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**Educational Loans And The Higher Education Sector In India**

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**Abstract**

*In 2001 the Indian Banks Association have come up with a model frame work for educational loans in the country. With the approval of the Central Government the public sector banks in India started to give education loans. The private and cooperative banks also joined the fray. Due to growing NPAs and the intervention of the Government these norms were modified in 2011. The budget allocation for the primary and higher secondary education is on the increase in India. However, higher education has been of late relegated or left to the mercy of the private players. There has been a steady growth of educational loans disbursed, private colleges and deemed universities started and enrolments of students in higher education during the years 2001 to 2011. This paper is a humble attempt to 1) analyse the growth of the educational loans vis-à-vis other forms of personal loans at the national level, 2) showcase the disbursements of educational loans in Kerala State, 3) to assess the growth of educational institutions and enrolment of students in higher education in India from secondary data and 4) to make suggestions based on the findings.*

**Key Words: Educational Loans, NPA, GER, IBA**

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**1. Introduction**

One of the key measures for economic development of a country is providing education accessible to a large number of people. The state alone cannot provide higher education to the masses. The education policies of 1986 and 1992 of the Government of India signalled private participation in higher education.

Self financing colleges and Deemed Universities were permitted to operate in the country. Tuition fee in the self financing colleges and Deemed Universities were not affordable for many people. Some people availed bank loans to study in them. The state owned or aided colleges and Universities had no capacity to absorb all eligible students in

their rolls. In order to address this issue in 2001, the public sector banks introduced educational loan scheme at affordable rates. This model framework for educational loans proposed loans upto INR 0.4 million without any security other than the personal security of the borrower. The repayment of the loan with interest can be started one year after the end of the course or within six months after getting the jobs whichever is earlier. The private sector and cooperative banks too joined the fray. The repayment period for loans upto 0.75m is 10 years and above that amount 15 years. In India, over a period of seven years starting from the year 2005 to 2011 the educational loans have risen from INR 51 billions to INR 437 billions [18]. The higher education sector has been witnessing a slump in public expenditure over the last two decades in comparison to primary and secondary education in India[22].

## 2. Objectives

- a) To study the growth of educational loans in the country and in the state of Kerala
- b) To review the growth in enrolments and educational institutions in the wake of the privatization of education in India
- c) To make suggestions based on the findings of the study.

## 3. Methodology

The descriptive study is conducted using secondary data obtained from the publications of the Reserve Bank of India, the Indian Banks Association, The State Level Bankers Committee, Kerala State, the University Grants Commission, the Federation of Indian Chamber of Commerce and Industry, Ernst & Young, Ministry of Human Resource Development and so on. The data related to educational loans have been collected for the period 2001 to 2011 . They are then analysed for finding the growth or effectiveness of the educational loans. For analyzing the public opinion on the mode of disbursement of educational loans in the country, the reports in the periodicals and journals published during the years 2009 to 2012 are verified.

### 3.1 Hypothesis

- a)  $H_0$ : The Educational loans do not show higher growth rate than other personal loans
- b)  $H_0$ : The present growth rate in enrolment in India cannot achieve the national target of 30 per cent enrolment rate by 2020

## 4. Review of literature

Jandhyala B G Tilak (2004)[8] analyses the departure of the Government from increased expenditure in higher

education sector consequent on the commitment of universal primary and secondary education. Narayana (2005) [10] conducted an empirical analysis of the role of student loan by commercial banks in financing the estimated budgetary subsidy to general collegiate education by Government and Private Aided colleges in Karnataka State (India). Manoj P. K and Meera Bai (2009) [11] in their joint study have analysed the emerging trend in respect of technical education in India. Manoj P K and Arunachalam (2009) [12] in their study have looked into the problems and challenges of management education in India, with a focus on the issue of quality of the management graduates. Harsh Gandhar (2010) [6] has done a study on educational loan schemes by scheduled commercial banks in Chandigarh in India. Jandhyala B G Tilak (2012) [9] has examined the early foundations of primary education in Kerala State as remarkable when compared to other states in India along with the neglect of investment in Higher education . Hua Shen and Adrian Ziderman (2008)[7] reviewed 70 countries across the world for educational loans schemes. The Government sponsored schemes in these countries are more or less similar in the matter of various forms of subsidies given to the student loan borrowers.

