

FINANCING UNIVERSITIES IN INDIA.

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Abstract:

Universities in India heavily rely on government funding. Due to the enormous increase in the number of universities, the government is consistently asking universities to be self-sufficient in funds. Financing universities is largely a state-funded activity with about three-quarters of the total expenditure being borne by the government. The universities in India have not been able to generate enough funds to fully fill their requirements. The present paper presents a critical review of some of the crucial aspects of university finances in India including the major fund providing agencies and their role in financing universities.

Key words: University finance, financial management, UGC, universities, Higher Education.

Introduction:

Independent India witnessed rapid expansion of education in terms of enrolments and students, number of institutions and teachers. It was indeed an “educational explosion”. The educational explosion that has taken place in India during the post-independence period in terms of number of students, schools, colleges and teachers, is also reflected in the growth of public expenditure on education. In fact the growth in public expenditure on education could be regarded as one important factor that contributed to educational explosion. (B. G. Tilak 2003).

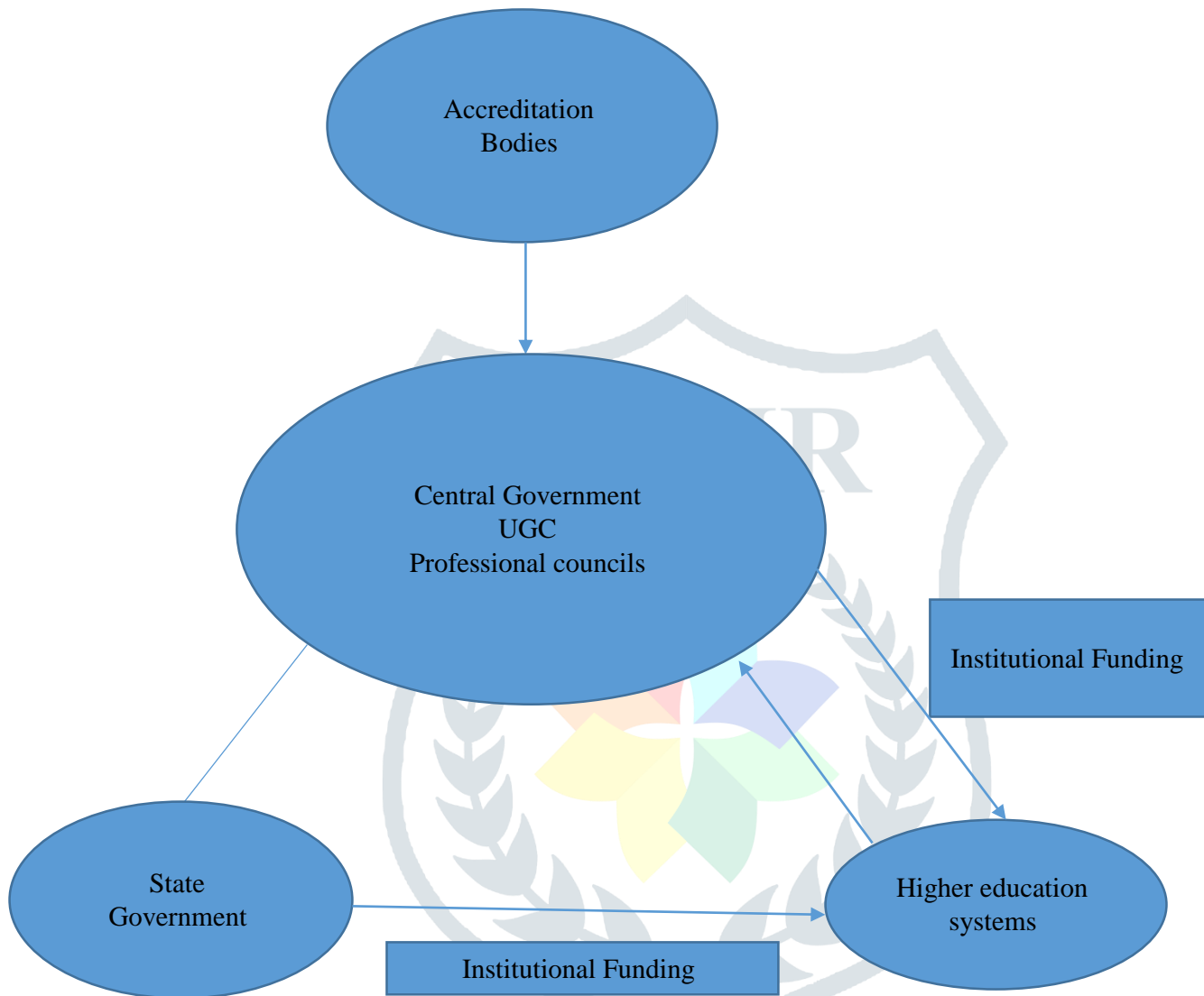
The funding of universities is a multi-faceted issue. The level, composition and mechanisms of funding are part of a broader spectrum of governance arrangements that work towards helping the higher education sector to achieve its three traditional goals of improving access, enhancing quality, and encouraging efficiency. (Kogan et al, 2006).

