

Essay No. 22. August 25, 2021

**ALTERNATIVE STRATEGIES FOR
FINANCING HIGHER EDUCATION
INSTITUTION GROWTH FOR REALISING
NATIONAL EDUCATION POLICY-2020**

R K MISHRA



**ASSOCIATION OF INDIAN UNIVERSITIES
NEW DELHI (INDIA)**

Scholarly Essay from the Book, '**National Education Policy–2020: Transforming Higher Education in India**', Editors: Pankaj Mittal and Sistla Rama Devi Pani, Publisher: Association of Indian Universities, New Delhi (India), 2021. ISBN No. 81-7520-162-2

PROFILE OF THE AUTHOR

R K MISHRA

R K Mishra is the Director, Institute of Public Enterprise. Earlier, he served as Professor, University of Rajasthan; Faculty, London Business School, SDA Bocconi; University of Bradford and International Center for Promotion of Enterprises. He is a visiting Professor at Maison des Sciences de l'Homme Paris; Faculty of Economics, University of Ljubljana; and UITM, Malaysia. Handled assignments from UNDESA; OECD; ADB; Cabinet Secretariat, Government of India; Commonwealth Secretariat; various Ministries of Government of India; State Governments and Public Enterprises. He is the Board Member of many public and private sector enterprises. His areas of interest include Corporate Social Responsibility, Corporate Governance, Enterprise Management, and Public Policy.

ALTERNATIVE STRATEGIES FOR FINANCING HIGHER EDUCATION INSTITUTION GROWTH FOR REALISING NATIONAL EDUCATION POLICY-2020

R K Mishra

The spending on higher education is too small and needs to be boosted to far higher levels to meet the NEP 2020 mandate. Successful implementation of National Education Policy-2020 (NEP), among other things, would depend on the resources to finance it. The NEP-2020 envisions significant increase in public investment in education, going up from the current 10 per cent of overall public expenditure in education to 20 per cent over a 10-year period. It is the skilled manpower graduating from HEIs who matter to the country as they have to lead various sectors of economy, polity and society. There has been a continuous decline in funds allotted to these institutions. Given this limitation, the only way to remedy the problem is to diversify the HEI resource mix. HEIs should gradually and consistently reduce their dependence on tuition fees in addition to public funding and look for funding from known non-tuition fees sources. Among the suggested sources for additional funding are: private philanthropy; competitive bidding from the proposed National Research Foundation; corporate social responsibility allocations; and contribution of alumni and local communities.

PRELUDE

Successful implementation of National Education Policy-2020 (NEP-2020), among other things, would depend on the resources to finance it. The NEP-2020 has a grand vision to address each and every aspect of education. Success of this policy calls for a large additional budget allocation and anticipates it to come significantly

through public funding. Such an approach is short of pragmatism especially when the resources at the government's disposal are facing strong limitations. At 10.9 per cent tax to Gross Domestic Product (GDP) ratio, the government faces significant challenges to garner resources. Being a 'soft state', it is difficult to push the tax GDP ratio any further. With the GDP shrinking currently in terms of volume due to the COVID-19 pandemic and with a modest rate of growth during the last few of years, deficit financing would only create severe economic problems. The non-tax revenue does not show much promise either as the departmental and the non-departmental enterprises are not doing well financially. The Foreign Direct Investment (FDI) flows have been characterised by volatility. To add to this, education is not considered a part of the overall scheme of investment in infrastructure. Given the above, the only way to meet the Higher Education Institution (HEI) investment are to diversify the 'resource mix' for education and also inculcate market orientation.

The purpose of this paper is to discuss the extent to which HEI resource requirements could be diversified and tap the market sources to shun dependence on the public funded education scenario.

The NEP-2020 notes that higher education significantly increases the earning power of an individual and thereby adds to the GDP. The Policy document records that per year of education yields a return on investment of around 6-12 per cent to individuals. This is true of higher education. Such a prospect would become a very attractive proposition for the market players to invest in higher education.

