

Higher Education Finance and Cost-Sharing in Hong Kong

I. A Brief Description of the Higher Education System in Hong Kong

As a British colony for 150 years, Hong Kong was following the United Kingdom model of higher education when it became part of China in 1997 (albeit as a “Special Administrative Region” with a high degree of autonomy). With its higher education financed mainly by the government, Hong Kong allocates funding primarily through the University Grants Committee (UGC). The UGC, along with manpower planners, regulates the number of university and diploma holders. There are eight universities funded by the UGC, and they offer programs at sub-degree, degree, taught-postgraduate and research-postgraduate levels¹. Seven of these can grant their own degrees; the remaining university, the Hong Kong Institute of Education, validates its degrees through the Hong Kong Council for Academic Accreditation (HKCAA). The UGC provides financing by means of recurrent block grants on a triennial basis, and gives the institutions autonomy in how they use the funding. The universities are also allowed to implement their own curricula and academic standards. These UGC-funded institutions play an essential role in Hong Kong’s tertiary education.

Two notable institutions outside the UGC-funded sector are the Hong Kong Academy for Performing Arts and the Open University of Hong Kong (OUHK). The academy provides degrees, diplomas, and certificates in dance, drama, music technical arts, and is funded by the government (but not through the UGC); the OUHK is totally self-financed, and is the only private, self-accrediting university in Hong Kong.

In order to achieve the goal of 60% participation in tertiary education set by the chief executive of the Hong Kong Special Administrative Region (HKSAR) in 2001, the number of higher education providers, including private institutions, is on the increase. Currently, more than 20 private colleges and schools are expanding opportunities for post-secondary education by introducing programs that lead to associate degrees or higher diplomas. However, not all institutions can award degrees on their own authority. For instance, degrees at Caritas Francis College are accredited by the HKCAA; and degrees earned at Chu Hai College are conferred by an overseas agency, the Taiwan Ministry of Education.

In Hong Kong, university admission is determined by performance on the Hong Kong A-Level Examinations. Eligibility to take this examination requires two years of senior secondary schooling and a two-year matriculation course. In 2003, of the

¹ Chinese University of Hong Kong; City University of Hong Kong; Hong Kong Baptist University; Hong Kong Institute of Education; Hong Kong Polytechnic University; Hong Kong University of Science & Technology; Lingnan University and University of Hong Kong.

36,660 students who took the A-Level Examinations, 18,049 (50.3%) met the entry requirement of the eight UGC-sector universities. But because these UGC-sector universities can only accept approximately 14,000 students, more than 4,000 had to consider other options, such as associate degrees, higher diploma programs, or foreign studies at other institutions.

In 2003/04, student enrollments (full-time equivalent) in UGC-funded institutions totaled 80,207, an increase of 1.9% over that of the previous year. Of the total, 14.2% (11,405) were enrolled in associate degree programs and 60% (48,094) were enrolled in undergraduate programs. The first-year-first-degree (FYFD) places numbered 14,639, comprising about 18% of the 17-20 age cohorts. Over all, approximately 38% of students in Hong Kong aged 17 and older receive post-secondary education, including those who study overseas (University Grants Committee).

Higher education in Hong Kong consists of three levels. At the first university stage level are the Associate Degree and Higher Diploma, the Bachelor's Degree and the Honors Degree; at the second stage is the Master's Degree; at the third stage is the Doctorate Degree. Associate Degree and Higher Diploma programs commonly require two years and offer a different route to higher university degrees. Bachelor's Degrees require a three-year course study (some programs take four to six years). In addition, in technical/vocational institutions students may continue studying part-time for Higher-Certificate or Higher-Diploma qualification. Master's Degrees require one to two years of full-time study (three years part-time). Doctoral degrees are conferred after two to seven years of research work and approval of a dissertation.

II. Costs, or Expenditures, in Hong Kong Higher Education

The Hong Kong government has allocated approximately HK\$12 billion (US\$1.73 billion)² through the University Grants Committee since the mid-1990s, which represents about 82 percent of the operating budgets for its eight publicly funded institutions (Lee and Gopinathan).