Alan Nasser and Kelly Norman(2011)[1] examine the pattern of student loan scheme existing in the United States. In 2011 the students loans outstanding rose to \$ 830 billion while the credit card lendings trailed behind at \$ 827 billion. Premsai C. (2007)[16] elaborates on the Government of India's Policy decisions on private participation in the expansion of higher education in India. The Government is concentrating on the primary education. Peter Comes et.al(2008)[15] conducted a study on "Student Loans and their Effects on College consumption" in the University of Illionois at Urbana-Champaign. Very few students are concerned about obtaining a job after the studies. However, there was certain correlation between concern and the increase in loan amount. Devasia M.D. & Meerabhai M.(2005)[3] have found that Kerala has definitely predominant position in Indian states in literacy and primary education. However, in the matter of Higher education it is one of the lowest rated states in the country. May Luong (2010)[14] observed that students are least bothered about the cost of the post secondary education, even if not all of them are going to do well after their studies. Ernest & Young(2011)[5] assessed that there is high potential demand for higher education in India.

While the world average of the youth in the age group of 15-24 is 4 percent, it is 13 per cent or 234 million youths in India for the period 2005-2020. Thus India has an enviable position in the education market which requires the attention of higher education sector. Tamar Lewin(2011)[21] asserts that in the US half the graduates who left the colleges in 1993 were having educational loans whereas this share has increased to one-third in 2008. Mavuthu, D.(2006)[13] observed that an MBA course is intended to be skill developing and richly rewarding course. The manager's ability is increased through this course. He quotes, Porter who found that corporations hire MBAs because they have strong analytical abilities to take good strategic decisions. Alphonsa M.J.(1994)[2], found out that among the educated persons unemployed in the Kerala State, matriculates constituted the highest proportion in 1961,1971 and 1981, while graduates and post graduates accounted for only a small part indicating lesser employment opportunities for the matriculates in the State. Rajini, K M (2009)[17] points out that of all the factors of production human resource is the most delicate and that proper recruitment, induction and training are essential for better output from them. Although this is practiced in

industrial concerns and business houses there is not much importance is given to human resource development in higher education sector. Dora Gicheva(2011)[4] has studied on the probability of delay in marriage for students on education loans. She has found that borrowing an additional \$10000 resulted in the decreased probability of marriage by 7 per cent. There is a high degree of correlation between the student debts and expected marital status. Shujaat Farooq, et al (2008)[19], establish that education is an effective vehicle for economic growth. Social and cultural benefits also accompany the growth. However, spread of higher education results in over education and consequently underemployment, dissatisfaction and wastage of precious resources among clerical staff in the Government offices in Pakistan.

In sum, the Governments alone cannot bear the cost of higher education. Private participation with regulatory control is essential. Higher educated youths get faster employment than their peers with secondary education. Feed back from borrowers can be very useful for management of the education loan schemes.

## **5. Data analysis and interpretation**

In India, over a period of seven years starting from the year 2005 to 2011 the educational loans have risen from INR 51bn to INR 437bn[18]. The other categories of personal loans had slumps during the worldwide recession in 2008 and after. Only the educational loans have continued its unabated growth from 2.09 percent to 6.38 percent of the total loans disbursed over the years without any slumps in any year. Hence the first hypothesis that the educational loans do not have a higher growth rate is rejected. (in Table 1 & chart1)

The number of students enrolled in classes 9-12 is an indicator of the potential demand for higher education and as such the potential demand for higher education in India is rising at a CAGR of 5.7 per cent per annum. However, the CAGR of enrolment in Higher Education is 3.3 per cent over the last decade from 2001-2010.[5] Hence the second hypothesis is accepted and it is certain that unless either the Government or the private players invest heavily in the sector Gross Enrolment Ratio(GER) in Higher education cannot be substantially raised to the targeted 30 per cent level in 2020.

The higher education sector has been witnessing a slump in public expenditure over the last two decades in comparison

to primary and secondary education in India (in table 2)

The private participation and the backing of the ELs have catapulted rigorous growth in the higher education sector in India. In the year 1990-91 there were 190 universities and 7,346 colleges. These grew to 611 universities and 31,324 colleges as of August 2011. During the same period the student enrolment grew from 4.9m to 16.9m in the universities and colleges. The Gross Enrolment Ratio has risen from 11% in 2005 to 13.8% in 2011 in India.

