2009</b>		
Priority sectors	No. of Accounts	Amount Outstanding
Agriculture	2.43	18.46
Small Scale Industries	-8.45	5.60
Retail trade	-1.54	19.15
Education	23.03	47.69
Consumption	8.10	39.49
Housing	17.23	43.95
Other Sectors	-1.05	2.30
Total Priority Sector	1.43	17.24
Total Bank Credit		17.03

Source: GoI, Economic Survey, various issues

Analysis of priority sectors advances by public sector banks reveals an increase in lending over the years. Particularly, student loan has increased significantly compared to other sectors, which might be because of the government's policy and banks' pro-student loan approach. However, this analysis does not help us to understand issues like course wise distribution of loans, social-category wise disbursement, etc. These issues need to be studied at individual bank level, but data are not available on these aspects from banks.

#### **4. An analysis of student loans of selected commercial banks**

Literature suggests that though student loan is a good option, to some extent, for financing higher education, it may not fulfill the objective of social equity (Varghese 2009, Rani 2009). The issue of social equity and student loan needs to be examined to understand the impacts and implications. But, data are not available from the financing agencies on the extent of student loan and other aspects. Hence, in this section a scenario analysis of educational loan by Canara Bank and State Bank of Mysore has been presented. The data are obtained from the Annual Reports of the respective banks. Canara Bank is lending for higher education under 'Vidyasagar Educational Loan Scheme', while State Bank of Mysore provides loan under the scheme 'Gnanamitra Educational Loan'. However, it is to be noted that these banks have been selected for the analysis mainly because of their support by providing annual

reports. But, information available in their annual reports is also limited, and data on issues raised above, related to student loan, are not available.

#### 4.1. Educational Loan by Canara Bank

Canara Bank has disbursed advances to priority sectors to the tune of Rs.48763 crores during 2008-09 (Table 11). Among the different priority sectors agriculture has taken a major share followed by small enterprises and others. Share of educational loan is around 5 per cent of the total priority sector lending by Canara Bank. This shows educational loan has not got much allocation. This may be because of various reasons like lack of access, non-availability of collateral assets, etc.

Amount of Loan (Rs. Crores)				
Priority sector/Year	2007-08	(%)	2008-09	(%)
Agriculture	17996	41.65	20144	41.31
Small enterprises	14175	32.81	16316	33.46
Other priority sectors	11032	25.54	12303	25.23
Education	1737	4.02	2301	4.72
Total priority sector	43203	100.00	48763	100.00

Source: Annual Reports, Canara Bank

#### 4.2. Pattern of Student Loan by Canara Bank

Analysis of student loan by Canara Bank (Table 12), illustrates an increase in the number of accounts and amount of advances for education. During 2005-06 the bank had sanctioned educational loan to over 73 thousand students which increased to 146 thousand in the year 2008-09, similarly, the amount sanctioned also increased from Rs. 955 crore to Rs. 2301 crores. The annual increase in the amount of educational loan is over 31 per cent between 2005-06 and 2006-07, which increased to nearly 38 per cent between 2006-07 and 2007-08.

Year	No. of Students	Annual increase	Increase in percent	Amount (Rs. Crores)	Annual increase	Increase in percent
2005-06	73405			955		
2006-07	92579	19174	26.12	1252	297	31.10
2007-08	119000	26421	28.54	1737	485	38.74
2008-09	146851	27851	23.40	2301	564	32.47

Source: Annual Reports, Canara Bank

### 4.3. Educational Loan by State Bank of Mysore

Information on the loan granted by State Bank of Mysore to its personal segment advances is presented (Table 13) for the period 2003-04 to 2008-09. The educational loan constitutes around 10 per cent of total advances under personal segment, while housing loan is around 55 per cent during 2008-09. The amount of loan for education has increased from Rs. 50 crores to Rs. 391 crores between 2003-04 and 2008-09.

Year	Education	Housing	Vehicle Loans	Personal segment Advances
(Amount in Rs. crores)				
2003-04	49.98	507.85	NA	1476.31
2004-05	78.87	870.52	110.25	2018.17
2005-06	123.67	1323.43	233.41	2327.1
2006-07	185.15	1834.03	267.00	3093.56
2007-08	274.00	1992.00	NA	3613
2008-09	391.00	2186.00	291.00	3988
in Per cent				
2003-04	3.39	34.40	0.00	100.00
2004-05	3.91	43.13	5.46	100.00
2005-06	5.31	56.87	10.03	100.00
2006-07	5.99	59.29	8.63	100.00
2007-08	7.58	55.13	NA	100.00
2008-09	9.80	54.81	7.30	100.00

Source: Annual Reports, State Bank of Mysore

Note: NA – Not available

#### 4.4. Growth of Loan in Personal Segment of State Bank of Mysore

The annual increase in the amount of personal segment loan (Table 14) indicates that total advances have increased at an average of 31 per cent between 2004-05 and 2008-09. Among the three heads of loan under personal segment, educational loan has increased at an average rate of 51 per cent during the period. This shows that SBM has increased its share of lending to education sector significantly compared to housing and vehicle loans.

Year	Educational	Housing	Vehicle Loans	Total Advances
2004-05	57.80	71.41		37.59
2005-06	56.80	52.03	111.71	32.20
2006-07	49.71	38.58	14.39	39.04
2007-08	47.99	8.61	-100.00	27.09
2008-09	42.70	9.74		21.42
<b>Average Annual increase (%)</b>	<b>51.00</b>	<b>36.07</b>	<b>8.70</b>	<b>31.46</b>

## 5. Conclusion

Higher education creates and supplies knowledge, which is driving modern economic growth. Hence, development of qualitative higher education system becomes crucial, which could provide access to all those who want to pursue higher studies. Access to higher education should not be limited to few sections of the society which creates inequity. As observed earlier, enrolment to higher education has increased significantly in the country, showing rising demand for higher education. But, at the same time inequity in enrolment ratio is also observed, particularly with respect to SC/STs, women, rural youths, etc. This disparity needs to be corrected by bringing all those socially and economically weaker sections in the fold of higher education.

Introduction of economic reforms has reduced government spending on higher education and new sources of financing are being explored. In this direction, student loan scheme for higher education has got much attention as a way for finance and cost recovery. The study revealed that educational loan by public sector banks in India is increasing over the years, showing the increasing demand for loans of higher education. But, across the priority of lending by public sector banks, education constitutes a small share of 3.7 per cent of the total priority sector lending in the year 2009. This indicates that banks can increase their share of lending for higher education. Analysis of student loan by Canara Bank and State Bank of Mysore also showed that educational loan is increasing over the years.

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