

Policy Research and Dialogue  
Student Loans Schemes in Asia

# The student loans scheme in Hong Kong

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## List of abbreviations

AFI	Adjusted Family Income
CPI	Consumer Price Index
ELS	Extended Loan Scheme
EMB	Education and Manpower Bureau
FDI	Family Disposable Income
FYFD	First-Year First Degree
HKCEE	Hong Kong Certificate of Education Examination
HKSAR	Hong Kong Special Administration Region
LSFS	Local Student Finance Scheme
NAV	Net Asset Value
NLS	Non-means-tested Loan Scheme
SFAA	Student Financial Assistance Agency
SFAS	Student Financial Assistance Scheme
SPI	Student Price Index
UGC	University Grant Committee
UPGC	University and Polytechnic Grants Committee

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## Foreword

UNESCO's mandate – both globally and in Asia and the Pacific – is the important mandate to serve as a standard setter, a clearing house, a capacity builder, a catalyst for international co-operation and a provider of impartial policy advisory services to governments and other partners in the region.

In the furtherance of this mandate, the UNESCO Asia and Pacific Regional Bureau for Education in Bangkok (UNESCO Bangkok) is developing an active portfolio of research and policy analysis studies which will serve as input into ongoing policy debates on education development and reform. Such studies will explore a wide range of issues found both within all levels and forms of education and in the linkages between education and other development sectors. Major policy challenges and priorities in the Asia and Pacific region will guide the selection of operational research topics. The ambition is to support and publish action-oriented, state-of-the-art research grounded in longstanding practical experience of countries in the region and of UNESCO. The series aims at providing education practitioners and advisors working in government institutions and the private sector with a comparative information and knowledge base to support policy dialogue and decision-making in education sector management and reform.

Most of the research to be published under the series will be part of ongoing UNESCO work in the areas of education sector policy and management of countries in the region. Relevant research prepared by partner institutions and individuals will also be considered for publication.

Sheldon Shaeffer  
Director  
UNESCO Bangkok



## Preface to the series

This book is part of a series of in-depth studies on the functioning of government-sponsored student loans schemes in Asia. It was written in the framework of a regional comparative policy review on student loans schemes undertaken by the Bangkok-based UNESCO Asia and Pacific Regional Bureau for Education (UNESCO Bangkok) in association with the International Institute for Educational Planning (IIEP). This regional project covered five countries and territories including P.R. China, Hong Kong S.A.R. China, the Republic of Korea, the Philippines and Thailand. Additional studies are being commissioned by IIEP, and a regional comparative assessment prepared by UNESCO Bangkok is forthcoming.

Most countries in Asia are experiencing a dramatic increase in demand for higher levels of education at a time of both severe public budget constraints and profound overhaul of education systems aimed at significantly increasing their impact and relevance. In an attempt to ease the burden on public budgets, a number of countries have introduced student loans schemes, hoping to recover costs and increase the revenue base for the expansion of education, while at the same time providing opportunities for poorer segments of the population to access higher levels of education.

In an attempt to increase the knowledge base available to governments and provide practical insights which might be useful for national education policy, the UNESCO Asia and Pacific Regional Bureau for Education initiated in 2001 a regional comparative study to examine the performance of student loans schemes in a number of countries in Asia. The study is intended to be instrumental in improving the efficacy and financial efficiency of existing schemes and in providing a comparative information base for countries intending to introduce a student loans scheme.

A joint endeavor by UNESCO Bangkok and IIEP, this regional policy study was initiated and its implementation co-ordinated by the Planning and Sector Analysis Unit (PSA) at UNESCO Bangkok. It benefited from technical support by IIEP and was able to draw on a wide range of regional and international expertise available at research institutes, universities and ministries in the participating countries. Five research teams led by academics and senior-level practitioners were involved in producing the monographs. UNESCO Bangkok and the Korean Educational Development Institute (KEDI) hosted several research seminars bringing together research teams and practitioners from the countries participating in the project.

Partner institutions involved in the study included the Korean Educational Development Institute (KEDI); Huazhong University of Science and Technology (Graduate School of Education), Wuhan; Peking University (Graduate School of Education); the Chinese University of Hong Kong (Department of Educational Policy and Administration); the Commission for Higher Education (CHED) in the Philippines (Office of Student Services, Office of Policy Planning, Research and Information) and the Asian Development Bank collaborating in the framework of an ongoing Education Sector Development Program in the Philippines. Researchers and officials from several universities, education and finance ministries and national agencies such as student loans offices in the participating countries collaborated in the preparation of the case studies. UNESCO Bangkok and IIEP would like to thank all those individuals who provided their expertise and professional experience to this research and therefore helped to assemble a considerable cross-sectoral information base required for comparative loans policy analysis. The important contributions by individual researchers and authors are acknowledged in this book.

The policy study benefited from the technical expertise of Adrian Ziderman, Professor of Economics at Bar-Ilan University, Israel, acting as UNESCO international lead consultant. He provided methodological guidance to research teams along the lines of his earlier study on loans in Thailand, prepared under a joint UNESCO Bangkok – Asian Development Bank project, ‘Education management and financing study’, in 1999. Igor Kitaev, Programme Specialist (education financing), served as resource

person from the IIEP in addition to authoring one of the studies. Dominique Altner, Chief, Planning and Sector Analysis Unit, UNESCO Bangkok, with support from Toshiyuki Matsumoto, Assistant Programme Specialist, PSA, initiated and ensured the professional co-ordination for this study.

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## Chapter 1

# The education system of Hong Kong

The formal education system of the Hong Kong Special Administration Region (HKSAR), China consists of six years of primary schooling, three years of junior-secondary schooling, two years of senior-secondary schooling, two years of matriculation studies and three years of university education. Hong Kong accomplished six years of universal general education for primary schooling (P1-P6) in 1971. Universal general education was further extended to junior-secondary school for three more years (S1-S3) in 1981. On the completion of nine years of basic education, most students (about 90 per cent) undertake two more years to finish senior-secondary schooling (S4-S5) and take the Hong Kong Certificate of Education Examination (HKCEE). About one-third of these students go on to matriculation studies (S6-S7) and take the Advanced Level examination (AL) to seek university admission and other post-secondary education opportunities.

The total student population in the academic year 1999/2000 was about 1.3 million. Though kindergarten is not included in the formal education system, most parents send their children to nursery or kindergarten before the legal school-starting age of six. There were about 490,000 students and 22,000 teachers in more than 800 primary schools, and about 450,000 students and 24,000 teachers in more than 500 secondary schools. There were eight universities enrolling about 44,000 undergraduate students in degree programmes in 1999/2000 (*Table 1.1*).

Parallel to the grammar stream in the formal education system is a stream of vocational and technical education. There are pre-vocational secondary schools and technical secondary schools, though their number has never risen to more than 10 per cent of all secondary schools. The vocational and technical curricula are generally not welcomed by parents and students, and there is strong pressure for these schools to switch to a more 'generic' curriculum (Chung, 1992). Nowadays, most of these schools are little different in substance from the mainstream secondary schools.

However, at the post-secondary level there are various sub-degree or diploma programmes in vocational and technical education offered by the Hong Kong Institute of Vocational Education, the Academy for Performing Arts and some universities, enrolling about 30,000 students in the year 1999/2000.

Table 1.1 The Hong Kong education system, 1999/2000

Type of institution	Number of institution	Total full-time enrolment	Number of teaching staff
Kindergarten	756	171,138	9,115
Primary	819	491,851	22,344
Secondary	519	453,465	24,453
Special education	74	9,687	1,670
The Hong Kong Institute of Vocational Education	1	19,760	1,058
Approved post-secondary college	1	2,361	112
Other colleges	19	3,632	-
UGC-funded institutions	8	59,761	5,605
Sub-degree	10,887		
Undergraduate	44,031		
Taught postgraduate	1,480		
Research postgraduate	3,363		
The Hong Kong Academy for Performing Arts	1	704	79
The Open University of Hong Kong	1	-	96
Adult education institutions	859	64,281	-
<b>Total</b>	<b>3,058</b>	<b>1,276,640</b>	<b>64,532</b>

*Source: Hong Kong Annual Report, 2000.*

The nine-year basic education in Hong Kong (P1 to S3) is compulsory and free for all children. The two-year senior-secondary education and the two-year matriculation studies are heavily subsidized. Total public expenditure on education was approximately HK\$52.3 billion (pegged with the US currency at US\$1 = HK\$7.8) in 1999/2000. It amounted to 18.8 per cent of total government expenditure for the year and accounted for about 4.2 per cent of the Gross Domestic Product (GDP). Out of the HK\$43.4 billion recurrent expenditure on education in the year, 21 per cent was on primary education, 32 per cent on secondary education and 35 per cent on tertiary education (*Table 1.2*). Compared to other Asian regions, Hong Kong invests a relatively large portion of public money on education in the tertiary education sector. However, the proportion of public expenditure on tertiary education compared to that on primary and secondary education has decreased in recent years, and the decreasing trend will become more apparent with the education reform proposal by the Hong Kong Education Commission to invest more on basic education (Hong Kong SAR, 2000).

Table 1.2 Public expenditure on Hong Kong education

	Financial year ( April-March )		
	1998-99*	1999-2000*	2000-2001#
Total expenditure (HK\$ million)	48,479	52,252	54,383
As percentage of public expenditure (%)	18.2	18.8	18.9
As percentage of Gross Domestic Product (%)	3.8	4.2	4.1
Recurrent expenditure (HK\$ million)	40,892	43,361	45,178
Spent on (%):			
Primary education	20.6	21.0	21.7
Secondary education	32.6	32.4	32.9
Tertiary education	35.2	34.6	32.3
Others <sup>(1)</sup>	11.6	12.1	13.1

Notes: (1) Includes government recurrent expenditure on pre-primary education, special education, adult education, technical education and departmental support.