The potential market for higher education is calculated as a percentage of the population in the age group of 15-24 years in a country. Accordingly, the estimated eligible enrolment potential for 2011 is 8.27m(UK), 33.63m(Brazil), 43.62m(US), 224.08m(China) and 233.98m(India).[5]

The national target of higher education enrolment in India is fixed as 30% in 2020. To achieve this objective the present capacity of 14.6m should be raised to 40m rendering an additional seat of 25.4m.

The share of private unaided institutions operating in higher education increased from 43% in 2001 to 63% in 2006 and the enrolment in the same institutions grew from 33% to 53%.

To raise the capacity from the present 14.6m seats to 40m seats by 2020, India needs an additional investment of INR 10,000bn and assuming that private sector participation will continue to be 53per cent (53% in 2006 mentioned as above) investment of the private players will be INR 5300bn. That is on an average of INR 530bn per year.[5]

Official statistics available for the state of Kerala in India(table 3) show that the active borrowers were 265,573, 312,894 and 350,574 respectively during 2009, 2010 and 2011. The Corresponding EL outstanding remained INR 45970m, 58330m and 70360m respectively. During this period there has been substantial growth in the NPA. The accounts in default of interest and principal rose from 6803 to 24,858 during this period and the amount of default vaulted to INR 4470m from INR 1340m.[20]

## 6. Suggestions and Conclusion

The ELs are universal. No country can desist from imparting it to the needy. It supplements budgetary allocation for education, provides growth, employment and fulfils the budgeted targets of rise in Gross Enrolment Ratio (GER). However, spiraling arrears or NPAs have also to be addressed. Since the ELs are included in the priority sector loans the interest rates should be brought down to

the least minimum. Eligibility for the ELs should be processed by Government machinery. Borrowers should be encouraged to refund the loans without limit of any time. Borrowers can be tracked down using the Unique Identification Number of AADHAR card for repayment defaults or for elongation of repayment period for the period of loss of job or salary cut. Scheduled Caste/Scheduled Tribe and other Socially and Economically Backward Students should be provided educational loans without any rating of the students or institutions as suggested by the IBA last year. Borrowers should be forewarned about the employability of the course by the Government or loan sanctioning authority The Credit Guarantee Fund proposed for take over of the NPAs of the banks belonging to ELs upto Rs.4 lakhs as they are issued only at the personal security of the borrower should be constituted at the earliest. The Central and State Governments, the corporates, foreign entities, NRIs and the NGOs can contribute to its corpus.

## 7. Scope for Further Research

Each country is at different stage of economic development. Planning and political will to implement the programmes are the same for development of higher education also.

The targeted objective for India is 30 per cent GER by 2020. The required investment is INR 10,000bn. If implemented about 40m graduates/diploma holders will emerge annually from 2020 onwards from India. Could the world absorb them? Or will

India be able to accommodate them all in the domestic employment? What measures are needed to regulate the private players in the education field? How can we minimize the NPA problem? All these questions need careful consideration.

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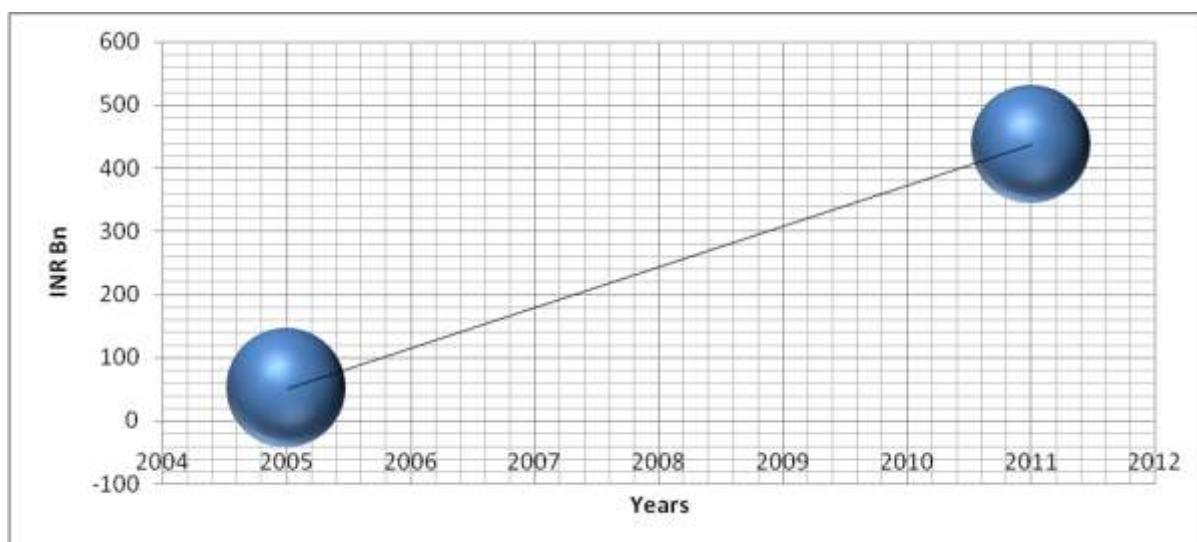