In our context, for all types of needs, the HEIs look for public funding. This is dealt with by the government through empowering them for higher fee collection. So much so that in India public universities mop up about 70-90 per cent of the financial requirements through tuition fees. Tuition fees for HEIs funding abroad is in the range of 25-30 per cent. This clearly brings out the need for HEIs to look to market.

The Policy envisions significant increase in public investment in education going up from the current 10 per cent of overall public expenditure in education to 20 per cent over a 10-year period; it

advocates for 1 per cent annual incremental increase till it reaches 20 per cent; and it estimates that the total additional expenditure required for higher education is 5.0 per cent of the current rates, and 0.4 per cent for research activities. Among the suggested sources for additional funding are: private philanthropy; competitive bidding from the proposed National Research Foundation; corporate social responsibility allocations; and contribution of alumni and local communities. However, we go beyond the sources suggested by the NEP-2020 and try to build a linkage between the market and HEIs.

IS 6 PER CENT OUTLAY OF GDP AN INSURMOUNTABLE CHALLENGE?

As per the NEP, our public expenditure on education was 2.7 per cent of the Gross Domestic Product (GDP) in 2017-18. The report notes that we have never attained 6 per cent of GDP allocation envisaged in the 1968 Policy, despite it getting reiterated in the Policy of 1986 and reaffirmed in the 1992 Programme of Action. The corresponding figures as per the report stood at 7.5 per cent for Bhutan, Zimbabwe and Sweden; 7 per cent for Costa Rica and Finland; 6 per cent for Kyrgyzstan, South Africa and Brazil; 5.5 per cent for UK, Netherlands and Palestine; and 5 per cent for Malaysia, Kenya, Mongolia, Korea & USA.

The moot question is how to bring India's level of expenditure somewhat near to these countries. One of the reasons for the shortfall is traditional approach of the educational sector's total dependence on the Government. The other reason is that expenditure on higher education has come to be considered as 'merit good/public good'¹. There is no denying the fact that the expenditure on education is a 'merit good/public good' but in contrast the Indian Financial System does not place it higher in the pecking order for resource allocation to the economy. It is, therefore essential that we take a 180 degree turn and look to new financial instruments. In other words, HEIs, its regulators, and the government as the super regulators have to think of establishing connect with the financial institutions and capital markets.

We would limit our discussion to capital markets in view of their depth, width, velocity, and integration with the global systems and technology adoption. For this, HEIs may have to think afresh, reorganise themselves and their legal status. To facilitate this transition, the stock exchanges, Security and Exchange Board of India, and the Department of Financial Services, Ministry of Finance, would have to treat this new ‘animal’ a little differently. A lot of thinking has to be done at the policy level for reorganising the HEI system at its various layers. Reorganisation and continuous adaptation are the immediate needs that require attention. Immense resources would be knocking at the door, provided suitable amendments are made in the laws governing FDI, taxation regime, and investment incentives.

It is high time that resource diversification is considered as the major plank for financing higher education in India. The Resource Diversification Matrix (Table 1) would show that there is considerable scope for widening the resource base for financing higher education.

Table-1 Resource Diversification Matrix¹¹

	Government (Taxpayers)	Students and/or parents	Industries Services	Alumni and other philanthropists	International Cooperation
1. Direct Institutional Contribution	X				
2. Indirect contributions via Financial Assistance and Subsidized Loans	X				
3. Tuition Fees					
3.1 Degree Programs		X			
3.2 Non-Degree Programs		X	X		
4. Student Loans and Graduate Taxes					
4.1. Subsidized	X	X	X		
4.2. Unsubsidized		X			
5. Productive Activities					
5.1 Services					
5.1.1 Consulting	X		X		X
5.1.2 Research	X		X		X
5.1.3 Laboratory Tests	X		X		
5.2 Production of Goods					
5.2.1 Agricultural Products			X		
5.2.2 Industrial Products			X		
5.3 Rental of Land and Facilities			X	X	
6. Donations					
6.1 Direct			X	X	X
6.2 Indirect (lottery)				X	

Source: D Bruse Johnstone, et. al., The Financing and Management of Higher Education: A Status Report on Worldwide Reforms, The World Bank, 1998, p 8

In fact, table 2 suggests the autonomy given to HEIs in some of the resource endowed countries almost two decades earlier.