\* Revised estimates.

# Draft estimates.

Source: Education and Manpower Bureau, Government Secretariat.



## Chapter 2

# Expansion of university education

Following the expansion in secondary schooling, university education in Hong Kong underwent drastic expansion in the late 1980s to the early 1990s. Until the mid-1980s, less than 5 per cent of the relevant age group had a place in a university degree programme for a ‘first-year first degree’ (FYFD). A large number of capable and willing students had to go overseas to pursue their university education. The major receiving countries were the USA, the UK, Australia and Canada. It is estimated that 8-10 per cent of the age cohort left Hong Kong for overseas university education every year. *Table 2.1* illustrates the size of the overseas student population.

In 1981 the Hong Kong Government invited an expert panel through OECD to carry out an overall review of the education system. Among the various recommendations, the review panel suggested that Hong Kong should increase the provision of higher education. The university FYFD places increased drastically from about 4 per cent of the age cohort in 1985 to about 18 per cent (equivalent to 14,500 places) in 1995. It is now a stated policy of the Hong Kong SAR Government to provide university education at degree level to up to 18 per cent of the age cohort.

Table 2.1 Students leaving Hong Kong for overseas studies

Number of students			
Country	1998	1999	2000
USA	4,106	4,433	5,392
Australia	3,467	4,397	5,534
Canada	2,121	2,429	2,198

*Note:* Figures are based on the number of student visas issued as supplied by visa-issuing authorities.

*Source:* Education Department.

There were several reasons for the expansion of higher education in Hong Kong during the early 1990s. First, with the development of ‘mass’ secondary education in the early 1980s, there were more and more students completing their education up to the university-entrance level. Social pressure for an expanded opportunity in higher education built up rapidly. Second, the recommendations from the review panel of the OECD experts were adopted formally in the then Legislative Council of the Hong Kong Government.

There were also economic reasons. In the early 1980s, Hong Kong underwent rapid changes in its economic structure. It shifted from a basically manufacture-led to a service-led economy. Hong Kong needed ever-increasing numbers of more highly educated manpower to fuel its economic growth at the time. However, local universities could only supply 34 per cent of the requirement for manpower at university-education level in 1986 (*Table 2.2*; Chung, 1991).

Table 2.2 Percentage of working population at university education level

Degree origin	Year	
	1986	1991
Local degree	34.1	42.9
Overseas degree	65.9	57.1

*Source: Hong Kong Census and By Census, 1986, 1991.*

Hong Kong depended heavily on overseas institutions to train its high-level manpower and on the return of this overseas trained manpower to Hong Kong after the completion of their studies. However, with the approaching transfer of sovereignty back to China in 1997, people in Hong Kong felt great uncertainty. There was a net out-migration of people with university education and a slowing down of students returning from their overseas studies. Nonetheless, the economy continued to thrive and demanded a steady supply of highly educated manpower. The need for Hong Kong to develop its indigenous university-education capacity was obvious and imminent.

The expansion of university places in Hong Kong has been achieved through several means:

1. Existing universities expanded their total enrolment at the request of the government.
2. A new university was built. The Hong Kong University of Science and Technology was established in 1991.
3. Existing polytechnic institutions were asked to upgrade their programmes from the sub-degree level to the degree level and be converted to university status. The Hong Kong Polytechnic and the Hong Kong City Polytechnic were upgraded to the Polytechnic University and the City University in the late 1980s.
4. Existing private independent institutions were absorbed into the government-funded system under the regulation of the University Grant Committee (UGC) and were requested to start more degree programmes. The Hong Kong Baptist University and the Lingnan University were invited to join the UGC system in the late 1990s.
5. The Hong Kong Institute of Education was amalgamated and subsumed under the UGC in the late 1990s. It started to offer a degree programme in teacher education in 2000.

Because of the increase in student numbers and all the structural and organizational changes, more resources were needed from the government. There was a tremendous and continuous increase in public expenditure on tertiary education in the late 1980s and early 1990s.

There are presently eight UGC-funded institutions enrolling a total of about 44,000 undergraduate students. University education is heavily subsidized by the HKSAR government. More than one-third of public expenditure on education was devoted to tertiary education in the late 1990s. Tuition fees from students only accounted for a minimal percentage of the actual cost until the 1980s. With the expansion of the university FYFD places, the government also decided to recover 18 per cent of the total running cost through tuition fees. There was, therefore, a rapid increase of tuition and academic expenses for university students accompanying the expansion in enrolment during the early 1990s.



## Chapter 3

# Recent changes in higher education finance

In his 2001 policy address, the Chief Executive of the Hong Kong Special Administrative Region announced the policy aim of increasing the opportunity of post-secondary education to provide for 60 per cent of the relevant age group within 10 years. Hong Kong hopes to accelerate the training of high-level manpower particularly in the three areas of information technology, financial services and creative media.

However, university education is expensive, and there is a limit to the extent that a government can subsidize education. Currently, there are both efficiency and equity concerns for the continuous expansion in public funding for university education. There have been allegations that expansion in the heavily subsidized university education has taken public resources away from lower-level education. It is anticipated that no commensurate resources will accompany the increase of higher-education enrolment from 18 per cent to 60 per cent. The government will only provide grants and loans to students and start up assistance to encourage private providers to come up with self-financed higher education programmes to meet the 60 per cent enrolment target.

Moreover, in the recent education reform initiative launched by the Education Commission of the HKSAR (Education Commission, 2000), most of the attention has been turned to the improvement of education quality at the basic-education level. Nearly all new government resources for education in recent years, such as the Quality Education Fund and the Capacity Enhancement Grant for Education, are channelled into primary and secondary schools. There is a strong tendency to ‘redress’ the issue of basic education not getting the resources it needs to guarantee quality.

It was under this context of expansion and tuition hike in university education that various student grants and loans schemes for higher education were either improved or formally constituted at different stages. The student loans scheme in Hong Kong has now evolved into an elaborate system.



## Chapter 4

# Development of the student grants and loans scheme in Hong Kong

Accompanying the development of university education, various student grants and loans schemes have evolved in Hong Kong (Bray, 1992). *Table 4.1* shows the different schemes and the total amount of student financial assistance under each scheme over the years from 1979/80 to 2000/01. The total amount of student loans disbursed in the year increased from HK\$39.5 million in 1979/80 to HK\$930.3 million in 2000/01. The non-means tested interest-charging loans scheme (NLS) stands at about HK\$300 million yearly since its inception in 1998/99.

### Before 1970: envelope fund and means-tested interest-free loan

Before 1970, financial assistance for university students was made in the form of scholarships, bursaries and maintenance grants, and was controlled by the Education Department. In 1969, the Local Student Finance Scheme (LSFS) was introduced to replace these government scholarships, bursaries and maintenance grants for students of Hong Kong University and the Chinese University of Hong Kong. It was administered by a Joint Universities' Committee. There was also the Student Financial Assistance Scheme (SFAS) which provided grants and loans to the Colleges of Education, Hong Kong Polytechnic, Lingnan College. The basic axiom of the scheme was that “no student who is offered a place in a university should be unable to accept that place because of lack of means”.<sup>1</sup> In other words, financial assistance was allocated based on need and the student financial assistance scheme was to help capable but financially needy students obtain a university education. Means testing was used as the gate-keeping mechanism in approving or denying financial assistance.

1. University and Polytechnic Grants Committee of Hong Kong, *Report July 1968 to June 1970* (Hong Kong: Hong Kong Government, p.16).

Table 4.1 Total amount of student financial assistance under different schemes, 1980-2001 (in million HK\$)

Year	LSFS- Grt	LSFS- Ln	LSFS- exLn	NLS-	JFS- Grt	JFS- Ln	SFAS- Grt	SFAS- Ln	Grt- total	Ln- total
79/80	9.8	39.5	-	-	-	-	-	-	9.8	39.5
80/81	11.3	42.0	-	-	-	-	-	-	11.3	42.0
81/82	22.0	64.1	-	-	-	21.3	-	-	22.0	85.4
82/83	20.9	63.5	-	-	-	18.9	-	-	20.9	82.4
83/84	23.8	69.7	-	-	-	26.0	-	-	23.8	95.7
84/85	31.8	82.1	-	-	[47.6]	[0.7]	-	-	79.4	82.8
85/86	35.1	84.4	-	-	[42.7]	[9.8]	-	-	77.8	94.2
86/87	35.6	74.8	-	-	[53.2]	N/A	-	-	88.8	74.8
87/88	32.1	71.6	-	-	[56.0]	[35.0]	-	-	88.1	106.6
88/89	33.5	70.8	-	-	[55.0]	12.0	-	-	88.5	82.8
89/90	37.2	73.8	-	-	[56.0]	18.0	-	-	93.2	91.8
90/91	45.5	85.4	-	-	[56.0]	21.0	-	-	101.5	106.4
91/92	68.2	128.7	-	-	[61.5]	28.8	-	-	129.7	157.5
92/93	99.3	169.2	-	-	59.4	33.4	7.1	10.8	165.8	213.4
93/94	278.8	436.1	-	-	50.7	10.5	8.2	17.3	337.7	463.9
94/95	481.4	616.9	-	-	20.2	4.1	4.5	6.5	506.1	627.5
95/96	750.3	806.1	42.7	-	7.5	1.4	5.1	5.8	762.9	856.0
96/97	968.4	880.2	64.7	-	-	-	5.6	7.6	974.0	952.5
97/98	1,034.1	884.5	75.7	-	-	-	6.4	14.4	1,040.5	974.6
98/99	887.0	714.5	-	335.3	-	-	6.6	15.2	893.6	1,065.0
99/00	843.6	629.7	-	283.9	-	-	6.6	15.3	850.2	928.9
00/01	832.3	606.2	-	306.3	-	-	7.6	17.8	839.9	930.3

Notes:

\* The figure of 79/80 is the cumulative total of loans since 69/70.

