

Discussion about diversified funding for Chinese higher education

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Abstract: Chinese higher education funds mainly rely on governmental sources with support from other sources. In recent years, although the governmental funding has increased rapidly, its proportion in total education revenue has been constantly decreasing. This article analyzes the structure of higher education funds and insists that governmental funds and non-tuition social contribution should be the main sources. Research-oriented universities should focus on increasing funds through research projects. Local universities should participate in more social activities and increase their funds through social donation income. This article further discusses five issues about policy: the administration of specialized funds from the central government, funding standard at provincial level, principles to fix tuition standard, development of non-governmental education, and the construction of the financial sustainability for higher education institutions.

key words: higher education, governmental funding, social contribution, policy

Since 1992, China has developed into a new era and the transaction from planned economy to market oriented economy is gradually taking place. Then, a form of new relationship between the government and the universities is established which means the authority governs the universities in general and universities enjoy more autonomy to satisfy the social need. As a result, the funding sources for the higher education institutions are diversified. All of these have stimulated the development of higher education. For example, during the ten years period from 1994 to 2004, the funding for higher education institutions increased by 6.19 times and the college enrollment increased by 2.26 times.

1. Government's major role of funding in higher education

It states in Higher Education Law: The nation establishes the higher education funding system with the governmental funding as the major source and assisted by other non-governmental funding sources.

1.1 Higher education governing system and related funding system

Both central and provincial level authorities are responsible for governing higher education institutions in China, and provincial level takes more responsibility. In year 2005, there are total 1,792 higher education institutions in China, among them, 111 institutions are governed by central authorities, 1,431 are governed by provincial authorities and 250 are non-governmental institutions.

Accordingly, the institutions governed by central authorities rely mostly on central governmental funding and provincial universities rely on provincial funding. Some city level universities or colleges are funded by municipal government and

private institutions are funded by their investors and tuition income. Central authorities also provide funding to selected research project.

1.2 Total funding to higher education increased dramatically

In recent years, with the increasing government attention and social assistance, funding to higher education has increased dramatically. The government funding in year 2004 is 4.32 times of the 1994 which is further illustrated in graph 1

Graph 1. Nation wide Education Funding

	1994	1998	2002	2004
Government funding to higher education within budget	17667940	26346683	56052130	76250112
Total government funding to higher education	17901983	27447023	64009109	84995756
Total revenue of higher education	24754446	41509810	121347494	177859691

Information Source: Calculated and edited according to data gathered from “China Education Revenue Statistics: 1994”, “China Education Revenue Statistics: 1998”, “China Education Revenue Statistics: 2002”, “China Education Revenue Statistics: 2004”, Publisher: China Statistics, 1995 Edition, 1999 Edition, 2003 Edition, 2005 Edition.

1.3 The classification of higher education funding

Since year 2002, Ministry of Finance has allocated the budget to central government branches in this method: basic expenses plus project expenses. Basic expenses mean that the annual budget for daily operation and normal work. Project expenses referred to the additional project the government branch undertakes to achieve specific development goal. The authority that governs the higher education follows the above format as well.

Specifically, higher education funding consists the following major parts:

Operation expenses for higher education are allocated according to per capital expenses budget.

Research Expenses is directly transferred after going through bidding, application, evaluation, and allocation procedures.

Construction expense is allocated on project bases.

Special funding: Along the funding increase to education from central government, the central government has also increased its special funding to higher education since 1990s. There are several projects such as “211 Project”, “985 Project”, two rounds of “Education Invigoration Action Plan”, and a series of other projects that

have been implemented under this category.

2. The characteristics of diversified higher education funding

The purpose of reform to Chinese higher education funding is to improve the old revenue system and better delegate the financial responsibility to the government, society, institutes and students. An education funding system that relies on governmental funding with assistance from other sources is to be gradually established.

2.1 Major education funding sources

Currently, the funding sources for higher education can be categorized into the following:

Finance is referred to the funding from government finance department including central and local levels to support the daily operation, scientific research and other funding.

Tax is referred to the proportion of tax allocated to education usage or national tax deduction to education institutions.

Expenses mean the tuition and fees of room and board that collected from the students according to national regulations.

Production means the income that generated by university run business.

Social income means the donation from domestic and foreign sources.

Foundation means all sorts of foundations established by organizations and individuals in the HEIs.

Science income means the income from taking up scientific project or providing consulting services.

Loan means the bank loan that higher education institutions get.

Interest means the interest income form the “safe, secure and low risk” operation of institutions’ own fund.

2.2 The development of higher education funding and its structure

According to “China Education Funding Statistics”, in year 1994, the total funding to higher education was 24.754 billion yuan, 17.902 billion yuan was from governmental sources which represented 72.32%. In year 2004, however, the higher education funding reached 177.86 billion yuan and the governmental fund was 84.996 billion yuan represented only 47.79% of the total.

In 2004, the funding structure of higher education was as following¹:

Government funding for operational expenses made up 42.87% of the total revenue; additional education funding made up 0.62%, construction funding made up 5.10%; operation income made up 42.87% (including tuition income 30.05%); school business, students’ work and social services made up 1.14%; donation made up 1.05%; other income made up 5.88%.