Table-2 Extent of Autonomy Experienced by Universities

	Institutions are free to:							
	1 Own their buildings and equipment	2 Borrow funds	3 Spend budgets to achieve their objectives	4 Set academic structure/course content	5 Employ and dismiss academic staff ²	6 Set salaries ²	7 Decide size of student enrolment ³	8 Decide level of tuition fees
Mexico	●	›	●	●	●	›	●	●
Netherlands	●	●	●	›	●	●	●	›
Poland	●	●	●	●	●	›	●	›
Australia	●	›	●	●	●	●	›	›
Ireland	●	›	●	●	●	›	●	›
United Kingdom	●	›	●	●	●	●	›	›
Denmark	›	●	●	›	●	›	●	›
Sweden	›	›	●	●	●	●	›	›
Norway	›	›	●	●	●	›	●	›
Finland	›	›	●	›	●	●	›	›
Austria	›	›	●	●	●	●	›	›
Korea (national – public)			›	›		›	●	
Turkey					›			
Japan (national – public)				›	›			

Legend: Aspects in which institutions:

● have autonomy

› have autonomy in some respects

Source: OECD Education Policy Analysis (2003)

BONDS: A PROMISING RESOURCE FOR FINANCING HIGHER EDUCATION

Oxford University has recently revealed that it will raise £750m from its first bond issue – the biggest amount raised this way by a UK university. It is the most significant example so far of universities turning to the capital markets for investment, rather than student fees. It means borrowing to raise cash in the short-term and paying back in the long-term, with the funds often used for capital projects, such as new buildings, libraries, or overhauling facilities. The Moody's credit rating agency gave Oxford its highest Aaa rating, citing its 'extraordinary market position'. (<https://www.bbc.com/news/education-42201171>). This is only one recent example.

The suitability of bonds may be matched with the need and type of the institutions, its financial background, and its capacity to repay both the principal and the interest. There can be bullet payment bonds or clip and stitch bonds wherein the principal can be paid at the time of maturity and interest could be paid as and when it falls due.

Most of the HEIs would be well advised to enter the bond market in view of their large asset base. There is not a risk to HEIs and their stakeholders here since it would only be a step in the direction of monetising the assets. There are public universities, engineering institutions, and colleges with large chunks of land. These secured bonds can provide an effective solution to these institutions as also the investor since the rate of interest to be paid by the HEIs would be lower than the bank rates and return on gilts, whereas HEIs would only mortgage their idle land and infrastructure.

This makes a case for research in estimating the funds that could be raised through issuance of bonds. India has caught up with the US in terms of the volume of bonds issued as a percentage of GDP. In the US, this is about 18 per cent, whereas in India we are already close to 16 per cent. The different variants for bond financing are given in Box 1.

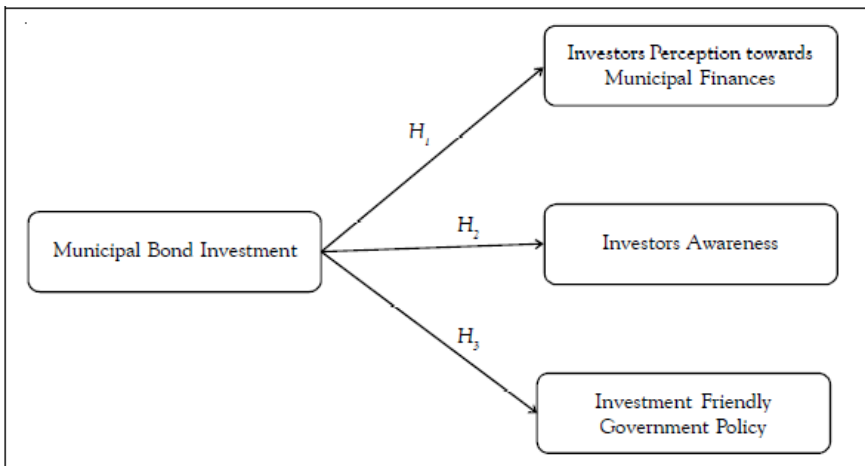
Box 1: Bond Variants for Higher Education Institution Financing