LSFS-Grt: Local Student Finance Scheme-Grant 1969-now (called Grant and Loan Scheme before 1990).

LSFS-Ln: Local Student Finance Scheme-Loan 1969-now.

LSFS-exLn: Extended Loan of LSFS 1995-1998.

NLS: Non-means-tested Loan Scheme.

JFS-Grt:	UK/HK Governments Joint Funding Scheme- Grant 1981-1996.
JFS-Ln:	UK/HK Governments Joint Funding Scheme- Loan 1981-1996.
SFAS-Grt:	Student Finance Assistance Scheme- Grant 1992-now (Students from HKIEd were transferred to the LSFS scheme from 94/95; includes only HK Shue Yan College since.)
SFAS-Ln:	Student Finance Assistance Scheme- Loan 1992-now.
Grt-Total:	Subtotal of all types of grant of the year.
Ln-Total:	Subtotal of all types of loan of the year.
<i>[italic]:</i>	Figure originally in British pounds, adjusted by (x14) to become HK\$.
N/A:	Data not available.

*Sources:*

- (i) Biennial Report of the University and Polytechnic Grants Committee, July 1976 to June 1978, July 1978 to June 1980.
- (ii) Biennial Summary of the Secretariat of the University and Polytechnic Grants Committee, July 1980 to June 1982, July 1982 to June 1984.
- (iii) Data from the Student Financial Assistance Agency (LSFS 1981-2001) (SFAS 1994-2001) (published, web site and unpublished).
- (iv) Annual Report of the Student Financial Assistance Agency 92/93, 93/94, 94/95, 95/96.
- (v) Hong Kong Annual Report 1969-1973, 1981-1997.

The means test at this early stage was rather simple and was mainly done by the student office of the respective institutions. Applicants were required to declare their family financial conditions in order to derive their annual 'family disposable income' (FDI) per head in the family.<sup>2</sup> Total financial assistance to an applicant was based on an eligibility index calculated from a formula incorporating the FDI. Assistance was then delivered in the form of an outright grant and an interest-free loan. The grant was intended to cover academic expenses while the loan was to cover living expenses.

The amount of grant and loan received by an individual applicant depended on the total funds available that year and his/her relative financial needs in comparison with other applicants'. That is, the government made available an 'enveloped' fund for the student grants and loans scheme each year, and the agency – the Joint Universities' Committee – made the allocation according to needs. An equitable principle was adopted here by giving the more needy student a higher eligible index to secure a higher share from the envelope fund.<sup>3</sup>

2. Taking the total family income, deducting various expenses, and then dividing the result by the number of members in the family established the annual disposable income per head of family. See *ibid.*, p.17.
3. The actual financial need of individual students was assessed by the annual disposable income available per head of family, less the unavoidable expenditure of studying, such as tuition fees, academic expenses and living expenses. Then the actual financial need of individual students was ranged and compared in order to generate an index for justifying a portion of share in the pool of the fund available. See University and Polytechnic Grants Committee's Secretariat, *Bi-annual Summary July 1980 to June 1982* (Hong Kong: Hong Kong Government, pp.3-4).

The scheme was extended to the students of Hong Kong Polytechnic in 1976 under the control of the Polytechnic Committee on Student Finance, which later merged with the Joint Universities' Committee to form the Joint Committee on Student Finance, in 1981. The new organization was placed under the control of the Secretariat of the University and Polytechnic Grants Committee (UPGC) which was the predecessor of the present UGC.<sup>4</sup> The actual operation of the scheme and the distribution of financial assistance were totally taken up by the student office of the respective institutions at this stage.

The eligibility formula used in calculating the amount of grant and loan was revised several times to keep pace with the general condition of the Hong Kong economy.<sup>5</sup> Since 1973, a supplementary loans fund has been earmarked as a back-up to the predetermined envelope fund. The supplementary fund could be activated after the existing fund proper had been exhausted to accommodate the actual needs of some applicants.<sup>6</sup> However, the total number of eligible students and their actual expenditure requirements were difficult to estimate, and thus the total fund needed was difficult to project. A comprehensive review of the student grants and loans scheme with a survey of student expenditure pattern was initiated towards the end of the 1970s.

### 1980-1990: open-ended scheme with vetting and interest-charging loan

As a result of the comprehensive review and the ability to make a more accurate projection of student needs, the government decided to lift the funding

4. *Ibid.*, p.1.

5. In the 1970s, because of general inflation in the economy there was an inflation of family income, resulting in a decreasing number of students eligible for grants as defined by the formula. The proportion of the annual disposable income used to off-set the 'grant and loan liable' expenditure was reduced from 100:0 in 1969/70 to 70:30 in 1974/75. The ratio was further reduced to 60:40 in 1979/80 and to 50:50 in 1980/81 as suggested by the reviewing committee. See University and Polytechnic Grants Committee's Secretariat, *Bi-annual Summary July 1980 to June 1982*, pp.3-4.

6. A supplementary fund was set up in 1972/73. Deliverance was contingent upon the inadequacy of the existing fund after the completion of the data processing. Therefore, two rounds of assistance confirmation were installed. In 1972/73, 2,433 students obtained grants and 2,649 students obtained loans in the first round; while in the second round, with the provision of the additional funds, a further 534 students obtained grants and 547 more students obtained loans. See University and Polytechnic Grants Committee of Hong Kong, *Report July 1970 to June 1972*, pp.3-4.

limit of the grants and loans scheme and thus made the scheme ‘open-ended’ in the early 1980s. That is, adequate funding would be made available by the government to accommodate the verified financial needs of all applicants. The ability to set the ceiling of total student enrolment (FYFD) for the universities and to estimate the financial needs of each student from a ‘Student Price Index’ (SPI) were most instrumental in the decision. The eligible institutions were carefully controlled and the total number of students included in the scheme was closely monitored. *Table 4.2* below lists the 11 eligible institutions at present. The SPI was constructed based on the spending pattern from data collected in the Student Expenditure Survey. It works like the Consumer Price Index in adjusting the grants and loans each year.

Table 4.2 Institutions included under the Local Student Finance Scheme, 2001

- 
1. The University of Hong Kong
  2. The Chinese University of Hong Kong
  3. The Hong Kong Polytechnic University
  4. The City University of Hong Kong
  5. The Hong Kong University of Science & Technology
  6. The Hong Kong Baptist University
  7. The Lingnan University
  8. The Hong Kong Institute of Vocational Education
  9. The Prince Philip Dental Hospital
  10. The Hong Kong Institute of Education
  11. The Hong Kong Academy for Performing Arts
- 

Note: Listed in chronological order of inclusion in the Scheme.

The new student finance scheme that came out in the early 1980s had a number of changes and innovations. First, a level of maximum assistance to a student in each programme of study was set, with reference to the result of the student expenditure survey, and it was to be adjusted annually in accordance with the student price index. Second, a six-band assistance-level system was introduced, with each level determined by family income. Third, a cut-off point was established so that the most needy students would be given full assistance in the form of grant and loan.

In 1982/83 a more stringent vetting and authentication procedure was introduced in response to a Public Account Committee report on high incidence of mis-statement in students' applications. Supporting documents such as tax returns, salary statements, receipts for rent paid, and bank statements were required as evidence for verifying family economic conditions.<sup>7</sup> More support staff was employed to carry out fuller and stricter vetting of the applications. Furthermore, the applicants and their families might be requested to attend interviews when necessary.<sup>8</sup> The operation of the scheme, including the application, the vetting and the distribution of financial assistance, remained under the student office of the respective institutions.

In 1985, the Director of Audit estimated that more than HK\$18 million of student grants and loans had been overpaid in 1982/83 and 1983/84. It was then suggested that the grants and loans scheme should be replaced with a new system that provided loans only. In addition, interest levied at a concessionary rate should be imposed to defray the operation cost of the LSFS. The suggestion to abolish grants was not adopted. However, in 1987, the interest-free loan was replaced with a low-interest loan charging interest at the rate of 2.5 per cent per annum, commencing on graduation.

### 1990-now: systematic vetting and non-means-tested loan

The beginning of the third decade of the student financial assistance scheme was marked by the establishment of the Student Financial Assistance Agency (SFAA) in 1990. The agency was to administer a great variety of student finance assistance schemes covering the needs of students from pre-school to higher education, including the Local Student Finance Scheme (LSFS). The LSFS was expanded to subsume all major financial assistance to higher education students. The agency took up the whole operation of the LSFS, including the vetting of applications and distribution of money to successful applicants under the scheme.

7. Before the introduction of a stringent vetting procedure, applicants were not required to provide supporting documents to verify their statement of family financial circumstances. The truthfulness of the information submitted was averred by a statutory declaration from one of the applicant's parents. A certain portion of successful applications was selected for verification of family details by site visits and examination of documentary evidence. See University and Polytechnic Grants Committee's Secretariat, *Bi-annual Summary July 1980 to June 1982*, p.7.
8. University and Polytechnic Grants Committee's Secretariat, *Bi-annual Summary July 1984 to June 1986*.

In the early 1990s, the Hong Kong Government decided to recover 18 per cent of the costs of university education through tuition. There was the issue of who should pay for the education. The private rate of return to university education in Hong Kong was found to be higher than its social rate (Wong, 1992) and it remained relatively higher than other levels of education over the years (Chung, 1990). Higher tuition fees would be charged in order to increase cost-recovery from students for university education.

