

# Higher Education Finance and Cost-Sharing in Germany

## I. A Brief Description of German Higher Education System

The German higher education past is characterized by a clear binary differentiation between universities and specialized institutions of engineering, medicine, economics, and various colleges and vocational schools. However, beginning in the 1960's as Germany moved from *elite* to *mass* education, a number of the non-universities were ungraded. Specialized colleges attained university status, and teacher-training colleges were absorbed into the university system. Perhaps the most significant change occurred when engineering schools and higher vocation schools were upgraded to Fachhochschulen, now referred to as *universities of applied sciences*. The new term is supposed to provide more transparency for foreign students interested in studying in Germany. Universities of applied sciences have different admission prerequisites than the classical German universities, and the study period of four years includes a lengthy practical work placement in a related professional field. As a rule, graduates of Fachhochschulen who transfer to universities will have to study one or two more years in order to achieve a university diploma. Parallel to the traditional system, in which the only university first degree was the *Diploma*, bachelor and master degrees have been introduced in accord with the European Union's 1998 Bologna Declaration, attempting to conform European university degrees around the "*bachelors-masters* model.

Participation rates have increased dramatically, resulting in the massification of German higher education. In 1960's, 8.7 percent of college-age individuals participated in higher education in West Germany, with students attending universities outnumbering those attending Fachhochschulen by more than 3 to 1. By the time of unification, the participation rate had more than tripled to more than 30 percent, with a slightly higher growth rate in the Fachhochschulen.

German higher education is overwhelmingly public, consisting in 2007 of 103 universities (traditional, technical, comprehensive and special), 206 universities of applied sciences, or Fachhochschulen, 53 academies/colleges of art and music, 15 theological seminaries, and 6 teachers colleges. The overall growth and changes in sector composition is shown in Table 1. Private higher education, mainly universities of applied science and theological colleges, in 2007 totaled 70 institutions and enrolls approximately 20,000 students (Kaulisch and Huisman 2007).

Public universities are defined as, "corporations under public law" whereby professors are civil servants, degrees are state degrees and student admission is governed by national law. Some states, or *Länder*, have tried to establish other legal forms for universities--e.g. public universities in Lower Saxony under the new state law will have the opportunity to be run as foundations. The university's basic budget comes from the states. All academic institutions fall under both the federal *Framework Act for Higher Education* and the laws and regulations of the respective *Länder*. However, the higher education institutions are guaranteed the constitutional right to self-administration.

The ministries of education or the higher education ministries of the 16 individual *Länder* govern the higher education institutions. Due to this federal approach to higher education policy there is a wide variety of rules and systems. However, the trend is clearly toward an increasing degree of autonomy. In most of the states, detailed state planning and regulation has been lessened, and a *steering approach* has been introduced with instruments such as lump-sum budgeting, contract management, and formula funding.

In 2005, the federal and state governments implemented an initiative, the Excellence Initiative, to create an elite sector of research universities that will strengthen science and research in Germany, and improve its competitiveness internationally. The initiative will provide significant additional funds for the establishment of graduate schools and clusters of excellence and the

promotion of excellence universities. Each of the graduate schools will receive Euro 1 million each year and each cluster of excellence will receive Euro 6.5 million per year

**Table 1**  
**Growth in German Public Higher Educational Institutions, By Sector, 1960-2007**

Type of Institution	1960	1965	1970	1975	1985	1996	2007
Universities	33	34	41	49	59	90	103
Theological seminaries	17	17	14	11	15	16	15
Teacher's colleges	52	54	51	19	10	6	6
Art academies	24	26	26	26	26	46	53
Comprehensive universities <sup>b</sup>	–	–	–	11	8	1	–
Fachhochschulen <sup>c</sup>	–	–	98	97	122	176	206
<i>Total</i>	<i>126</i>	<i>131</i>	<i>230</i>	<i>213</i>	<i>240</i>	<i>335</i>	<i>383</i>

<sup>a</sup> Including technical universities and special universities.

<sup>b</sup> Since the late 1980's, most comprehensive universities are included in "universities" in statistical overviews.