Bond Variants

- General Obligation Bonds
- Revenue Bonds
- R&D Bonds
- Green Bonds
- Social Impact Bonds
- Public Benefit Bonds
- Linked Deposit Programme
- Energy Efficiency Loans
- User Fees
- Municipal Bonds

Of the bond variants mentioned in the box-1, one which has been outsmarting the others, is the municipal bonds². Although at present this is in the nascent stage and nowhere near the US municipal bond market, it should be noted that 31 municipal corporations in India have floated such bonds raising about Rs. 3,390 crore. A good chunk of this has been invested by the municipal corporations in education. Metropolitan corporations can take a leaf out of this experience of issuing municipal bonds exclusively for investment in higher education (Figure 1). The metro cities in India would benefit with its inhabitants trained in HEIs in one or the other streams. To make municipal bonds a cash cow for HEIs, the investors' awareness, perception, and investment friendly government policies have to be attended to.

Fig 1: Municipal Bond Investment in HEIs

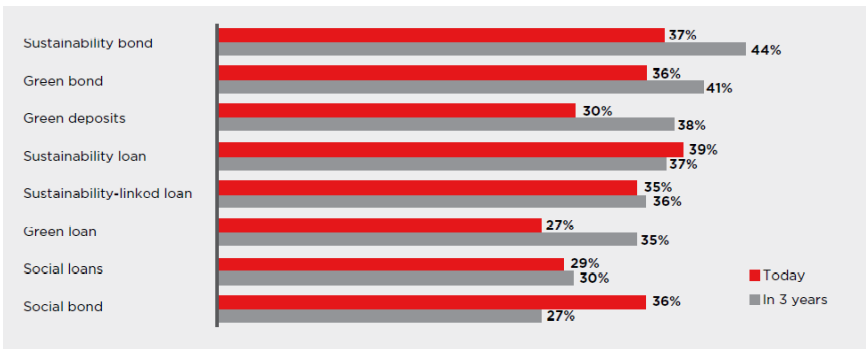


Source: RK Mishra, et al, Municipal Bonds as an Investment Option among Indian Investors, South Asian Journal of Management, Hyderabad; Volume 27: No.2 (April – June, 2020), p 148

Not all HEIs in India are oblivious of bond financing as a source for continuation, expansion, and creation of new benchmarks. XIME Bhubaneswar is an excellent example wherein a given loan was repaid just the next year as the proceeds realised from tuition fee were twice the amount of the money borrowed. Nonetheless, it is true that the HEIs have an attitude of risk aversion, not thinking out of the box, and being hell bent on following the traditional approaches.

In fact, investments in HEIs could also be considered an investment in sustainability. This has proved to be more than true in the case of Asia Pacific countries. These countries have taken it as a part of the Environment Sustainable and Governance (ESG) challenge. With that, not only have those investments made deep inroads in Asia Pacific countries, but they are also seen as the ones having a promising future. Investors in Asia Pacific countries have shown preference to investing in sustainable bonds, green bonds, green deposits, sustainability linked loans, social loans, and social bond (Figure 2).

Fig 2 Investors: Sustainable Finance Instruments Invested in to Date, and Planned Over the Next Three Years



Source: Intelligence Unit, The Economist 2020, Financing Sustainability: Asia Pacific embraces the ESG challenge, London, p 7

Looking to the future, we may expect the global investors to focus their attention on sustainability bonds. Hong Kong, New Zealand, Singapore, and Australia are leading in this aspect, followed by Japan.