Therefore, the tuition fees for university education increased rapidly in the 1990s. From 1992/93 to 1995/96 tuition fees went up from \$11,600 to \$30,750, an increase of 130 per cent in actual dollar terms. As the tuition fees increased, the students who could be classified as 'needy' under the existing formula but had not applied before were more likely to apply. Thus, the total number of 'needy' students increased at an even faster rate.<sup>9</sup> Such an increase was further amplified by the fact that university education was experiencing rapid expansion during that period. The number of students receiving an LSFS-loan jumped from about 8,000 in 1989 to more than 28,000 in 1994. It was estimated that two-thirds of the revenue generated from the policy of tuition fees cost-recovery had been offset by the increase in LSFS expenditure in 1992/93 to 1994/95.<sup>10</sup>

In order to expedite the processing of such a huge increase in the number of applications to the LSFS in the early 1990s, a simplified vetting procedure was adopted. With the simple vetting system, applications were first classified as 'high assistance' or 'low assistance'. Detailed vetting was applied only to the 'high assistance' applications; otherwise simple vetting would be applied. In addition, a large number of temporary staff was recruited to do the simple vetting within a short time period. Despite these improvements to the vetting process, in 1995, the Director of Audit estimated that \$23 million in financial assistance might have been overpaid in the year 1993/94 due to the high error rate in the Simple Vetting System.

An Extended Loan Scheme (ELS) was introduced in 1994. It charged a relatively higher interest at the rate of 4 per cent per annum and was to help two categories of applicants. They were (1) applicants who failed

9. See Hong Kong Student Financial Assistance Agency, *Report: Consultancy study on the local student finance scheme* (Hong Kong: Ernst and Young, 1996, p.28).

10. Hong Kong Student Financial Assistance Agency, *Report: Consultancy study on the local student finance scheme*, p.7.

the means test with a slim margin, and (2) applicants who were classified in the 'low assistance' group under the LSFS. The ELS was abolished in 1998, when the new Non-means-tested Loan Scheme (NLS) was introduced.

The operation of SFAA was reviewed in 1996.<sup>11</sup> One recommendation from the review was to establish a non-means-tested loans scheme operated on a full cost-recovery basis. By 1998, a comprehensive non-means-tested loans scheme (NLS) was introduced to supplement the regular LSFS grants and loans. The LSFS loan carried a 'subsidized' rate of interest at 2.5 per cent per annum. With a higher interest rate, this new NLS loans scheme was supposed to operate on a no-gain-no-loss basis. The total amount of NLS loans distributed has stood at about HK\$300 million each year since its inception in 1998.

## The Student Financial Assistance Agency (SFAA) and the Local Student Finance Scheme (LSFS)

The SFAA is a government body inaugurated in 1990 under the Education and Manpower Bureau (EMB, equivalent to a local Ministry of Education). It is funded exclusively by the government, and operates three administrative branches, each under one Controller. A Joint Committee on Student Finance continues to give advice to SFAA on the operation of the LSFS schemes. The SFAA handles three major financial assistance schemes for tertiary and post-secondary students, they are respectively: the Local Student Finance Scheme (LSFS: means-tested grants and loans), the Non-means-tested Loan Scheme (NLS), and two other schemes for students of accredited, self-financing post-secondary courses. It also oversees financial assistance schemes for the lower education levels.

At present, the distribution of grants and loans to university students in Hong Kong is basically operated through the Local Student Finance Scheme (LSFS) by the SFAA. The LSFS is a means-tested scheme providing financial aid to eligible full-time local students of the eight UGC-funded institutions and three other post-secondary institutions in Hong Kong (*Table 4.2*). *Table 4.3* summarizes the general statistics of the LSFS for the past three years. The total student population covered by

11. Hong Kong Student Financial Assistance Agency, *Report: Consultancy study on the local student finance scheme*, p.7.

the scheme in 2000/01 was 76,792, and 43.3 per cent of this population benefited from the scheme through receiving financial assistance in the form of grants and/or loans. The total amount of LSFS grant and LSFS loans disbursed in 2000/01 was HK\$832 million and HK\$606 million, respectively. The student loan distributed through the LSFS is a 'subsidized' loan carrying a fixed annual interest rate of 2.5 per cent.

The grant of the LSFS is intended to cover tuition fees, academic expenses and student union fees, while the loan is to provide for the living and personal expenses of students. The maximum amount of grant varies with different courses and levels of studies, ranging from HK\$18,100 to HK\$66,860 for undergraduates and HK\$47,640 to HK\$73,580 for postgraduates in 2000/01. The maximum amount of loan is the same for all eligible students. It was HK\$33,450 in 2000/01.

The amount of the maximum grant and loan payable is adjusted annually in consideration of the tuition fees, and the Student Price Index (SPI) of academic and living expenses. The SPI adjustment is a significant characteristic of the Hong Kong student loans scheme. The index is used to adjust the academic expenses grant and the living expenses loan, the base figures of which were derived from the comprehensive Student Expenditure Surveys held in 1982 and 1988, which collected information on the expenditure pattern of students over the years. A more recent survey was carried out in 1999/2000 over 12 months and the findings of that survey will be submitted to the Administration for consideration shortly, to take account of changes in expenditure patterns since the 1988 survey.

Table 4.3 Summary statistics of the Local Student Finance Scheme (LSFS)

	1999/2000	2000/2001
Eligible student population	64,359	76,792
Number of applications received	36,688	41,194
Number of successful applications	30,393	33,347
Number of applicants receiving grants	30,145	33,019
Number of applicants offered loans	30,275	33,252
Number of applicants accepting loans	27,717 (92%)*	28,136 (85%)
Average amount of assistance (HK\$)	\$48,475	\$43,138
Average grant	\$27,986	\$25,207
Average loan	\$22,719	\$21,561
Total amount of grants distributed	\$843.6m	\$832.3m
Total amount of loans		
– offered	\$664.4m	\$686.0m
– accepted	\$629.7m (95%)	\$606.2m (88%)

\* Figure in brackets shows the percentage of student applicants who were offered the loan and finally accepted the loan.

Source: The Student Financial Assistance Agency.

## The Non-means-tested Loan Scheme (NLS)

The Non-means-tested Loan Scheme in Hong Kong (NLS) was started in 1998/99 to provide financial assistance in the form of a loan to meet tuition-fee payments to full-time students of publicly-funded tertiary programmes. It provides supplemental financial assistance to the LSFS and is operated on a full-cost-recovery basis. The interest rate is charged at the government's no-gain-no-loss rate. It is now set at 2 per cent below the average best lending rate of note-issuing banks, plus a risk-adjustment factor (currently set at 1.5 per cent) to cover the SFAA's risk in disbursing unsecured loans. In addition, the SFAA charges an administrative fee of HK\$165 annually to cover the full costs of processing and administering the loans. Some educational institutions also require an extra handling charge of HK\$75 per application.

The NLS loan and the interest accrued are repayable in 40 equal quarterly instalments within 10 years upon the completion of the relevant programmes.<sup>12</sup> It was projected that the payment and repayment of the NLS will achieve equilibrium by the year 2011-12 for the central administration.<sup>13</sup>

Besides the full-time students enrolled in local universities, a wide range of students are now eligible for the non-means-tested loans scheme. They include all full-time or part-time students pursuing postgraduate degrees, degrees, sub-degrees or recognized professional training programmes, whether they are studying locally or participating in programmes offered locally by overseas institutions. Loans are offered to cover the tuition fees and sometimes the living expenses. In 2000-01, 10,347 students benefited from the scheme and the total amount of loans disbursed was HK\$306 million (*Table 4.4*).

**Table 4.4** Summary statistics of the Non-means-tested Loan Scheme (NLS)\*

	1999/2000	2000/2001
Number of applications received	14,780	16,679
Number of applications approved	14,750	16,647
Number of loan offers accepted	9,058 (61%)**	10,373 (62%)
Total amount of loans offered	\$427.5m	\$457.8m
Total amount of loans accepted	\$283.9m	\$306.3m

\* Includes a small number of various extended non-means-tested loans.

\*\* Figure in brackets shows the percentage of successful applicants who finally accepted the loan.

Source: From the Student Financial Assistance Agency.

12. Student Financial Assistance Agency, *Non-means-tested loan scheme/Non-means-tested loan scheme for post-secondary students 2001/02 academic year - Guidance notes* (Hong Kong: SFAA, 2001).
13. From the interview with Mr James Willis, the Controller of SFAA, on 12 November 2001. This projection was the original estimate when the NLS was first mooted in 1997 for implementation in 1998/99. It was based on assumptions in the NLS take-up rate, which far exceeds the actual figures for the tertiary students covered by the LSFS. No new projections have been undertaken since, as the NLS was expanded rapidly to include part-time tertiary studies and many other forms of professional and continuing-education courses and retraining courses over the past three years.



## Chapter 5

# Evolution of the student loans scheme in Hong Kong

It can be seen from the previous sections that the present Hong Kong student loans scheme has undergone many changes since the inception of student financial assistance in the form of a bursary. In the 1960s, loans were introduced to supplement the grant distributed to needy students. No interest was imposed until 1987. The total amount of loan offered and finally accepted grew steadily over the years.

In 1987, the interest-free loan was changed to a low-interest loan at a rate of 2.5 per cent. There was resistance from students and the loan accepted by students dropped from HK\$84.4 million in 1985/86 to HK\$70.8 million in 1988/89. However, the number of loans offered and accepted has increased since then. A probable explanation is that the interest rate was still much lower than the market rate. When students realized that the government had heavily subsidized the interest for the loan, they started to accept the arrangement. Moreover, the number of eligible applicants increased rapidly in the early 1990s as university education expanded and tuition fees escalated. The pressure for making available more funds to support the increasing demand for student loans began to build up again. The total amount of the LSFS loans distributed in a year increased to more than HK\$800 million by 1995/96.

