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Role of nationalized banks in financing educational loan for expansion of professional and technical education in the state of Bihar since 2001

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Abstract

This study is focused on the role of nationalized banks in financing education loan for expansion of professional and technical education in the state of Bihar since 2001. In this type of funding, the loan is made to a student to fulfil the borrower's educational commitments. It is a long-term loan and the payments are deferred till the time the education is completed and for a period of 6-months after that or when the borrower finds a job, whichever is earlier. The interest rate charged is higher in these type of loans as compared to others due to high risk of repayment inherent in it and the reduced borrower's repayment capacity. Education loan forms the major part of NPAs of banks in India. The Government of India had announced a Rs 2500 crore moratorium on education loans in the last budget. Education loans have become a major source of funding education expenses due to rising expenses and higher cost of living. The loan amount is not transferred to the borrower rather the payment is made directly in the educational institution's account by the bank to remove the element of fraud in the lending process. Despite all this, one may still encounter shortage of funds. An education loan, therefore, plays a vital role in such a scenario by helping to bridge the gap between the shortfall and the required amount.

Keywords: Bihar, educational loan, Indian banking sector, professional education, technical education

Introduction

Education is the process of instruction aimed at the all-round development of individuals, providing with necessary tools to participate in day to day activities of the world. It dispels ignorance and boosts moral values in the individuals. It forms the basis for lifelong learning and inspires confidence to face challenges; besides providing skills to become more self-reliant and increases awareness. Education not only impacts the human development and economic growth but is the fundamental requirement of democracy. Through education, people become more responsible and informed citizens, and can voice their concerns and issues in political system of their society. It is an essential element for democracy and eradicating poverty. It also helps people in improving productivity, thus playing greater roles in economic life and earning a better livelihood for themselves and the society. Education is central to the Human Resources Development and empowerment in any country.

The success of any nation depends on the skill and competence of its human resources. National and State level policies are framed to ensure that this basic need of the population is met through appropriate public and private sector initiatives. While government endeavours to provide primary education to all on a universal basis, higher education is progressively moving into the domain of private sector. The cost of higher education too is growing fast. In the present day competitive scenario, where professional courses and education abroad are considered as the key to success, quality education has no longer remained within affordable limits of an average middle-class family. With a gradual reduction in

government subsidies higher education is getting more and more costly and hence the need for educational funding. The scope of education has widened both in India and abroad covering new courses in diversified areas. Development of human capital is a national priority and it should be the endeavour of all that no deserving student is denied opportunity to pursue higher education for want of financial support. Loans for education should be seen as an investment for economic development and prosperity. Knowledge and information would be the driving force for economic growth in the coming years.

With this perspective, the present research work attempts to examine financing of higher education in India during the previous decades by looking at different sources of funds for higher education, highlighting the changes therein in terms of the hike in student fees, introduction of educational loans operated by commercial banks and rapidly increasing role of private sector and self-financing courses within higher professional and technical educational institutions. Objectives of the study

Objectives of the study

- The prime objective of this study is to explore the aims and objectives of nationalized bank in financing educational loan for expansion of professional and technical education in the state of Bihar.
- An important objective of this study is to highlight the dimensions of professional and technical education in Bihar.
- It also underlines the process of development of

professional and technical education in India.

- The central point of this study to analyze the performance of bank assistance in professional and technical education in India.
- The study also presents the present status of education loan for professional and technical education in the state of Bihar.
- In this study, an attempt has been made to analyze the government policy towards educational loan in Bihar.

Results and Discussion

The Indian Banking system has witnessed many positive developments during the last decades. The changing policy and regulation in Banking sector has led to all improvements in the growth, asset quality and profitability to banks too, so that they now can be compared very favourably with other banks in the various regions of the country. The Indian banking system has managed to successfully sail through financial assistance witnessed by the global economy on the back of sound policies in apex banks and fiscal stimulus packages implemented by the country. In this context the main hypothesis of this project is that the nationalized bank can change the fortune of the student admitted in technical and professional institutions by providing a loan to them.

India is emerging fast as an important global power. The economy has opened up. Economic liberalisation has brought in the latest technology for industrial development. Agricultural technologies are also changing rapidly with increased productivity. Exports are going up. We are also facing throat-cut international competition in many other areas. While this is an encouraging tendency, yet the country is witnessing many disturbing trends in the political and social systems. In order to cope with the problems of rapid economic developments on the one hand and the political and social programme of the present and future on the other, our educational programmes need tremendous adjustments and adaptations to prepare the younger generations to face the challenges confronting them. Education is the only means which eradicates all the darkness in life and puts the human to become a skilled and civilized citizen.

The main purpose and need of the study of this research project is to examine, evaluate and analyze the role of nationalized bank in financing educational loans for the development of professional and technical education in Bihar since 2001.

Technical and Professional education has become very expensive in India. Varied fee structures are followed by different educational institutions. Moreover, the expenditure on non-fee components of education has been increasing at a much faster rate. Poor accessibility of higher education to a sizable section of the Indian society has become a serious issue. In view of this trend, a proper student aid policy needs to be formulated. A large section of students may get an opportunity for education in private and government colleges if a liberal loan facility is available to the persons being included in the under-privileged students' category. In this context, it is important to enhance the use of educational loans within an appropriate framework of inclusiveness, as a non-government source of finance. With a gradual reduction in

government subsidies higher education is getting more and more costly and hence the need for institutional funding in this area.