India stands next to China in Foreign Direct Investment (FDI). We could become a more attractive destination by floating projects for financing HEIs. This would require cultivating the requisite financial skills, new managerial culture, and a determination to expand in size, as size matters ultimately.

EQUITY INVESTMENTS AND PUBLIC PRIVATE PARTNERSHIPS

Equity investments open a new door for HEI financing. There are enough cases of equity financing by global business schools in other countries. Equity investments can take care of infrastructure needs and campus development; such investments could ensure a high rate of return to investors. Some private universities in India have come up this way; even public universities could consider this option.

Public Private Partnerships

Public Private Partnerships (PPP) is yet another channel wherein the funds could flow from reverse sides. The management of these HEIs could also be on the same pattern. This is a bit different from the normally defined PPP approach, and has taken deep roots in OECD and European Union countries.

Tapping Industry for Financing Higher Education

Industry associations could be a potential instrument for HEI financing. Harvard and Stanford Business Schools, for instance, have endowments with a treasure chest of \$3.3 billion and \$ 1.4 billion, respectively. In India, the appreciation for this is on increase. Mahindra University at Hyderabad is a case in point.

Patents, Trademarks and Royalties

Foreign universities have been increasing their dependence on moneys received from patents and royalties. Each lab is vying with its competitors to be ahead in the race of generating new patents and trademarks. PCT provisions in TRIPS have come in handy for filing multi-country patents. Weizmann Institute in Israel, for instance, received NIS 8.5 billion (\$2.58 billion) in royalty for its IPRs in the past six years (<https://en.globes.co.il/en/article-weizmann-inst-reaps-nis-95b-pharma-royalties-in-6-years-1001214517>) Indian HEIs need to seriously think about the potential of this source for financing.

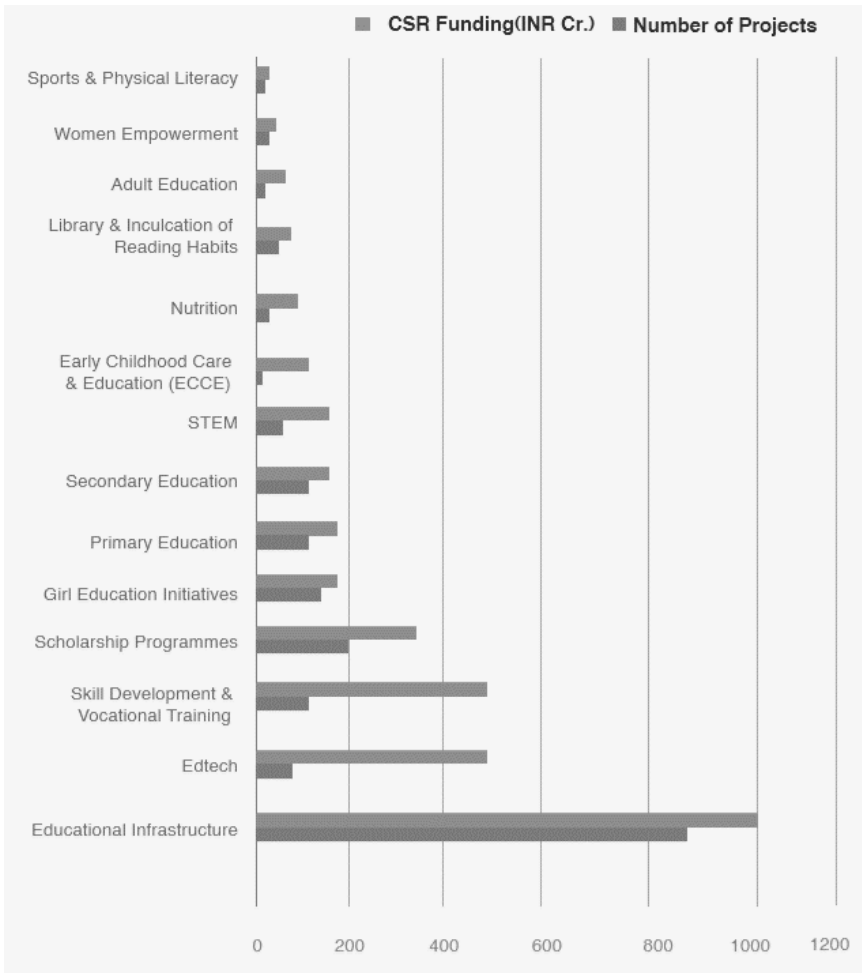
CORPORATE SOCIAL RESPONSIBILITY (CSR): AN EMERGING SOURCE OF FINANCE FOR HIGHER EDUCATION