In 1995 an extended loans scheme (ELS) was introduced to meet the unsatisfied needs of those students who had failed marginally in the means test. The interest rate charged on this ELS loan was raised to 4 per cent per annum. The total amount of this ELS was rather small, and it accounted for only 5-10 per cent of the regular LSFS loan (*Table 4.1*). However, it was important and symbolic in two aspects: a higher interest rate was gradually imposed on the loan, and some students did accept loans at a higher interest rate.

The interest rate for the ELS was still lower than the market rate at the time. It was finally abolished in 1998 and a new non-means-tested loans scheme (NLS) was established. In addition to a nominal handling fee, the NLS charges interest at a rate which covers all the costs of the loan and its administration. The interest rate is pegged with the market rate and a risk factor is built into the rate. It is now set at 0.5 per cent below the ongoing prime rate of lending for commercial banks, i.e.  $(P - 0.5)$  per cent. However, not every student who was offered the loan would accept the loan. The take-up rate of the NLS has been about 60 per cent for the past few years. The total amount of loan accepted by students stands at about HK\$300 million; this acceptance rate is approximately half of that for the means-tested LSFS loan, which charges an interest rate that is generally lower.<sup>14</sup>

The student loans scheme in Hong Kong has evolved from being totally free of interest to low-interest-bearing to its current form, which includes loans at the interest-bearing market rate. However, continuous financial support from the government is needed to keep the scheme viable. The NLS should become self-sustaining by design as the costs of the loan and the risk of default are taken as factors in determining the interest rate. But the usefulness and sustainability of any student loans scheme depend not only on the design of the scheme. In order for the loan to be useful, the loan should cover all those who are in need and students should be willing to take up the offer for investment in education. That is, the loans should reach the targeted population for the targeted purpose. In order for the loan to be sustainable, repayment needs to be ensured and total repayment must reach the level of initial loan payment of the current year at the equilibrium stage.

14. A lower acceptance rate is also partly due to the procedure in which students apply for NLS. Students applying for the LSFS can simultaneously apply for the NLS. Thus many LSFS applicants also apply for NLS on the same application form. As NLS is processed much faster than the means-tested LSFS, students are offered their maximum NLS loan (tuition fee) within three weeks of application. They are however advised to wait for their LSFS result before accepting the NLS. Once the LSFS result is available, students then decide whether their LSFS assistance is adequate and, if so, they will not accept the NLS. Some are in fact precluded from accepting the NLS since the amount of their LSFS assistance may debar them from obtaining further assistance.

## Chapter 6

# The coverage and take-up rate of the student loans schemes

Basically all students in the UGC-funded institutions are eligible for the NLS loan and 99 per cent of those who apply will be offered the loan. For example, out of 16,679 applications for the NLS loan in 2000-01, 16,647 were approved (*Table 4.4*). That is, a 100 per cent coverage rate can be assumed for the NLS loan.

However, only a small percentage of eligible students will apply for the NLS loan. The number of students applying for the NLS loans was 16,679 in 2000-01 (versus 41,194 for the LSFS loan and 76,792 for the total eligible population). Moreover, not every student who has been offered the loan takes it up. For instance, only about 60 per cent of the successful applicants actually accepted the loan in 2000-01. The relatively high interest rate may have been a major deterring factor. For those students who are eligible for the subsidized loans scheme in the LSFS, the non-means-tested NLS loans scheme is only considered a 'back-up' to meet serious shortfalls. It would be interesting to find out how these students finally financed their education after they had given up the opportunity.

Since the LSFS loan is heavily subsidized, practically all students accept the loan once they pass the means test and are offered the loan. However, not all students who apply for the loan are offered the loan. Out of 41,194 applicants only 33,252 were offered the loan and 28,136 finally accepted the offer in 2000-01 (*Table 6.1*). That is, the success rate was about 81 per cent in terms of loan offers. When the successful cases are compared with the total eligible student population (76,792), 43.3 per cent of the population in terms of loan offers, and 36.6 per cent in terms of loan recipients, were covered by the scheme.

Table 6.1 Coverage\* of the Local Student Finance Scheme (LSFS Loan), 1984-2001

	Number of loan recipients (1)	Number of applicants (2)	Success rate (3)=(1)/(2)	Eligible student population (4)	Coverage rate (5)=(1)/(4)	Average loan accepted (HK\$) (6)
84/85	10,381	13,511	76.8%	22,412	46.3	7,906
89/90	7,873	9,591	82.1%	30,850	25.5	9,375
94/95	28,857	34,130	84.6%	55,020	52.4	21,379
99/00	27,717	36,688	75.5%	64,395	43.1	22,719
00/01	28,136	41,194	68.3%	76,792	36.6	21,56

Source: The Student Financial Assistance Agency (LSFS 1981-2001) (SFAS 1994-2001).

\* Note: The coverage and success rates are higher if number of loan offers instead of loan recipients is used in column (1).

## Chapter 7

# The repayment of student loans

Students are required to start repaying the LSFS loan and the NLS loan together with the interest incurred when any of the following conditions arises: (1) upon graduation, (2) upon ceasing to be students of their institutions, or (3) in the case of NLS loans, six years after they first obtained the loans regardless of whether they are still studying or not.

The loan together with the interest incurred is usually repaid in quarterly instalments, within five years for the LSFS-loan and ten years for the NLS loan after their repayment schedules start. The interest owed is calculated in simple interest rate based on the unpaid portion of the loan, and the repayment is in 'annualized' equal instalments. SFAA issues quarterly demand notes to students to ask for repayment. Students can repay their loans in any of the following methods: (1) in cash or cheque at the Post Office, (2) by direct debit at any automated payment system through commercial banks or Payment by Phone Services. Though Hong Kong has an efficient and simple personal income tax system, it does not provide a service for collecting student loan repayments.

The deadlines for the quarterly repayment are 7 January, 7 April, 7 July and 7 October each year. If a loan repayment is not on time, a surcharge of 5 per cent on the quarterly instalment is charged for the LSFS loan. For the NLS loan, the repayment amount including accrued interest in arrears is charged at prime rate as a penalty. Deferment of loan repayment may be granted to applicants involved in further studies, financial hardship or illness. In 2000/01, 1,968 cases of deferment were approved.<sup>15</sup> This total was 2.5 per cent of all the LSFS repayment accounts handled by the SFAA.

A reminder is issued to the students after 14 days from the deadline for the payment. After another 14 days, a second reminder is sent. This second reminder is also sent to the indemnifier, the student's guarantor

15. Student Financial Assistance Agency, "Number of applications for deferment of student loan approved 2001-02" (Unpublished, 2001).

for the loan. Students who do not repay the loan for two quarterly instalments are regarded as defaulters and a serious reminder is issued to alert the students of the possibility of legal action. Serious or prolonged default cases are referred to the Department of Justice for legal recovery action. The default rate in the year 2000/01 was 1.17 per cent<sup>16</sup>, a relatively low percentage by international standards.

It is difficult to trace the loan repayment for a single student, or even for a cohort of students, who receive loans in a particular year. *Table 7.1* below shows the total payment and total repayment each year. The repayment collected in a particular year can be from loan payments of any type made out in any previous years for any reasons. It is not possible to estimate the 'repayment ratio' for any single student loan scheme from the figures in the table. However, these figures give a general picture of the repayment pattern and the commitment of the government in support of all the student loans schemes in Hong Kong.

It can be seen from the last column in *Table 7.1* that there is a continuous deficit in the student loans fund. The deficit has been growing rapidly over the years. The commitment of the government to take up the deficit is crucial in order for the loans fund to continue to operate. Even if the yearly balance (column 3) is considered, there is seldom a year that the total repayment can cover the total payment of the year. Only in 1989 was there a positive income for the loans fund because the repayment exceeded the payment of the year. The Hong Kong economy in those years was booming and might have positively affected the delinquency and default rates of loan repayment, on the one hand, and the number of students who needed to apply for financial assistance, on the other.

Besides the conditions of the general economy, the total number of students in the scheme also affects the cumulative balance of the student loans fund. The total number of students has increased rapidly as the number of university places has increased. However, the total payment from the loans fund does not necessarily follow the population of eligible students in a simple proportion. The acceptance rate of loan offer is also important and is not totally predictable, particularly when a higher interest rate is introduced.

16. Student Financial Assistance Agency, "Statistics on default cases" (Unpublished, 2001).

The yearly deficit (column 3) in the student loans fund in the 1990s grew rapidly from HK\$1 million in 1991 to HK\$795 million in 1999, and the cumulative deficit (column 6) grew to HK\$4.4 billion in 2000. A continuous financial commitment from the government is necessary to support the needy students, whether the support is in the form of grants or loans.