<sup>c</sup> Since 1975, including universities of applied sciences for Public Administration.

Sources : BMBF 1999. Kaulisch and Huisman 2007.

At the same time, some Länder retain authority over: (a) approval of the statutes of higher education institutions; (b) regulation of institutional organization and administration through higher education laws --in particular the administration of staff, budgets, and finances; (c) approval of new course programs; (d) approval of study and examinations regulations; (e) confirmation of rectors and presidents after election; and (f) confirmation of professors. In other Länder, some of the regulatory function has been given to university councils, which have similar functions to the American boards of trustees. Furthermore, in some Länder all staff is employed and confirmed by the university presidents. And in all states the internal budgeting processes have been deregulated.

There is a very small but growing private sector (70 private institutions in 2007) in German Higher Education. These institutions are funded by tuition revenue and private funds, and in some cases are also subsidized by the states. They are also subject to the regulatory nature of the Länder. Private universities charge tuition fees.

Until very recently, the Federal Framework Law (HRG-Hochschulrahmengesetz) banned the introduction of tuition fees by the Länder. Certain exceptions were made and several Länder (Baden-Württemberg, Bavaria, Saxony, Berlin, Lower Saxony and Brandenburg) implemented the special forms of fees that were allowed such as tuition fees for students who exceeded the normal duration of a certain program plus 4 semesters: tuition fees for students enrolled in a second degree, and enrolment fees. There is no loan or grant policy connected with these forms of tuition fees. The *tuition fees* go to the universities; the *enrollment fees* become part of state budgets.

In January of 2005, after several years of debate, the country's Supreme Court overturned the ban in a case brought by six states and ruled that individual states could introduce tuition fees (Harding). So far six Länder (Baden-Württemberg, Bavaria, Hamburg, Lower Saxony, North Rhine-Westphalia and Saarland) have introduced tuition fees of €500/semester. In Lower Saxony and Northrhine-Westphalia the institutions have to decide upon the implementation within a range from 0-500 €. The Land of Hesse introduced tuition fees for the 2007/08 academic year, but

in an interesting reversal this summer (2008), decided to abolish them once again starting with the winter 2008/08 term (Stuchtey 2008). Hamburg changed its system in 2008 to an Australian type of deferred tuition fees with income-contingent loans. Tuition fees have become a major issue in election campaigns and the Social Democratic Party campaigns in most Länder with the promise to stop tuition fees in case of being elected.

Parents have a legally-enforceable obligation depending on their financial means, to support their children's expenses of books, room, and board. For this reason, some financial support is directed to the parents: All families with children studying up to the age of 27 receive the "Kindergeld", a payment of €154 per month for the first child (and even higher for further children) and benefit from certain tax allowances. Other sources of support for the expenses of attendance include: (a) grant/loans provided by the federal state under the Federal Education and Training Assistance Act (BAföG); (b) low interest loans from state programs including BAfoG state loan, BAFoG bank loan and education loans; (c) private bank loans; (d) scholarships provided by a private or a public foundation; or (e) part-time employment. Despite the fact of many students being part-time employed no formal status of a part-time student exists in German higher education. The market for private loans expanded rapidly with the introduction of tuition fees.

The Federal Education and Training Assistance Act (BAföG) was originally devised in 1971 to provide the needy students with non-repayable state grants, the level of which was dependent on parents' income. Later, these grants were changed to a means-tested combination of a 50 percent non-repayable grant and a 50 percent interest-free loan, having to be repaid within twenty years, beginning in five years after graduation. Federal Government and Länder provide the funds for BAFöG in a 65-35 ratio. There are merit-based elements in the BAFöG: after the 5<sup>th</sup> semester, students have to submit a "certificate for qualification" in order to maintain their BaföG eligibility. If students need more time than the normal length associated with a certain program, they may receive a loan only, at an interest rate of about 4-5 percent and a repayment obligation beginning 6 months after graduation.

The BaföG grant is differentiated according to several aspects of living costs: e.g. students in the "old states" of Western Germany receive more than those in the "new states" in the east; the same is true for students living on their own compared with students living with their parents. Also students in certain cities with especially high living costs may receive additional grants. The maximum monthly BAFöG is €643. As of 2005, 345,000 students received BAFöG grants and of there, 38 percent received the full assistance granted.