Education enriches people's understanding of themselves and the world. It provides them with knowledge, scientific temperament and necessary life skills, while leading to holistic development of personality. It opens up multiple avenues for a meaningful and sustainable livelihood, providing opportunities to grow individually as well as contributing to the nation's growth. It is thus one of the most important social sectors which acts as the edifice of our developmental landscape³.

Corporate Social Responsibility (CSR) provisions in the Companies Act 2013 as amended in 2016 make it obligatory for the listed firms to spend 2 per cent of the net profits on social expenditure as detailed in Schedule VII. 'Education' tops the list of subjects given in the schedule; it leads the other subjects in terms of the expenditure. Every year, the CSR spend is in the vicinity of Rs. 20,000 crore. However, during 2020-21 expenditure on health has overtaken education. The PM CARES Fund has upset the apple cart of the education sector, of course for neutralising COVID-19. The interesting point to note here is that only 8,000 companies are listed in the stock markets against the overall number of companies around 20,00,000. Many unlisted companies are highly profitable with their net worth per share being astronomically high but they escape from the provisions of the Companies Act as it applies only to the listed companies. Further, between the public and private sectors, it is the public sector which has shown greater concern for engagement in CSR.

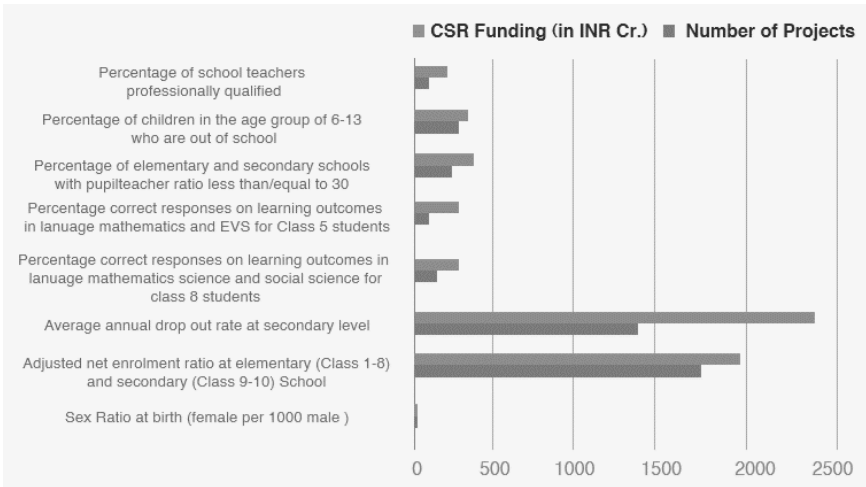
The data by CSR Box 2020 Graph 2-3 reflects an analysis of 613 companies which contributed to CSR in FY 2019 through around 8501 projects and a consolidated CSR spent of INR 12143.77 Cr. In the year 2018-19, 542 companies contributed to projects in the education domain through CSR funding of Rs. 3127 Cr. Top 80 companies contributed to about 75 per cent of the total CSR contribution in educational sector. Over 88 per cent companies have invested their CSR funds in one or more education projects. The NEP–2020 rightly recognises this as a funding source.