Table 7.1 Payments and repayments of the Student Loan Fund  
(in million HK\$), 1985-2000\*

Year	(1) Payment	(2) Repayment	(3) Year's balance	(4)* Cumulative payment	(5)* Cumulative repayment	(6) Cumulative balance
1985	\$87	\$48	-\$39	\$397	\$173	-\$224
1986	\$90	\$57	-\$33	\$487	\$230	-\$257
1987	\$81	\$64	-\$17	\$568	\$294	-\$274
1988	\$77	\$75	-\$2	\$645	\$369	-\$276
1989	\$76	\$83	\$7	\$721	\$452	-\$269
1990	\$105	\$88	-\$17	\$826	\$540	-\$286
1991	\$92	\$91	-\$1	\$918	\$631	-\$287
1992	\$176	\$92	-\$84	\$1,094	\$723	-\$371
1993	\$208	\$94	-\$114	\$1,302	\$817	-\$485
1994	\$455	\$101	-\$354	\$1,757	\$918	-\$839
1995	\$617	\$115	-\$502	\$2,374	\$1,033	-\$1,341
1996	\$852	\$155	-\$697	\$3,226	\$1,188	-\$2,038
1997	\$862	\$224	-\$638	\$4,088	\$1,412	-\$2,676
1998	\$962	\$360	-\$602	\$5,050	\$1,772	-\$3,278
1999	\$1,287	\$492	-\$795	\$6,337	\$2,264	-\$4,073
2000	\$979	\$678	-\$301	\$7,316	\$2,942	-\$4,374

\* Notes:

1. Rough estimates of total payment and repayment accumulated over the previous years from 1980.
2. A negative sign indicates a deficit that has to be met with government funding.
3. Figures in this table may not agree with figures in other tables totally, because of (a) a difference in the sources, (b) the inclusion/exclusion of various types of minor extended loans, and (c) the use of the financial year rather than the academic year.

Source: Annual Report of the Director of Account Services and the Accounts of Hong Kong for the year ended 31 March, 1978-1997; Accounts of Hong Kong, 1998-2000.



## Chapter 8

# Assessment of the student loans scheme: special features

There are three special features of the Hong Kong student loans scheme that are noteworthy for regions and countries where a similar loans scheme is being considered: (1) the application of a Student Expenditure Survey in the estimation of maximum grants and loans to a student, (2) the open-ended financial assistance and the two-tier means test, and (3) the targeting in student finance.

### The Student Expenditure Survey

It is not always easy to estimate a reasonable level of financial assistance to students. Without the information on the level of financial assistance required by each student, it is nearly impossible to get an accurate projection of total financial commitment from the government. The result would be either not earmarking enough funds to support all needy students or putting too much money into the pockets of students. Hong Kong has adopted an empirical approach in the estimation of the assistance level by surveying the expenditure patterns of the university students.

The first Student Expenditure Survey was conducted in 1982. The survey was carried out with a matrix sampling. Different groups of students from various institutions were asked to keep detailed diaries of their actual spending for two weeks during different periods of time in the year. The spending patterns of the university students over the whole year were then reconstituted from the matrix samples. The Student Expenditure Survey gives a fairly accurate estimate of what a student would actually need in order to survive. *Table 8.1* below shows the results of the survey. A ‘Student Price Index’ (SPI) is generated from the data collected from the expenditure survey along with information from the general consumer price index.<sup>17</sup> The SPI is similar

17. University and Polytechnic Grants Committee’s Secretariat, *Bi-annual Summary July 1980 to June 1982*, pp.4-5.

to the CPI in that it measures the price changes of the commodity items used by students captured in the survey to form the benchmarks for determining the maximum grants and loans level. The survey helps to get a closer estimation of the expenses required by students.

Two more Student Expenditure Surveys were carried out in 1988 and 1999. It is interesting to note that there is a decreasing trend of spending on food and an increasing trend of spending on services and entertainment. It may be a reflection of the fact that Hong Kong has become more affluent over the years. Students need financial assistance not so much for sustenance but for maintaining a preferred lifestyle.

The estimation of the level of financial assistance to students is mainly based on the average loan per student and on the projected number of successful applicants. Any adjustments to take account of changes in spending patterns over the years would have a direct effect on future financial implications and government commitment. For instance, it was found in the 1999 survey that one-fifth of the living expenses of an average student was on 'services and entertainment', which was twice the amount of that in 1988 (*Table 8.1*). Subsequently, the Joint Committee on Student Finance advised the SFAA to make proposals to revise the maximum loan calculation to include expenditure items such as service fees for mobile phones.<sup>18</sup>

18. From the interview of Mr James Willis, the Controller of SFAA, on discussing the function of the 'Student Expenditure Survey' on 12 November, 2001.

Table 8.1 Higher education student expenditure pattern, 1982, 1988 and 1999

	SES 1982		SES 1988		SES 1999	
	\$	%	\$	%	\$	%
Living expenses						
Food and snacks	3548	31.1	6142.0	23.4	14755.4	20.4
Transport	968	8.5	1975.0	7.5	5868.4	8.1
Services and entertainment	1329	11.6	2739.0	10.4	14843.2	20.5
Liquors and cigarettes	22	0.2	75.0	0.3	189.7	0.3
Clothing, footwear and accessories	1123	9.8	3236.0	12.3	8564.6	11.8
Sports goods	307	2.7	712.0	2.7	1401.0	1.9
Durable goods	876	7.7	1651.0	6.3	7846.7	10.8
Other goods	759	6.6	2383.0	9.1	4213.6	5.8
Housing expenses	258	2.3	886.0	3.4	5839.1	8.1
Academic expenses	1591	13.9	4495.0	17.1	8898.0	12.3
Others	638	5.6	1930.0	7.4	-	-
Average annual expenditure	11418	100.0	26234.0	100.0	72419.4	100.0
General consumer price index	36.5		53.3		113.2	

Source: Student Expenditure Survey, 1982, 1988 and 1999; Hong Kong By Census 1982, 1988, 1999.

### ‘Open-ended’ financial assistance and the two-tier means test

Another key feature of Hong Kong tertiary student finance assistance scheme (LSFS) is that it is ‘open-ended’. That is, “funds are provided to meet payment of financial assistance to all eligible applicants”.<sup>19</sup> Since the early 1980s, the operation of the LSFS has been free of fund limit and has operated on a basically ‘all-come-all-served’ basis. The government makes adequate funds available according to the actual financial needs of students. It was intended that the LSFS would give assistance based on individual need rather than on comparative need.

19. Student Financial Assistance Agency, *Annual Report 1994/95* (Hong Kong Government, p.4).

However, the open-ended operation of LSFS makes financial projection difficult.<sup>20</sup> That is because the take-up rate of assistance was contingent upon unpredictable factors, such as each student's socio-economic status and the overall regional economy. For instance, the original estimate of the total student finance grant was HK\$1,077 million, but the actual distribution was only HK\$840 million in 1999/00.<sup>21</sup>

Because of the 'open-endedness' of the LSFS scheme, it is important to ensure that the money distributed is not abused. As a result a 'two-tier means test' was instituted to assess the actual financial need of each applicant. The final amount of grants and loans distributed to a student is adjusted first with his/her family income and then with his/her family assets.

The first tier of the means test is based on the calculation of the Adjusted Family Income (AFI) of the applicant. The AFI is the expected family resources available for the applicant to maintain his or her study. It is the sum of the annual income of the parents (100 per cent), unmarried siblings (30 per cent) and the applicant (100 per cent), less medical expenses of chronically ill household members, divided by the number of members in the household plus a factor of one. The lower the AFI, the more the percentage of maximum grant and loan is credited to the applicant, on a sliding scale. In 2001/02, applicants with AFI less than HK\$19,887 received 100 per cent of maximum student grants and loans, while those with AFI in the range of HK\$32,962 to HK\$35,110 received only 50 per cent of the maximum grants and loans.<sup>22</sup>

The resultant grant and loan assistance from the first tier of the means test is further discounted by the second tier of the test, the asset test. The asset test is based on the calculation of the net asset value (NAV) per household member of the applicant. It is the net value of the applicant's household's fixed and liquid assets divided by the number of household members. The NAV of the applicant is checked against a sliding scale of asset values to discount further the resultant grant and loan from

20. Interview with Mr James Willis, the Controller of SFAA, on the operation of the funding model of the LSFS on 12 November, 2001.

21. The Hong Kong Treasury, "Statement of Expenditure Analysis by Head 173 Subhead 274" in *The Treasury Account of the Government for the Year-end 31 March, 2000* (Hong Kong: Hong Kong Government, 2000, p.177).

22. Student Financial Assistance Agency, *Local Student Finance Scheme Application for Financial Assistance for 2001/02-Guidance Notes* (Hong Kong: SFAA, 2001).

the first-tier test. In 2001/02, applicants with an NAV of over HK\$540,000 did not receive any assistance (i.e. 100 per cent discount), while applicants with an NAV below HK\$192,000 received 100 per cent (i.e. 0 per cent discount) of assistance.<sup>23</sup> The sum of the final grants and loans offered is usually credited to the bank account of the applicant directly.

When submitting their applications, students are required to report their family income and household assets, providing documentary proof to support all information submitted. Interviews might be arranged by the SFAA to examine all the originals of the supporting documents. In some cases, counter-checking of the successful applications through home visits were conducted to verify the information supplied. In 1998/99, almost 0.4 percent of applications or 142 cases were found to have misrepresentations and omissions of data. The total amount overpaid was estimated to be HK\$3.1 million.<sup>24</sup> Suspected fraud cases were referred to the police for investigation. Prosecution action was taken in some cases.

It is apparent from the rigorous two-tier means test that the LSFS aims to target the needy. Students from more well-off families would be screened out or credited with a lower level of financial assistance. Those who are less able to pay for their university education would receive a higher level of assistance. The equity concern here is obvious.

## Targeting with the student finance scheme

The present LSFS student finance scheme of Hong Kong aims to target students from low-income families. However, various student finance schemes have been designed in Hong Kong that target other purposes, particularly in encouraging educational development in a certain direction. These schemes provide financial assistance to a targeted population for a specific purpose.