Funding to the UGC institutions is channeled through recurrent and capital grants. Recurrent grants are used for academic and related administrative activities. Capital grants support major capital projects and minor campus improvements. For the 2001-2004 triennium, the total recurrent funding for UGC-sector institutions was HK 34.9 million (US\$5.02 million), of which approximately 75% was used for teaching, 23% for research and 2% for professional activities. Although the most money ever spent by Hong Kong for higher education amounted to 35% of the government's total education budget, roughly half of that expenditure was for staff

² All conversions made using PPP exchange rates for the appropriate year unless otherwise noted.

costs. Table 1 shows its higher education expenditures for the academic years 2000-2003.

To share the cost burden of higher education, the Hong Kong government has implemented programs of matching grants to stimulate fund-raising activities by the individual universities. The “Matching Grants Scheme,” launched in July 2003, is based on the rationale that universities that succeed in securing private donations will be awarded dollar-for-dollar matching funds from the government. According to a UGC report, the Hong Kong government has earmarked HK\$1billion (US\$143.8 million) for these matching grants. As of March 2004, HK\$943 million (US\$135.7 million) in matching grants had already been allocated to various institutions.

Table 1
Government Expenditure on Higher Education, 2000-2003

	2000/2001	2001/2002	2002/2003
Total expenditure (HK\$ million)	51.4	52.2	54.9
As percentage of total government expenditure (%)	22.9	21.9	22.8
As percentage of Gross Domestic Product (%)	4	4.2	4.4
Recurrent expenditure (HK\$ million)	31.9	31	30.1
Spending on (%)			
Tertiary education			
Others	12.1	12.3	12.4

Source: Education and Manpower Bureau. Available at:

<<http://www.emb.gov.hk/index.aspx?langno=1&nodeid=1032>>

Since the establishment of the Research Grants Council (RGC) in 1991/92, funding for research channeled through the RGC has risen from an initial HK\$100 million (US\$12.8million) in 1991/1992 to about HK\$577.9 million (US\$74.1million) in 2003/04³. Total research expenditures were HK\$4,800 million (US\$615 million), amounting to 39% of the total departmental expenditures of the eight UGC-funded institutions and 0.39% of Hong Kong GDP (University Grant Committee).

Within the UGC-funded sector, research support has been implemented under a “dual funding” system. One part of dual funding is to support research activities at basic levels; the other part is provided in the form of earmarked grants allocated mostly on a competitive basis under two major schemes, namely, the Earmarked Research Grants (ERG) distributed through the RGC and the Areas of Excellence (AoE) scheme operated by the UGC.

The charging of tuition fees has long been a tradition in Hong Kong tertiary education. High-tuition-high-aid is a component of the Hong Kong government’s

³ All conversions in this paragraph use the official exchange rate for the appropriate year.

funding policy for higher education.⁴ In the 1970s, the government began to expect tuition and fees to cover at least 12% of recurrent expenditures. But it was not until 1989's higher education expansion in Hong Kong that this expectation was realized. In 1990, tuition fees amounted to HK\$8,700 (US\$1,1153), an increase of 16% over preceding years⁵. By the end of the 1990s, tuition fees amounted to HK\$42,100 (US\$ 5,400), approximately 18% of unit cost, compared with 15.5% of unit cost in most other countries (University Grants Committee).

It is worthwhile to note that differences in actual unit costs by subject and institutions are significant. In 1997/98, the unit cost in medical studies was 2.6 times greater than in the humanities, and 2.3 times greater than the average unit cost for all other programs. This led to different governmental subsidies for different subjects. As a result, the government paid 94% of the unit cost for a medical student and only 73% of the unit cost for a humanities student. Thus, medical students paid only 6% of their unit cost, while humanities students had to pay 27% (University Grant Committee).

Due to the high demand for manpower in fields of science and technology, as Hong Kong makes the transition to a knowledge-based economy, flat tuition charges have been implemented to attract more young people to study in these disciplines. Currently, the yearly tuition is HK\$42,100 (US\$6,060) for full-time students (except for a few subject fields and self-financed postgraduate programs). Part-time students pay HK\$21,050 (US\$3,300). Tuition fee levels are reviewed annually by the Hong Kong government.