University finance at the start of the second decade of 21st century has special salience due to the worldwide economic downturn that began in the United States in 2008 and that has caused the deepest recession since the Great Depression of the 1930s. Due to which revenues in most states remain severely strained. As current operating budgets the public colleges and universities are dependent on state budgets for 60 to 70% of instructional costs from states and parents and students is meeting economic as well as political resistance, public institutions of higher education are experiencing financial strains unprecedented since before second world war. (D. Bruce Johnstone).

As the public budgets squeeze the need for reforms in financing higher education becomes crucial. The structural adjustment and stabilization of policies further emphasize the need for reforms. (B. G. Tilak 1993).

Obtaining finance is one of the key challenges facing higher educational institutions over the globe. Due to the recent infamous financial crisis and economic recession, the problem escalated at the HEIs as the whole sector is experiencing further difficulties in accessing funding opportunities as well as finding financing options. (Moladovamet al. 2012).

Relationship between different stakeholders of Indian higher education system.



Source: Bhownaik. A Need for application of ethical practices in the financial management of academic institutions.

The higher education in India is now adjusting with series of structural changes influenced by paradigm shifts an attitudes and other variables of within and outside the university system. The main function of financial management is to ensure liquidity to fund the requirements of the change. But with inflation in one hand and the resource crunch in other, the financial administration face a tough time getting stuck in between deficit budget and a lot of mouths to feed with. The financial governance is thus facing toughest challenges due to these changes in requirements of the university system which calls for serious attention. To make best use of scarce financial resources, effective financial control measures must be ensured updating management accounting and information and communication techniques keeping pace with the changing requirements of time.

Almost all universities in the country, whether central or state, affiliating or non-affiliating , old or new, general or professional, all have been in financial crisis of various degrees, for quite some time and it is increasingly believed that the crisis will continue unabated for some time in near future. The resources being poured into the university system has been increasing at a faster rate, faster than the general economic indicators. But at the same time, the requirements has been increasing at much faster rate, widening the gap between the two continuously.(UEC 1949).

There is a worldwide trend in increasing university costs, which requires universities to diversify their source of revenue, as they can depend less on government grants. The increase in costs can be attributed to the inelastic demand for education, higher faculty costs, and increasing per student spending to excel academic university ranking. (ADB 2012).

Public expenditure (Centre and States) on education is only around 3.6% of GDP. Government funding of higher education is still below 1% of GDP. The percentage expenditure on University and Higher Education to GDP, which was 0.77% in 1990 to 1991 showed a gradual decrease to 0.66% in 2004 to 2005. Various committees have unanimously recommended that state funding should be increased to 6%. While the Central Advisory Board for Education (CABE) recommends spending 1% for higher education and 0.5% for technical education, the proportions in 2004 to 2005 are 0.34% for higher education and 0.03% for technical education. India also has one of the lowest public expenditure on higher education per student at 406 US Dollars (K. Karena & D. Manoj, 2011)

Universities in India: A macro view

At the time of independence of India, there were only 20 universities and 500 colleges in the country with 2.1 lakh students in higher education. The number now have increased 47.9 times in the case of degree awarding universities, 82.02 times in case of colleges and student enrollment has gone up to over 174.49 times in the system of higher education in comparison to the figures at the time of independence.