For instance, a grant and loans scheme for teachers-in-training was introduced in 1965 when Hong Kong was in urgent need of trained teachers for primary schools with the rapid development of universal and general primary education in the late 1960s. A grant of approximately HK\$1,000 per annum was awarded and an interest-free loan of up to

23. *Ibid.*

24. Student Finance Assistance Agency, "Authentication Cases 1997/98-1999/00" and "Cases of Excessive Payment 1997/98 to 1999/00" (Unpublished, 2000).

HK\$1,200 per annum was offered to students of the colleges of education. At a time when the mean salary was about HK\$200 per month, these were extremely generous grants and loans. The loan was to be repaid over a period of not more than four years starting from the second month of obtaining employment.<sup>25</sup>

In order to encourage studies in the United Kingdom, interest-free loan assistance was introduced in 1981/82 to help Hong Kong students interested in pursuing degrees or higher diploma courses there. Two years later, a grant scheme jointly funded by the Hong Kong and the UK governments was launched. The joint scheme was intended to cover the difference in tuition fees for Hong Kong (international) students and local UK students.<sup>26</sup> The scheme ended in 1997 when the need to induce students to study in the UK was no longer deemed necessary.

A more recent example is the targeted financial assistance scheme to induce students to study overseas in certain fields. The scheme will be launched for students studying overseas in 2003. It is an extension of the existing Financial Assistance Scheme for Post-secondary Students (FASP) to accommodate for the financial needs of students pursuing overseas sub-degree-level studies in information technology, financial services and creative media. Financial assistance from both the means-tested and non-means-tested schemes will be offered. Persons aged 25 or below who have not obtained any sub-degree or above qualification are eligible. Students with proven financial need will receive either a grant or a loan capped at a ceiling of HK\$60,000 for the year 2001/02.<sup>27</sup>

25. Education Department, *Triennial Survey*. (Hong Kong: Hong Kong Government, 1970).

26. University and Polytechnic Grants Committee's Secretariat of Hong Kong, *Biennial Summary on Student Finance July 1984 to June 1986* (Hong Kong: Hong Kong Government, 1986, p. 9).

27. Education and Manpower Bureau, "Increase in Post-secondary Education Opportunities" (Unpublished, 2001).

## Chapter 9

# Assessment of the student loans scheme: equity and efficiency considerations

There is a social goal of equalization in the provision of education in most modern societies. The purpose of student financial assistance systems is to ensure that no student is denied a university education because of a lack of means. The limited resources in student grants and loans have to be distributed among students who are really in need. An elaborate system of means testing is necessary.

The Hong Kong student grants and loans scheme has a ‘two-tier’ means-test system. The less needy students receive less than the maximum amount of grant and loan from the government. The total amount of financial assistance that a student can receive from the government depends on first, his/her average disposable family income, and second, his/her per capita family asset. The Hong Kong SFAA has devoted much effort to maintaining the effectiveness of this two-tier means test, and abuse of the financial assistance system has been reduced to a minimum.<sup>28</sup> The equity aim of the Hong Kong student loans scheme does not depend only on the design of the scheme, but also on the efficiency of the operating agency.

In addition, the limited resources in student grants and loans have to be used efficiently. First, the vetting of eligible applicants and distribution of loans has to be done in an effective way. The projection of the required loan funds and the ensuring of availability of the fund are also important. Though accurate estimates of the recovery rate and the repayment rate for the outstanding loan cannot be calculated from the present data, the

28. In 1998/99, 142 cases, less than 1 per cent of the total applications, were found to have discrepancies. Suspected fraud cases were referred to the Police for investigation, and legal actions were taken in some cases. In 1998/99, 16 cases were referred to the Police and there were 12 successful prosecutions. Student Finance Assistance Agency, “Authentication Cases 1997/98-1999/00”; “Cases of Excessive Payment 1997/98 to 1999/00”; “Statistics on Cases Referred to Police” (Unpublished, 2000).

SFAA has been able to ensure that repayment is being carried out steadily and that necessary loans fund comes from the government each year. There is high efficiency in the mobilization of the loans funds in Hong Kong due to the effectiveness of the SFAA and the small geographic area that it has to cover.

## Chapter 10

# Assessment of the student loans scheme: adequacy considerations

In order for a loan to be helpful to a student, it has to be provided to the level that is adequate.

However, the level of adequacy is not easy to define. First of all, it is difficult to distinguish between genuine basic needs, luxury needs, and needs in disguise. The problem is particularly serious when the loan is heavily subsidized by the government and incurs no interest. For instance, the Hong Kong Government has been criticized for having provided unnecessarily large amounts of grants and loans to university students in the 1980s. It was alleged that some students were putting their grants and loans into the then booming stock market to make quick money.

There are generally two approaches to defining the adequacy level for student loans. The first one is to ask students what they actually need to survive. Hong Kong has been meticulous in doing this. Surveys of student spending patterns were carried out to establish the basic financial need of a standard university student studying in different fields or majors. Together with the student price index, the survival need of the university student was fairly accurately estimated. Based on such an estimate, the level of student loan has been adjusted yearly for each field of study. However, this method is tedious and costly.

The second approach is to let students decide for themselves how much loan they would like to take and if they consider the provision adequate. For this approach to be effective, students need to be made aware of the 'cost' of the loan. They have to arrive at a rational decision for themselves by weighing the cost carefully. In other words, a reasonable level of interest has to be imposed.

The Hong Kong student loans scheme has gradually moved into the approach of requiring students to decide on the adequacy level for themselves. During the early stages of the Hong Kong student financial assistance system, grants and interest-free loans were provided. Though stringent means tests were carried out, there was basically no 'cost' for students to take a loan. In 1987 a 2.5 per cent interest rate was imposed on the loan. An extended loans scheme with a 4 per cent interest rate was established in 1994. In 1998, a fully-costed comprehensive non-means-tested loans scheme (NLS) was introduced. Under the NLS, student loans incurred interest that was linked to the prime rate of the market. At this point, there was little incentive for students to take more loan than what was adequate for survival.

The funding agency also has to face the adequacy issue from the lending perspective. If the loans scheme is to be fair and equitable, it has to be 'open-ended' and 'all-come-all-served'. The government has to project an adequate amount for the loans fund each year and make available the fund accordingly. The Hong Kong SFAS seems to have done a fairly accurate job in this respect. However, the projection of what amount is adequate is a formidable task that requires a huge amount of data.

Another approach to the adequacy issue from the lending perspective is to invite commercial banks and loan agencies to participate. This will enable the market to come up with the 'adequate' amount of funds for the scheme. However, a student loan usually has no collateral and may involve higher risks than traditional loans such as those for housing. Incentives may have to be provided to the commercial loan agencies to induce them to participate and get into the lending market for students. The conditions under which commercial loan agencies would participate is an area that is worth further investigation.

## Chapter 11

# Assessment from the stakeholders' perspective: a financial analysis

From a societal perspective, a student loans scheme can be assessed with the three dimensions in educational finance, namely efficiency, equity and adequacy. In the previous sections, the performance of the Hong Kong scheme in these three dimensions has been discussed. However, in order for a student loans scheme to be sustainable, it has to be financially viable. Though government involvement in the finance of higher education is inevitable, there is a limit to how much government funds can be made available and there is room for the enhancement of private participation. What incentives are there for students and the private sector to participate? To what extent should the government intervene? A financial assessment of the scheme from the perspective of the various stakeholders will be crucial.

In addition to the government, the other major stakeholders of a student loans scheme include (1) the lending agent, and (2) the student and his/her family. The lending agent can be the university, a government unit, or a commercial bank. All these stakeholders have their own financial calculus in deciding whether to participate in the loans scheme. For instance, in Mainland China, the government shoulders 50 per cent of the interest and allocates the interest payment through the university to the bank. In Hong Kong, some commercial banks set up short-term loans to special groups of students with the purpose of indirectly expanding the bank's market share in the highly competitive credit-card market. The government is usually expected to cover the administration costs and costs of default. The ability of the lending agent to participate in a student loans scheme is affected by the extent to which the government is willing to take on these costs as 'hidden grants' to students.

It is clear from Ziderman's model of financial analysis and his estimation of the recovery ratio that the present value of the principal

invested in student loans can hardly come close to being recovered after adjustments for inflation (Ziderman, 1999). The participation of a commercial bank in a student loans scheme faces a further difficulty: it needs to operate the loans scheme as an investment activity, yet student loans usually have no collateral. Banks must be accountable to their shareholders, and thus they need to secure returns to the principal that is put into the scheme. A point of contest is the interest rate on the loans. As the interest rate imposed increases, both the participation rate and the repayment rate by students decrease. There is also criticism that student loans schemes “condemn students to debt” (Fossey and Bateman, 1998). A heavier debt will be accrued as a higher interest rate is imposed.

As long as there are externalities to higher education and resistance to a future repayment burden, students will be reluctant to take loans to invest in higher education to a level that is socially optimal. A student’s tendency to accept a loan is affected by his/her ability and willingness to pay for higher education (Chung et al., 2000). The student must be able to visualize the future returns in education and the repayment burden of the loan at present, in order to come to a realistic decision.

## Financial analysis of the Hong Kong student loans scheme

In the case of Hong Kong, there is no information on the administration costs of individual student loans schemes. The government Student Financial Assistance Agency, the SFAA, runs a number of student loans and grant schemes concurrently. It is not possible to delineate administration costs attached to a particular scheme. Though there are reports on the deferment of loan repayment<sup>29</sup>, information on the default rate of a particular loans scheme is not accessible.