**Table 1 :component analysis of personal loans of scheduled banks outstanding as on 31st of march 2005 -2011 (inr billions)**

Components/year	2005	2006	2007	2008	2009	2010	2011
Consumer Durables	91	88	92	88	82	83	102
Housing Loans	1287	1864	2310	2578	2770	3009	3461
Advances Against F.D.	299	349	408	450	487	487	605
Advances Against Share, Bond	41	51	49	42	23	29	36
Credit Card Outstandings	58	92	183	264	280	202	181
Education	51	101	152	205	286	369	437
Vehicle Loans	0	0	0	0	0	638	793
Other Personal Loans	624	993	1334	1507	1698	1041	1239
<b>Total Personal Loans</b>	<b>2451</b>	<b>3538</b>	<b>4528</b>	<b>5134</b>	<b>5625</b>	<b>5856</b>	<b>6854</b>

(Source: Compiled from Reserve Bank of India (RBI), *Report on the Trends and Progress of Banking in India –for FY 2005 to FY 2009, Sectoral Deployment of Gross Bank Credit*)

**Graph 1: Graph Showing the growth in Educational Loans from 2005 – 2011in India**



(Source: Compiled from Reserve Bank of India (RBI), *Report on the Trends and Progress of Banking in India –for FY 2005 to FY 2009, Sectoral Deployment of Gross Bank Credit*)

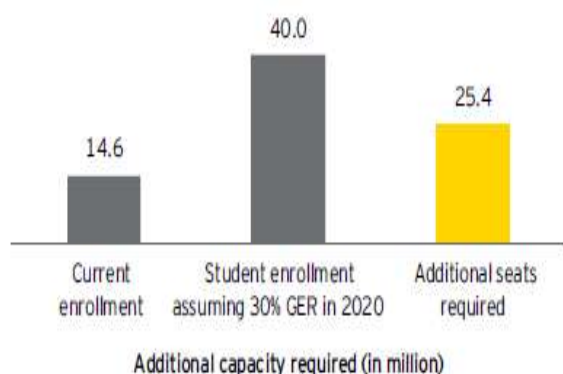
**Table 2: Growth of the higher education sector in India from 2001 to 2010**

Year	No. of colleges	No of Universities	No. of student enrolments	Education Loans in INR Bn
2001	12806	256	8,399,000	51.19(Year 2005)
2010	33023	564	16,974,000	437.1
CAGR	9.94%	8.22%	7.29%	42.96%

(Source: Compiled from University Grants Commission (UGC), *Statistics in Indian Higher Education as of March 21, 2012*, New Delhi, India)

**Graph II: No. of Students to be enrolled to achieve targeted GER of 30% in 2020**

**Insufficient infrastructure to meet the growing demand**



- ▶ If India is to meet its 30% GER target by 2020, about 40 million students would be enrolled in the higher education system in 2020
- ▶ Currently, 14.6 million students are enrolled in the higher education sector
- ▶ Therefore, an additional capacity of about 25 million seats would be required over the next decade to cater to the increased demand

(Source: Private Sector Participation in Higher Education: Higher Education Summit 2011- Ernst & Young)

**Table 3 :Year On Year Growth Of Educational Loans And Non Performing Assets For Kerala State For The Years Ending December 2009,2010 And 2011**

Year	No.	Amount INR m	Year on Year Growth %	No.	Amount INR m	Year on Year Growth %
2009	265573	45970	..	6803	1340	..
2010	312894	58330	26.88	7860	2280	70.15
2011	350574	70360	20.62	24858	4470	96.05

(Source: compiled from SLBC, Kerala reports, Performance under Educational loans of December 2009, 2010 and 2011)