As on 31st December, 2018 the number of universities has gone up to 851 universities listed by UGC (47 central, 383 state public, 295 state private, 123 deemed universities, 3 institutions established under state legislation and 41012 colleges (AISHE report 2017-18) in the higher education sector.

Table 1. Growth of university education in India:

Year	No. of universities	Year	No. of universities
1950-51	27	2001-02	304
1955-56	31	2002-03	304
1960-61	45	2003-04	364
1965-66	64	2004-05	372
1970-71	82	2005-06	378
1975-76	101	2006-07	371
1980-81	110	2007-08	406
1985-86	126	2008-09	440
1990-91	184	2009-10	601
1991-92	196	2010-11	621
1992-93	207	2011-12	642
1993-94	213	2012-13	667
1994-95	219	2013-14	723
1995-96	226	2014-15	760
1996-97	228	2015-16	799
1997-98	229	2016-17	834
1998-99	237	2017-18	872
1999-00	244		
2000-01	272		

Source: Educational statistics of various years.

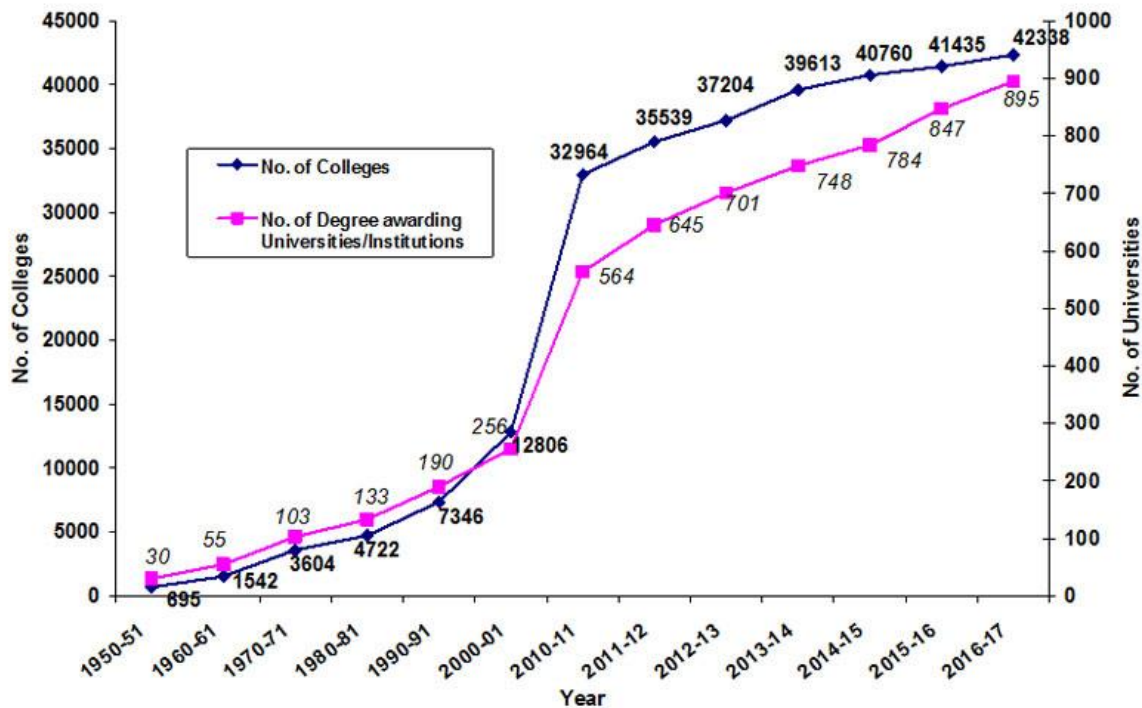


Figure 2. Growth of higher education institutions



Figure 3. Growth of student enrollment ('000') in higher education.

Looking at the growth of higher education in the country, it is clear that the nature of expansion in the post-1980 era has been noticeably different from the previous period. The growth has been primarily in the private unaided institutions with an occupational focus. The issue of enrolment expansion should be seen in the light of the occupational structure of the Indian economy. In that context, there appears to be no merit in enrolment expansion. The issue of skill shortages should be seen more as an issue of quality and mismatch, because the enrolment growth over the last two decades has been primarily in institutions set up through private initiatives. The growth

has been slow but it has been able to meet actual unmet demand. It appears more sustainable than the Chinese way of enrolment growth that disregards developments in the labour market.