It is possible, however, to financially evaluate the non-means-tested student loans scheme (NLS) established in 1998. It was designed to run on a ‘no-gain and no-loss’ basis. The principal of the loan is supposed to regenerate itself when students start to repay. Therefore, by design, the scheme should be financially viable and sustainable. The interest rate is  $(p-2+1.5)$  per cent, where  $p$  is the current market prime rate, and  $(p-2)$

29. According to a recent report of the SFAA, the number of cases in which repayment was delayed for two consecutive instalments was 299. It is about 2.9 per cent of the total number of 10,929 persons in the repayment list of the year.

per cent is a generally accepted interest rate on property mortgage in Hong Kong. In other words, the final interest on the loan is variable depending on the prime market rate at the time of repayment. In addition to the interest charged, there is a fixed annual administration fee of HK\$165 for each loan made.

The add-on interest at the rate of 1.5 per cent is a compensation for risk factors. The extra interest is supposed to cover losses due to default and other possible risks. The loan, including the principal, the administration costs and interest incurred, is to be repaid after graduation in 40 equal annualized quarterly instalments spanning over 10 years. The method of repayment is similar to that of the mortgage loans for the purchase of a house. The interest continues to accumulate during the grace period and period of delay in the repayment.

The maximum NLS for a local university student is set as the university tuition which was HK\$42,100 per annum in the year 2001/02. If a student takes the maximum loan consecutively for three years to finish his/her university education, the total loan debt upon graduation is HK\$126,300. In 2001/02, there were 15,768 students borrowing a total of HK\$493 million under the scheme. The average loan in the year was HK\$31,270, which is lower than the maximum allowable amount.

In the following analysis of the projected repayment burden and pecuniary returns on the loan, the following assumptions were made:

1. The total loan taken is the maximum, i.e. HK\$42,100 for three years.
2. The market prime interest rate ( $p$ ) is at the May 2002 level, i.e. 4.625 per cent. As a result, the annualized quarterly repayment is HK\$4,254.
3. Students repay their loans within 10 years of graduation, from age 22 to 31.

For this analysis, the earnings of university graduates and senior-secondary-school graduates (matriculation level) at age 22 to 31 were obtained from the 2001 Hong Kong Census. *Table 11.1* below shows the salary profiles of these two groups of graduates and the projection of repayment burden for the university graduates who had taken the maximum loan under the NLS scheme.

Table 11.1 Projection of repayment burden and salary gain from main employment for university graduates taking NLS loans, by age, 2001 (quarterly repayment: HK\$4,254)

Age	Mean monthly salary, HK\$ (university graduate)	Quarterly salary, HK\$ (university graduate)	Mean monthly salary, HK\$ (secondary-school graduate)	Quarterly salary gain, HK\$	Repayment burden	Ratio of salary gain over repayment
	(a)	(b) = a x 3	(c)	(d) = (a - c) x 3	(e) = 4,254 / b	(f) = d / 4,254
22	12,527	37,581	8,505	12,066	0.11	2.84
23	12,364	37,092	9,358	9,018	0.11	2.20
24	14,483	43,449	11,304	9,537	0.10	2.24
25	16,276	48,828	12,928	10,044	0.09	2.36
26	17,367	52,101	13,436	11,793	0.08	2.77
27	20,199	60,597	14,206	17,979	0.07	4.23
28	21,326	63,978	15,439	17,661	0.07	4.15
29	24,973	74,919	18,157	20,448	0.06	4.81
30	27,169	81,507	16,962	30,621	0.05	7.20
31	28,254	84,762	17,358	32,688	0.05	7.68

It can be observed in column (e) in the above table that the repayment burden for university graduates who had taken the maximum loan under the NLS scheme for three consecutive years to complete their university education, ranges from 11 per cent at the initial year of graduation to about 5 per cent in the tenth year. This is not a heavy repayment burden in terms of international standards (Woodhall, 1987). However, since Hong Kong adopts mortgage-type equal instalments over repayment years, the repayment burden is heavier in the initial years when the salary is lower. This may create difficulties for fresh university graduates who are just joining the workforce, and have a need to spend money on new attire, etc. An increasing repayment schedule, as suggested by Ziderman, may help to lessen the extra burden on young graduates during the early years. However, a greater total amount of debt will be accrued as a result.

Column (f) in the table shows the ratio of the salary gain (column d) of university graduates over senior-secondary-school graduates to the repayment instalment. It ranges from 2.20 to 7.68. This indicates that the economic return to taking the student loans to complete a university education is enormous. The salary gain is more than four times the

repayment instalment on average. However, a more detailed financial analysis from the perspective of the students will have to take other adjustment factors into consideration. First, there is the probability of being employed or unemployed. The census only shows the mean salaries for those who are gainfully employed. The unemployment rate would pull down the expected rate of returns to education. Second, the market prime interest rate varies. The prime interest rate in May 2002 was lower than average. There were times when the rate rose to more than 10%. Finally, if there is a very progressive income-tax system, the take-home income should be estimated and be used in the calculation instead.

### A cost-benefit analysis

A cost-benefit analysis from the perspectives of the different stakeholders can be delineated from the above financial analysis of the student loans scheme. Stakeholders will generally behave in response to the costs and benefits of participating in the scheme. It is likely that there is a gap between the expectations of the lending agent and the students on the costs. This gap has to be filled by the government in order for the scheme to function. How much should the government intervene? In Mainland China, the government has promised to take up 50 per cent of the interest payment. In addition, should the interest be fixed at a rate with government input? A study of the pecuniary and non-pecuniary benefits of the scheme for the different stakeholders is important. It will provide important information for the government in inducing more commercial banks to participate in the loans scheme. *Table 11.2* below summarizes the cost-benefit calculus of the three parties involved.

**Table 11.2 Cost-benefit analysis of key stakeholders of the student loans scheme for higher education**

Stakeholder	Lending agent (a)	Student (b)	Government (c)
Costs	<ol style="list-style-type: none"> <li>1. Admin costs</li> <li>2. Default costs</li> </ol>	<ol style="list-style-type: none"> <li>1. Loan interest (Repayment burden)</li> <li>2. Indirect private costs</li> </ol>	Difference between (a) and (b) (Hidden grants)
Benefits	<ol style="list-style-type: none"> <li>1. Pecuniary returns on the investment</li> <li>2. Non-pecuniary benefits</li> </ol>	Private returns to higher education	<ol style="list-style-type: none"> <li>1. Social returns to higher education</li> <li>2. Release of social resources for development in areas other than higher education</li> </ol>

## Chapter 12

### Concluding remarks

Hong Kong seems to have established a rather equitable and efficient student loans scheme with adequate funds from the government. There are several reasons for its success:

- (1) There is a long history of development for the present student loans scheme in Hong Kong. Interest charging has been introduced gradually. The evolution of the two-tier means test and the Student Expenditure Surveys has played an important role.
- (2) There is the grants component and a low interest loans component in the major student finance assistance system (LSFS) to take care of the most needy. The loans charging market interest rate (NLS) are made available to those who are not qualified for the LSFS or who find grants and loans from LSFS inadequate. The government's effort to maintain an 'open-ended' student finance system is crucial.
- (3) A centralized overseeing agency, the SFAA, has been established under the government. It has been able to project the total grants and loans needed and to secure the necessary funding from the government each year. The agency has also been able to distribute the grants and loans efficiently.
- (4) The geographic area of Hong Kong is small. Although the number of students included in the loans scheme is large, these students can be located quite easily and repayment notice can be served promptly.
- (5) Hong Kong's economy has been generally healthy and university students are able to obtain employment locally upon graduation. Graduates are able to repay their loans without too much difficulty.

However, the context of the student finance assistance scheme in Hong Kong is changing rapidly. First of all, the ceiling number of students to be included in the scheme is no longer totally predictable. The Chief Executive of the HKSAR has announced the policy objective of increasing the provision of higher education to 60 per cent of the age cohort by 2010. The government has been very careful not to include students from the

Open University into the LSFS scheme, though the pressure to do so has been high. It is very likely, however, that the coverage of the loans scheme has to expand to include other categories of student.

Another factor affecting the number of students eligible for aid in the student finance assistance scheme is the condition of the general economy. Family income will fall in a downturn of the economy and the number of 'needy' students will increase. It will be extremely difficult to project the maximum fund required to support the student loans scheme if it continues to operate in an 'open-ended' mode. The present equity and adequacy levels of the loans scheme may be difficult to maintain.

In addition, because Hong Kong is facing a deep and rather long economic downturn, as are most other economies in Asia, the new generations of university graduates are unable to obtain local employment as easily as former generations. The HKSAR government is now encouraging university graduates to 'look-North' to explore employment opportunities in the booming economies of Mainland China. University graduates from Hong Kong will soon be dispersing all over the country. It will be difficult for the unemployed to repay their student loans, and it will be difficult to trace the university graduates if they are not working within the small Hong Kong geographic area as they did in the past. Repayment of student loans will become more unpredictable and the default rate will increase.

On the other hand, some commercial banks in Hong Kong have started their student loans schemes.<sup>30</sup> The total scale of these student loans still has to be estimated, but the 'market' for commercial student loans is appearing. It will be important to find out why and how such a student loans market operates. For example, it will be useful to analyze the costs and benefits of participating in the market from the perspectives of the various stakeholders, including the government, the students as well as the lending agency.

30. The Wing Hang Bank, Bank of East Asia, Wing Lung Bank and Heng Seng Bank in Hong Kong have offered loans to students charging interest at the rate of 0 per cent to (P+3.5) per cent under different conditions.

A financial analysis of the NLS scheme shows that while the level of repayment burden is rather low, the economic returns to completing university education are high. There is room for the participation of commercial banks in the interest-bearing student loans scheme. The Financial Secretary of the HKSAR has recently positioned himself as a 'proactive market facilitator' in his Budget Report 2002. It will be important to find out the costs and benefits of various facilitation measures, such as subsidizing interest and acting as indemnifier, for the student loans market from the perspective of the government.



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