III. Costs of Higher Education in Hong Kong Borne by Parents and Students

The raising of the tuition-fee target by the government from 12% to 18% in 2001 has shifted more of the cost of higher education from the government to families and students. Tuition jumped sevenfold from HK\$6,000 (US\$769) in the mid-1980s to HK\$42,100 (US\$ 5,400) in 1997, which is where it is today. This amounts to an average increase of almost 25% annually⁶. However, only about 48% of applicants can receive government grants and loans, meaning that more than half of eligible students must pay part of the tuition costs themselves. Even students who have received grants have to pay for part of their education. In 1999, the average grant was HK\$28,347 (US\$4,080), which covered two-thirds of tuition charges; students had to pay the remaining one-third (Zhang). Table 2 shows the great range of the

⁴ According to Johnstone (1991), "high-tuition-high-aid" is a model of public higher education finance practiced by governments in many countries. As tuition rises, governments increase subsidies to students at public colleges and universities in order to achieve the equity and efficiency in higher education. Financial aid is reduced as family or student income rises, transferring responsibility for full or near-full tuition costs to families and students.

⁵ All conversions in this paragraph use the official exchange rate.

⁶ All conversions in this sentence use the official exchange rate.

expenses parents and students may have to bear themselves.

Table 2
Total Costs/Expenses Borne by Students and Families,
Hong Kong Colleges and Universities, 2002-2003
(Hong Kong Dollars converted to US dollars using
2002 PPP estimate of \$1 = HK\$6.95)

		Public		
		Low	Moderate	High
Instructional Expenses	Special “One-Time” or “Up Front” Fees	HK\$540 (US\$80)	HK\$650 (US\$90)	HK\$770 (US\$110)
	Tuition	HK\$42,100 (US\$6,060)	HK\$42,100 (US\$6,060)	HK\$42,100 (US\$6,060)
	Other Fees	HK\$220 (US\$30)	HK\$250 (US\$40)	HK\$260 (US\$40)
	Books & Other Educational Expenses	HK\$2,000 (US\$290)	HK\$3,000 (US\$430)	HK\$6,000 (US\$860)
	Subtotal Expenses of Instruction	HK\$42,860 (US\$6,170)	HK\$46,000 (US\$6,620)	HK\$49,130 (US\$7,070)
Student Living Expenses	Lodging	HK\$9,000 (US\$1,290)	HK\$21,000 (US\$3,020)	HK\$36,000 (US\$5,180)
	Food	HK\$10,000 (US\$1,440)	HK\$27,000 (US\$3,880)	HK\$36,000 (US\$5,180)
	Transportation	HK\$9,000 (US\$1,290)	HK\$4,000 (US\$580)	HK\$5,000 (US\$720)
	Other Personal Expenses	HK\$19,000 (US\$2,730)	HK\$24,000 (US\$3,450)	HK\$30,000 (US\$4,320)
	Subtotal Expenses of Student Living	HK\$47,000 (US\$6,760)	HK\$76,000 (US\$10,940)	HK\$107,000 (US\$15,400)
	Total Cost to Parent & Student	HK\$89,860 (US\$12,930)	HK\$122,000 (US\$17,550)	HK\$156,130 (US\$22,460)

Source: Estimated by the author. References from:

<<http://www.cityu.edu.hk/sds/nls/images/Pre-arrival%20info%20booklet/p6.pdf>>

<http://www.nrcsa.com/nh_df/hschina/hschinacosting2004.html>

IV. Student Financial Assistance in Hong Kong

The Hong Kong government administers two major financial assistance schemes through the Student Financial Assistance Agency:

(1) Local Student Financial Scheme

The Local Student Finance Scheme (LSFS) provides means-tested grants and loans to full-time students. The grants, which do not need to be repaid, cover tuition, academic expenses, and compulsory fees. The loans are intended for living expenses and are repayable at a relatively low annual interest rate of 2.5% within a

specified period after graduation. The grant amounts are tied to family income and financial status. The maximum grant awards are equal to the tuition; the maximum amount of the loans for living expenses are the same for all students.

The grants and loans are conferred in two equal installments. In 2003/04, more than 40,000 students benefited from grants totaling HK\$994.79 million (US\$ 143 million) and loans totaling HK\$513 million (US\$74 million). Table 3 summarizes the Local Student Finance Scheme for 2001-2004:

Table 3
Local Student Finance Scheme
Summary of Statistics

	<i>2001/2002</i>	<i>2002/2003</i>	<i>2003/2004</i> (as of 30.6.2004)
Eligible student enrolment	78,554	80,503	80,148
No. of applications received	39,666	41,213	43,760
No. of application completed	39,666	41,213	43,755
No. of successful applications	34,119	35,694	37,647
No. of applicants receiving grant	33,840	35,442	37,321
No. of applicants offered loan	33,952	35,538	37,402
No. of applicants accepted loan	25,667	24,389	23,489
Average amount of assistance	HK\$39,934 (US\$5,746)	HK\$39,367 (US\$5,665)	HK\$46,402 (US\$6,675)
Average grant	HK\$24,276 (US\$3,500)	HK\$24,831 (US\$3,570)	HK\$25,315 (US\$3,640)
Average loan	HK\$21,053 (US\$3,030)	HK\$21,530 (US\$3,100)	HK\$21,446 (US\$3,085)
Total amount of grant	HK\$821.5m (US\$118.2m)	HK\$880.05m (US\$126.6m)	HK\$944.79m (US\$13.9m)
Total amount of loan	HK\$684.15m (US\$98.440m)	HK\$743.36m (US\$107m)	HK\$802.11m (US\$115.5m)
- offered	HK\$540.99m (US\$77.840m)	HK\$525.10m (US\$75.5m)	HK\$513.00m (US\$73,810)
- accepted			

Source: The Student Financial Assistance Agency. Available at:

<<http://www.info.gov.hk/sfaa/en/statistics/lfsfss.htm>>

(2) *Non-Means-Tested Loan Scheme*

Initiated in 1998/99, the Non-Means-Tested Loan Scheme (NLS) provides interest-bearing loans up to the full amount of tuition. Eligibility is restricted to full-time and part-time students in publicly-funded tertiary programs who do not apply for assistance or who do not qualify for the LSFS. The interest for the NLS is at the government's no-gain-no-loss rate, 2% below the average leading rates of the note-issuing banks, and includes a risk-adjusted factor to cover the government's risk in disbursing unsecured loans. The NLS

loans and accrued interest are repayable in 40 quarterly installments over 10 years upon completion of the relevant programs. In 2003/04, 38,402 out of 38,563 applicants benefited from the NLS with a total loan disbursement of HK\$1009.8 million (US\$145 million), as shown in Table 4.

Table 4
Non-means Tested Loan Scheme for Post-secondary Students
Summary of Statistics

	2001/2002	2002/2003	2003/2004 (as of 31/05/2004)
No. of applications received	24,032	31,702	38,563
No. of applications approved	24,019	31,645	38,402
Total amount of loans offered	HK\$755.7m (US\$109m)	HK\$1,043.8m (US\$150.07)	HK\$1,280.5m (US\$184.2m)
No. of applicants accepted	17,002	23,402	28,815
Total amount of loans accepted	HK\$574.1m (US\$82.6m)	HK\$814.4m (US\$117.2m)	HK\$1009.8m (US\$145.2m)

Source: The Student Financial Assistance Agency. Available at:

<<http://www.info.gov.hk/sfaa/en/statistics/lfsfss.htm>>

It is worth noting that the approval of 38,402 out of 38,563 applicants in 2003/04 (Table 4) reflects that the coverage of the NSL loans is nearly 100 percent. However, as Chung (2003) pointed out, only a small percentage of eligible students will apply for the NLS loans, compared with the LSFS. Because the NLS loans carry a relatively high rate, they are a heavy burden for students and families (Chung). Table 5 shows the coverage of the student loan scheme for 2001-2004.

Table 5
Success Rate of the Non-means Tested Scheme (NLS Loan) 2001-2004

	Number of applications (1)	Number of applications accepted (2)	Success rate (3)=(1)/(2)	Total amount of loans offered (HK\$) (4)	Total amounts of loans accepted (5)	Success Rate (6)=(5)/(4)
2001/02	24,032	17,002	70.7%	755.7m	571.1m	76%
2002/03	31,702	23,402	73.8%	1,043.8m	814.4m	78%
2003/04	39,374	29,747	75.5%	1,304m	1,039.5m	80%

Source: The Student Financial Assistance Agency. Available at:

<<http://www.info.gov.hk/sfaa/en/statistics/lfsfss.htm>>

In addition to the government financial aid schemes, the universities also provide scholarships and other financial assistance on behalf of individual and corporate

donors. Most are awarded to students on the basis of academic and professional merit upon recommendation of the academic departments. Bursaries, grants, and loans donated by private organizations, professional bodies, firms, and individuals, are primarily allocated to full-time students who face unexpected or exceptional hardships.

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