The quality higher education sector remains small, but the competition spurred by tough entry requirements into these institutions is raising the standards of a large population with positive outcomes.

The role of the government in funding higher education is now marginal. With some exceptions, higher education is more expensive than before and is often out of the reach of the poor. Low fee levels in some of the high-quality public institutions with stiff entry requirements result in a perverse subsidy for the rich.

While private higher education has now come to occupy centre stage, it has not been able to gain public confidence. This has been largely due to the weak regulatory mechanism and the inconsequential accreditation system. These are still driven by the old mindset when higher education was largely public funded and the concerns were very different. Over the years public policy on higher education has been driven in different directions. A well-thought out strategy is not apparent. Higher education has continued to grow in a chaotic and unplanned manner. Although additional capacities have been created and course offerings are now more aligned to the job markets, it has thrown up new challenges of quality and equity. The issue of exploitation and corruption in Indian higher education has reached menacing proportions (Agarwal, 2006).

Sources of the finances of the universities in India

The sources of income of the universities can be divided into variety of ways. Generally, income is classified as follows.

- a) Grants: state government grant, federal government (UGC) grants
- b) Student contributions: fees
- c) Internal resources: auxiliary services, e.g. hostels, press, computers etc.
- d) Other sources: endowments, donations, etc.

The above categories are also often clubbed into two groups, viz. government sources and internal sources. While *a* above forms government sources, *b*, *c* and *d* together form internal or non-government sources. The government is an important source of income for the universities in India. There are indeed few private universities. As the development of universities in India is a joint responsibility of state (provincial) and federal governments, the grants received by the universities comprise state government grants and federal government grants. For the central universities, the government sources consists of only federal grants. The federal grants to the state or central universities flow largely through the UGC. Therefore, the state government and the UGC can be listed as two important sources of revenue for the state universities. The third major source is university's own funds. However, they comprise of students contributions such as fees, (including tuition fee, examination fees, registration fees, etc) which is also sometimes listed, and income from auxiliary services like hostels, press and publications, buildings etc. Lastly, universities may also mobilize resources from private individuals or organizations in the form of donations and endowments. Of all, grants constitute the largest item of finances for the university; and state grants are bulkier in size than the federal grants.

Kind of Grants Available

There are two kinds of grants for universities, institutions deemed to be universities and colleges, they are:

- Development (Plan) Grants
- Maintenance (Non-Plan) Grants

Central universities and colleges affiliated to them and institutions deemed to be university receive both the plan and non-plan grants. However, the state universities and their affiliated colleges receive only plan grants.

The objective of providing Plan assistance is not only to improve the infrastructure and basic facilities in the universities so as to achieve at least the threshold level but also to develop excellence in those who are already ahead. These are not intended to supplement the requirements under maintenance grant.

The UGC provides Non-Plan assistance to universities to meet the recurring expenditure on salaries of non-teaching and teaching staff and for maintenance of laboratories, libraries, buildings, as also for obligatory payments such as taxes, telephone bills, electricity and other purposes. Development assistance is utilised for consolidation of existing infrastructure and for modernizing teaching, research and administration and to meet the changing demands of the society.

Plan and Non-plan expenditure on University and Higher Education by Education Department (Revenue Account) with percentage.
(Rs.in crore)

Year	Plan Expenditure	Plan %age share	Non-Plan Expenditure	Non-Plan %age Share	Total Expenditure	Total %age Share
2009-10	7226.59	12.54	17605.35	12.85	24831.94	12.76
2010-11	8384.75	12.38	20403.43	12.97	28788.18	12.79
2012-13	11117.33	10.15	31387.28	14.65	42504.61	13.12
2013-14	11668.58	9.29	35791.94	14.89	47460.52	12.97
2014-15	13459.06	9.68	37653.93	14.18	51112.99	12.63
2015-16	15484.73	11.08	40178.12	13.69	55662.85	12.84