2.3 Potential to increase for government fund in higher education

¹ P.36-37, China Education Revenue Statistics: 2004, Publisher: China Statistics, 2005 edition

In the future, the potential sources for further higher education funding increase should be the government and other social sources excluding the tuition fees.

In Chinese education funding sources, governmental funding and student tuition are currently playing important roles. For example, in 2004, the total of government funding and student tuition take up 78.64% of the total funding. However, neither of these could be further increased structurally.

In the education funding allocation system, higher education takes up relatively high proportion. Government funding to higher education institutions is about one quarter of the total funding to education. Therefore, it is impossible to further increase the funding proportion to higher education. At the same time, student tuition is relatively high in China already which is far exceeding the world wide accepted one quarter standard. It has caused social concerns to some extent.²

In year 2004, the government expenses to education only took up 2.79% of the GDP, which is lower than the 4% governmental target goal. Naturally, with the funding to education increase, the funding allocate to higher education will increase as well. All of these are up to the government's dedication.

2.4 Different strategies to improve social contribution

Higher education institutions should strive for social income other than tuition, which may consists the income from participating in education and scientific activities and all forms of donation.

In graph 2, it demonstrates the year 2004 revenue from school run business, student work, and other social service, which added up to 1.912 billion yuan. The funding for academic research totaled 6.322 billion. The above two items added up to 4.9% of the total revenue. This percentage is relatively low and there is much room for them to be improved. Such figures are 9.61% for institutions governed by central authorities and 1.84% for institutions governed by local authorities. There is obvious difference between the two. Furthermore, central authorities governed institutions had much advantage in academic research funding over the locals.

Graph 2: Partial Project Income and Its proportion to Total funding in Year 2004

Unit: thousand yuan

	Income from school run business, students' work and social services		Research fund within the budget		Total Revenue	
All Higher Education Institutions	1910719	1.14%	6322313	3.76%	168306883	100%
Institutions Governed by Central	997000	1.51%	5362710	8.10%	66223313	100%

² Since 1989, China has started to collect tuition fee in higher education institutions. Tuition has taken up more proportion of the education expenditure which increased from 4.6% in 1990 to 11.1% in 1995, then to 22.1% in year 2000.

authorities						
Institutions	913719	0.90%	959603	0.94%	102083570	100%
Governed by						
Local authorities						

Data Source: P.32-37, "China Education Funding Statistics: 2004", Finance Branch of China Ministry of Education, Population Statistics Branch of China Statistics Bureau, Publisher: China Statistics, 2005 edition

From 1999 to 2000, the annual sales and service income made up 23% of the higher education funding in U.S. Among these universities, research oriented universities took up 18.5% and high level research universities' income in this field was lower. This further proves that research oriented universities who are usually governed by central government in China should pay more attention to income from scientific research and local universities should attend to other social service income.

In year 2004, donation revenue to Chinese central governed universities made up 2.26% of their total funding while the donation funding to American research universities was about 16.25%. Despite the country background difference, Chinese universities should strive more effort into the donation income sources.

3. Several Policy Issues

There are several education funding policy issues that need to be attended to:

3.1 Strengthening the design and administration in central government's project fund

As the project fund increases, scientific administration theory and techniques should be invited. Certain methods such as efficiency evaluation procedure should be introduced to improve the cost effectiveness.

3.2 Encourage the provincial government to allocate funds to provincial universities according to per student standard.

Currently, central universities' fund allocation is based on related per student standard but most of the provinces could not maintain such standard. As a result, some local universities face serious inadequate funding problem. In 2004, per student education expenses of central universities was 24,100 yuan while it was 12,200 in local universities; the operational fund to central universities was 11,700 yuan while it was 4,900 in local universities. The government fund to local universities on student bases in certain regions was even getting lower which cause more serious concerns.

3.3 Two considerations for determination of higher education tuition

The key to higher education tuition reform is the affordability, reasonability and usage of the tuition income. The determination of level of tuition fee should consider both the education expenses and per capital income.³ For example, tuition fee could

³ In 2005, rural area per capital income was 3255 yuan and urban area per capital expendable income was 10493

be set at 25% of the education cost and further adjusted according to regional income variation.

3.4 Promote non-governmental education to encourage social contribution to higher education

In the recent ten years, Chinese private funded education has developed rapidly. For example, in 1997, there were only 22 private colleges. This figure increased to 250 in 2005. And up to April 2006, there are 317 independent higher education institutions. Because private colleges are closer to the market, they can help to meet the constantly increasing social demand for education. From the development of non-governmental education, it can be concluded that they are influential in attracting social contribution. They have attracted funds from other industry segment into education field. Therefore, the most important point is to find a better method for facilitate such transfer.

3.5 Strengthening the universities' financial sustainability

Chinese higher education has experienced great expansion in recent years. During this period, many universities and colleges have borrowed loans from banks to facilitate such expansion. Now, most of them are getting into repaying period. This has caused deficit to many universities, which naturally increased the financial risks. Therefore, universities should establish system to attract social contribution and improve the consciousness about risk aversion strategy to strengthen their financial sustainability.