Graph-2 Sub Thematic Area – CSR Spend in Education



Source: CSR Box, April, 2020

Graph-3 CSR – Education Spend as per SDG 4

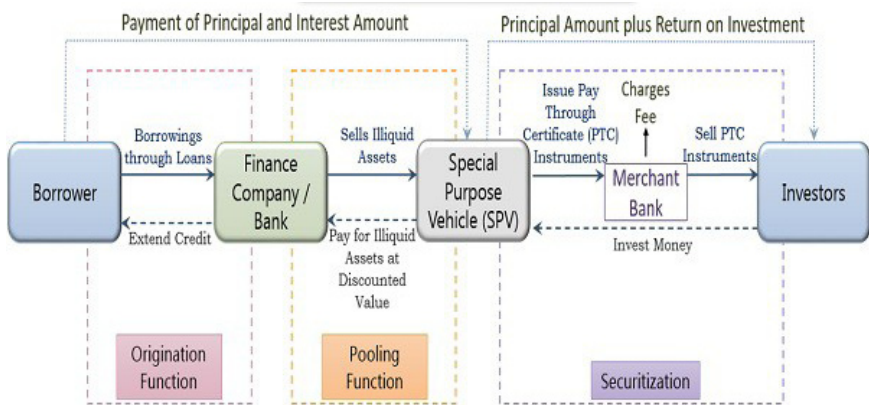


Source: CSR Box, April, 2020

SECURITISATION

Securitisation is a technique leading to pooling of assets and transforming them into securities. A large number of HEIs have become the ‘leviathan’ in our context. It is necessary that they rectify their sizes appropriately. Many HEIs have assets which are used only to the extent of 10 to 20 per cent. Securitisation comes in very handy to convert these assets into the cash pipeline, and in turn enhance the flow of funds to HEIs.

The first step that HEIs have to take up is to prepare their register of assets and then undergo the valuation process. This could follow in acquiring understanding of the capital market operations in terms of issuance of securities. Most of the HEIs are yet to develop an understanding of securitisation process (Figure-3).

Figure-3 Securitisation Process

Source: Prachi M, *Securitisation*, November 25, 2019

CONSIDERING HIGHER EDUCATION AS INDUSTRY

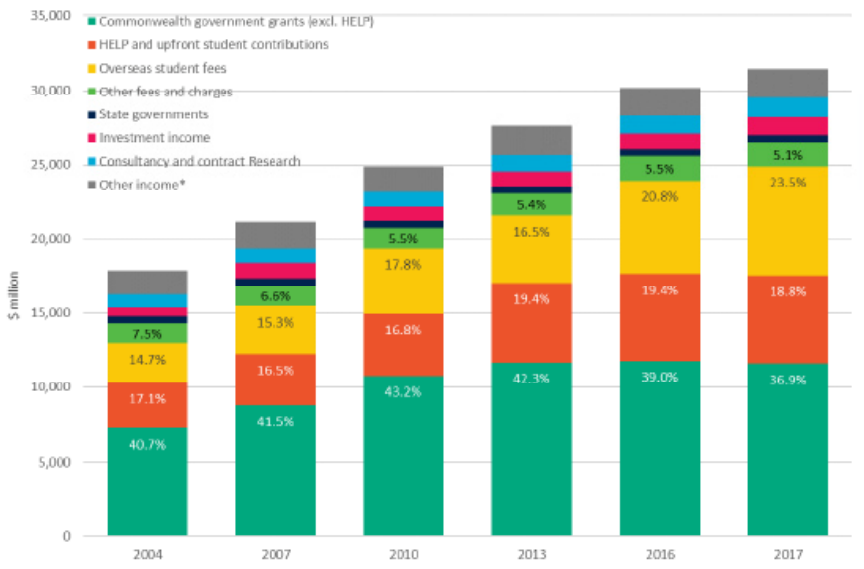
In India, there have been inconclusive debates whether education could be considered as industry. Education in all its aspects is no different today from any other industrial unit. Industry deals with men, material and money. These three attributes also govern education. Given this, it is difficult to make out why the banks and financial institutions shun lending to education. There are very limited number of instances when HEIs have tapped this source and that too for short and medium-term purposes.