The present study reveals that

- The educational loans paved the way for pursuing professional and job-oriented courses offered at the self-financing colleges and Universities to deserving students.
- Access to loans is guided more by the ability to repay (measured in terms of mortgages, security and collateral arrangements for repayment) than either by educational merit or by economic need of the students.
- Educational loans are more or less beyond the reach of those who are actually in need of funds to meet the high expenses of quality education.
- Many higher education aspirants could not get loans sanctioned due to their failure to bring a provisional receipt of fee from the institution while the institutions maintain that there is no such thing as a provisional receipt.
- Expenditure per pupil has increased by several times in the post-independence period.
- Lack of quality education in India is forcing its meritorious students to go and study abroad for their higher studies.
- Government of India should take numerous steps to improve its education quality and make sure that all those qualities of abroad universities should be developed here only so that the meritorious students of our country study in India only.
- The huge amount of money which one spends abroad due to lack of quality education in India does not give the guarantee of fair return of their investment as economic downturn is taking place time after time. Feeble rupee value is now another cause. Try to improve the dilapidated condition of government institutions' infrastructures first.
- It can be concluded that a student pursuing higher, postgraduate professional courses is more likely to get an education loan than a student pursuing undergraduate courses. Similarly, students seeking admission in unapproved institutions have less chance of getting an education loan. Banks do not seem to be discriminating too much between a student with prior work experience and a fresher.
- The study reveals that the default rate on education loans is a perennial problem; especially, when the students leave the country for pursuing higher studies abroad, the risk of default increases further. Here, the student's annual family income plays an important role in determining, whether he is extended an education loan or not. In such cases either of the parents is made the co-borrower, thus drastically reducing the chances of default.
- Private Banks do not prefer giving education loans. Interest rate on these loans is very low, even lower than the prime lending rates. Low lending rates coupled with higher risks of default does not make it a sound business model; hence the reluctance. However, the government is bound by political agenda to increase expenditure on the education sector and promote higher education. Hence,

the public-sector banks being under the control of government do not have an option, but to extend loans to students.

- It can be concluded that a student is more likely to get education loan if he /she approaches a public-sector bank. Additionally, if the student has a higher family income and plans to pursue postgraduate professional study from a government owned / approved institution the chances of getting educational loan is phenomenally higher.
- It can be concluded that a student pursuing postgraduate professional courses is more likely to get education loan than a student pursuing undergraduate course.
- Given the world experience on student schemes, the new scheme in India is insensitive to the needs of the poor and does not concern equity aspects as there are no special provisions of any kind for the weaker sections.
- Private unaided institutions have become an important source of finance for higher education and dominate the segments of technical and professional education.
- Availability of educational loan is a necessity to ensure supply of skilled manpower for the economic progress of the country and to improve wealth distribution.
- The privatization of higher education and poor budgetary support further increases the importance of educational loans for the country.
- The boom in the banking sector has led to release of large amount of funds for education loans.
- Under the priority sector advances, Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakhs for studies in India and Rs. 20 lakhs for studies abroad, and do not include those granted to institutions.
- Securing education loan in India may sound easy, but is full of obstacles, and formalities.
- Public support for higher education remains essential to ensure a balanced achievement of educational and social missions, apart from surviving in the knowledge-based society.
- Educational loans are really a blessing to those students who do not have the fund to continue their higher studies. But it does come with certain disadvantages as well. Students, just end up taking a loan as they are eager to learn but finally when they are about to finish their course, the actual headache starts. They have to immediately find a job in-order to return the amount back to the bank. If they fail to return the installment amount in time, the bank will start to put utter pressure on them. This will make the situation worse.
- Another point to be noted is that, the student has to pay interest on the loan amount even during his studies. Therefore, he has to find the funds for that as well. Sometimes due to lack of money he will borrow money to pay the interest to the bank. Later he will have to pay those borrowings along with the money for the bank. This will be a burden to someone who has just started their career life.
- The present cost of higher education is burdensome to the households; the positive returns of quality education still

encourage them to pay more additionally.

- The Educational Loan Scheme is run purely on commercial basis.
- There is no provision for softer loans for the needy groups.
- The terms and conditions concerning collateral security are very stringent.
- Many people have misused Educational Loan Scheme as a vehicle to go abroad.
- The clause of provisional receipt of admission to higher education institution without depositing the requisite course fee.
- There is no link between the institute of study and the bank which advances educational loan as far as annual academic performance of student is concerned.

Conclusion

There has been increasing recognition in all parts of the world including India and in Bihar of the need to have adequate access at affordable cost to good quality higher education for all eligible members of the society. It is revealed that universal higher education of high quality requires mindboggling resources. Higher education in India, like in many other developing countries, has not been inclusive of poorer sections of society especially from the rural areas. It is a matter of concern that the problem of finance is a major constraint for a significant section of students to pursue higher education. Among the major countries, India has one of the lowest proportions of young persons in the relevant age group who pursue higher education. Recent studies indicate the need for non-government sources of funds for higher education. In this context, there is an urgent need for enhanced use of education loan to augment resources for higher education within an appropriate framework of inclusiveness.

The trend of financing higher education through education loan has spread far and wide in different parts of the developed world, while developing and underdeveloped nations have taken certain initiatives towards it. The recent trend clearly shows that higher education cannot be entirely funded from government funds and, so, developing countries are compelled to make education loan an alternate source of financing higher education. While grants and scholarships remain the two main sources of financing higher education, education loan has not been successful in attracting the attention of stakeholders as an alternate source of financing higher education in the developing and underdeveloped countries. The educational system in India, a prominent developing country, especially in Bihar is predominantly a state-funded and state-controlled activity. Given the financial constraints of various Indian states, it has become difficult to meet the ever-increasing financial needs of an expanding education system. The higher education system in India is the third largest after the United States and China. Without any doubt the Indian higher education system has been growing rapidly, covering all the major disciplines, and to a great extent, meeting the manpower requirements of India. It covers arts and science colleges, medical and engineering colleges, agricultural, pharmacy and management schools. However, it is a matter of serious concern that the Indian higher

educational system cannot meet the growing demand.

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