Source: MHRD

Expenditure on universities

Expenditure on universities is made up of expenditure on activities directly related to academic work as well as expenditure on administration and municipal services like housing, road, water, electricity, sanitation, health etc. In this context, expenditure is classified in variety of ways. Essentially, the whole expenditure can be classified into recurring and non-recurring. Recurring expenditure includes (a) expenditure on academic activities, viz., teaching, research, library, publications, etc. (b) general services like administration, examinations and hostels, (c) student and staff welfare activities and (d) others. Non-recurring expenditure includes expenditure on buildings, equipment and others. When non-academic expenditure exceeds or equals the academic expenditure in a university, can the total expenditure on universities be called expenditure on university 'education?' An important point to be noted is that the expenditure on non-academic activities not only exceeds that on academic activities but during the last few years the gap has widened, with the expenditure on non-academic increasing at a fast rate. Further, one can not only deduce a law of increasing university expenditures, but also note that the "university expenditures increase in spurts, hence there is a displacement effect. The expenditure on administration and unallocable items have a tendency to grow faster than total expenditure of the university" (Panhamukhi, 1977: 231).

Management of University Finances

Several limitations of university budgets, as prepared currently, are sufficiently well noted. For instance, Nigam (1974) argues that conventional budget estimates do not help in understanding its revenue-expenditure pattern from the point of view of economics of education. The frame of the university budget is fairly detailed and comprehensive: but it does not incorporate a budget analysis nor the essential aspects of educational finance. The budgets do not show at a glance some important details such as total income and expenditure under heads like academic, non-academic, educational, non-educational, etc.

Classification of budget accounts should be so arranged (i) to facilitate programme formulation, (ii) to contribute to effective budget execution, and (iii) to secure accountability. For this purpose one can choose (a) economic classification, or (b) functional classification, or (c) economic-cum-functional classification, or (d) performance approach as adopted in various central European countries. Economic classification of the budget clearly brings out the magnitude of expenditure on economically significant categories such as (i) consumption expenditure (e.g. salaries of teachers), (ii) expenditure on capital formation (e.g. expenditure on buildings), (iii) transfer payments, and (iv) miscellaneous expenditure. This has been rarely used in any analysis of university budgets. On the other hand, functional classification of the budget emphasizes the functions that expenditures are intended to perform or the purposes which refer to the type of services provided: and facilitates programme formulation and its review. Under such system, different items of expenditure are grouped in terms of broad purposes they serve. The classification may include (i) general services (ii) academic services (iii) auxiliary services, and (iv) welfare services. Most of the expenditure on administration goes to the category of academic services: expenditure on press, hostels, etc. forms an important item of expenditure on auxiliary services, and the expenditure on scholarships, etc. may form welfare expenditure.

Basically there is a need for a standard format for the preparation of budgets and maintenance of accounts. There is a need for precise balance sheets, rather than mere income-expenditure statements because the latter does not give a complete idea of financial strength of a particular institution. It is necessary to have an idea of overall assets and liabilities. In short lack of delegation of financial powers is widely felt. A proper delegation is absolutely essential to gear up efficiency in financial management, besides creating a sense of belonging and of pride together with a determination to work hard and sincerely.

Conclusion

As the public budgets squeeze, the need for reforms in financing higher education becomes crucial. The structural adjustment and stabilization of policies further emphasize the need for reforms. Higher education will continue to be costly, and the combination of increasing per-student costs and surging enrolments will drive the costs and revenue needs of higher educational institutions up at rates will in excess of the prevailing rates of inflation. The need for such continually increasing levels of public resources, combined with the commensurate rapid growth in the need for competing public expenditures, will increase the need in almost all countries for non-governmental revenues to support the costs of instruction in public colleges and universities. The excessive reliance of the universities in India on the state or federal grants speaks about the lack of financial autonomy the universities suffer from. The growth in the revenue of the university from any single source or all sources, has no relationship with variations in enrollments, size of academic faculty, etc. Neither the grants policy nor the pricing policy of universities has any built-in flexibility to take care of increase in enrollments and corresponding increase in the needs of the universities. Thus, the most of the universities in India are financially in unsound position, if not in financial crisis, due to (a) inadequate resources, and (b) improper financial planning and management both at macro as well as university levels.

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