INTERNATIONAL SCENARIO

In the European Economic Union, HEIs are allowed to raise private spruces in financing their activities. These private funds mostly come from corporations, which are matched by extra money or grants to the HEIs from the government. This got into saddle into the United Kingdom in 2011 the Higher Education Funding Council for England started the 'matched funding scheme'. The main objective of the scheme is to highlight the importance of private

funding to the HEIs and increase their capacities and capabilities of fund raising. The private funding in HEIs has made headway in France. The HEIs could set up an ‘HEI fund’ or a partnership fund with legal personality which can include private enterprises. The Government of France gives incentives for private funding with a 60 per cent tax credit or up to 20 per cent of their income to enterprises. The system is known as contractualisation, which means that the relation between the state and the HEIs is regulated by four-year framework contracts. Graph-4 relating to the sources of revenue of universities in Australia shows that the proportion of other income to total income is gradually increasing, resulting in lessening the burden on the Australian government.

Graph-4 Sources of University Revenue in Australia, in 2017 Dollars



Source: Department of Education and Training, Financial Reports of Higher Education Providers (various years), excluding BIITE – Bachelor Institute of Indigenous Tertiary Education and VET activity for dual sector universities.

Note: Data is not available for Bond University. Other income includes royalties, trademarks and licenses and the share of net result of associates and joint ventures accounted for using the equity method.

The position of HEIs in Hungary, United Kingdom, Netherlands, and OECD average reveals the same trend as exhibited in Table-3 below:

Table : 3 Position of Higher Education Institutions

	Teaching	Other services	Research	Total	Of which	
					Public	Private
Hungary	0.6	0.1	0.2	0.9	0.9	-
United Kingdom	0.6	0.1	0.5	1.2	0.6	0.6
Netherlands	1.0	0	0.5	1.5	1.1	0.4
OECD average	1.1	0.1	0.1	1.5	1.0	0.5

CONCLUSION

The spending on higher education is too small and needs to be boosted to far higher levels to meet the NEP-2020 mandate. It is the skilled manpower graduating from HEIs who matter to the country as they have to lead various sectors of economy, polity and society. It is worrying to note that HEIs have received relatively scant financing over the years. There is a continuous decline in funds allotted to these institutions. Noting the gravity of the situation arising out of resource crunch being faced by the Government, there is no hope that such funding would get a shot-in-arm in the near future. Given this limitation, the only way to remedy the problem is to diversify the HEI resource mix.

HEIs should gradually and consistently reduce their dependence on tuition fees in addition to public funding and look for funding from known non-tuition fees sources. In this endeavour, the Indian financial and capital market system provides an olive branch to HEIs to tap funds for spurring their organic growth. This requires HEIs to inculcate market orientation and diversify their finance mix. The government needs to include higher education in the scope of lending by financial institutions. Higher education should no more be construed as 'public good' as in its present form it has all the

elements of a ‘general good’. The best investment that anyone can make in the present time is in oneself, since more one learns, more one earns.

References

1. *Docampo, Domingo, (2007). International Comparisons in Higher Education Funding, Spain, April, 2007, p 3.*
2. *Volanin, Thomas, R, (2008). Financing Higher Education in the United States: An Overview, George Washington University, NW, Washington Ben Jongbloed: Funding Higher Education: A View from Europe. Enschede, The Netherlands, Center for Higher Education Policy Studies, University of Twente.*
3. *Mishra, R, K, and Shulagna, Sarkar, (2020). Corporate Social Responsibility, Academic Foundation, New Delhi 2020, p 17*
4. *Mishra, R, K, and Shulagna, Sarkar, (2017). Corporate Social Responsibility: Driving a Sustainable Future, Academic Foundation, New Delhi 2017, p 27*