Standard BAFöG applications are submitted through the universities' Financial Aid Offices, which decide which students are eligible for the grant/loan BAFöG (described above) and/or the BAFöG bank loan. Under the low-interest BAFöG bank loan, eligible students receive monthly loan disbursements from the KfW Förderbank (part of the KfW Bankengruppe, a public law institution guaranteed by the Federal Republic) for which no security is required. Interest is compounded starting from the disbursement of the first loan installment at a variable rate based on the 6-month European Interbank Offered Rate (EURIBOR) plus a 1% fee to cover administrative expenses. Once repayment begins (after 6 month grace period), students may negotiate a fixed interest rate with the KfW Förderbank for the remaining loan term (limited to no more than 10 years) and must pay in equal monthly installments of at least €105. Students' interest bearing bank loan must be paid before the interest-free BAfoG loan and both must be paid within 22 years.

Students may also apply for a federally funded Bildungskredit Student Loan through the Federal Administration Office (BVA). The non means-tested Bildungskredit Student loan is granted to cover expenses that the BAFöG does not cover and requires no security. The loan is disbursed in monthly installments of €300 for a maximum of 24 months. Interest is compounded from the date

of disbursement at a variable rate based on the 6-month EURIBOR and includes a 1 percent fee to cover administrative expenses. Repayment is due in monthly installments of €120.

German students (and EU citizens who have lived in Germany for three years) may also apply to a sales partner of the KfW Förderbank Student loans for a non means-tested student loan for living expenses. KfW's Student loans provide up to €100 to 650 per month for living expenses during a student's first course of study for up to 10 (and in some cases even 14) semesters. The loan carries a variable interest rate and is adjusted every six months to the current capital market interest rates. A maximum interest rate level for 15 years is guaranteed at the contract agreement. Interest payments may be deferred during the grace period of six to 23 months. Borrowers have up to 25 years to repay the loan. The sales partner earns €238 for services, which is prefinanced by the KfW and becomes part of the loan.

## II. Estimated Expenses of Higher Education

**Table 2**  
**Higher Education Expenses Borne by Parents and Students**  
**In Germany, First Degree, Academic Year 2007-08 (10 months)**

[National currency converted to \$US by 2005 World Bank International Comparison Program Purchasing Power Parity \$1 = Euro .8926]

		Public Universities		
		<i>Low Public</i>	<i>Moderate Public</i>	<i>High Public</i>
<b>Instructional Expenses</b>	Tuition	0	€500 [\$446]	€500 [\$446]
	Other Fees	€100 [\$89]	€100 [\$89]	€100 [\$89]
	Books & Other Educational Expenses	€300 [\$268]	€300 [\$268]	€300 [\$268]
	<b>Subtotal Expenses of Instruction</b>	<b>€400 [\$357]</b>	<b>€900 [\$803]</b>	<b>€900 [\$803]</b>
<b>Student Living Expenses</b>	Lodging	0	€2,000 [\$1,785]	€2,900 [\$2,588]
	Food	€540 [\$482]	€1,100 [\$982]	€1,540 [\$1,375]
	Transportation	€710 [\$634]	€710 [\$634]	€720 [\$643]
	Other Personal Expenses including health insurance	€2,100 [\$1,874]	€2,100 [\$1,874]	€2,100 [\$1,874]
	<b>Subtotal Expenses of Student Living</b>	<b>€3,350 [\$2,990]</b>	<b>€5,910 [\$5,275]</b>	<b>€7,260 [\$6,480]</b>
<b>Total Cost to Parent &amp; Student</b>		<b>€3,750 [\$3,347]</b>	<b>€6,810 [\$6,078]</b>	<b>€8,160 [\$7,284]</b>

*Low Public:* Living at home with parents in a Länder with no tuition fees.

*Moderate Public:* living in dormitory or shared apartment in a Länder with tuition fees.

*High Public:* living as an independent adult in a Länder with tuition fees.

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