Funding allocation
in German higher education

Presentation for the Kyoto University

Hanover, March 6, 2007
Astrid Schwarzenberger

1. **Introduction to German higher education funding**

2. Incentives for competitive performance in formula-based funding

3. Indicators used in formula funding models

4. Use of target agreements

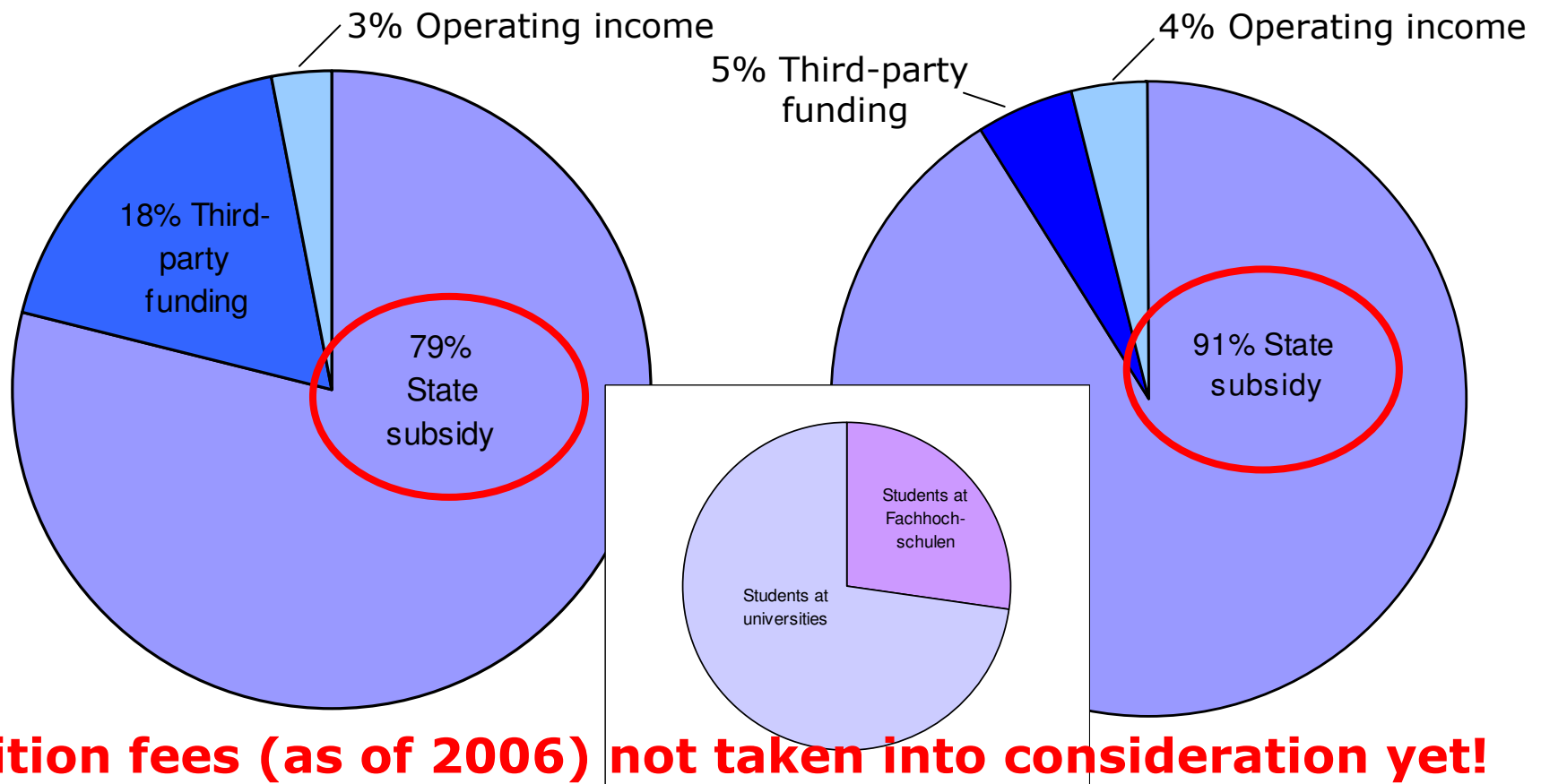5. Internal allocation procedures

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16 *Länder*

each responsible for higher education within its realm

Map: © Bundesamt für Kartographie und Geodäsie www.ifag.de

Introduction to German HE funding

Universities (without medicine)   **Fachhochschulen**

3% Operating income

5% Third-party funding

18% Third-party funding

79% State subsidy

4% Operating income

91% State subsidy

Students at Fachhoch-schulen

Students at universities

Tuition fees (as of 2006) not taken into consideration yet!

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Introduction to German HE funding

	2000	2001	2002	2003	2004	2005	2006	Comments on stability of model
Baden-Württemberg	14	14	21	20	20	20	**20**	*Stable. Review in 2007*
Bayern	1.5	1.5	1.5	1.5	1.5	1.5	**1.5**	*Review in 2007*
Berlin			6	10	15	15	**20**	*Reviewed in 2004*
Brandenburg					95	95	**95**	*Review in 2007*
Bremen				5	5	10	**10**	*Reviewed in 2005*
Hamburg			5	5	5	85	**85**	*Model extension in 2004*
Hessen				95	-	-	**-**	*Model put on hold. Under review*
Mecklenburg-Vorpommern			1	1	2.5	2.5	**4**	*Stable growth*
Niedersachsen							**3**	*Growth planned. Procedure for Fachhochschulen since 2000*
Nordrhein-Westfalen			8	8	14	17	**20**	*Stable growth*
Rheinland-Pfalz	95	95	95	95	95	95	**95**	*Stable*
Sachsen						1	**1**	*Review 2006/07*
Schleswig-Holstein							**5**	*New model*
Thüringen				15	15	15	**15**	*Stable. Review planned for 2008*

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Incentives in formula funding models

- from "discretionary incremental funding" to formula funding models
- trade-off between predictability and flexibility: only small share of state grant allocated via formulae
- basic grant vs. performance grant

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Incentives in formula funding models

- scope of competition:
  - competition between all institutions
  - separate competitions between universities and between *Fachhochschulen*

- choice of benchmark:
  - institutions' performance within one *Land*
  - national average
  - institutions' past performance

- differences between subject groups:
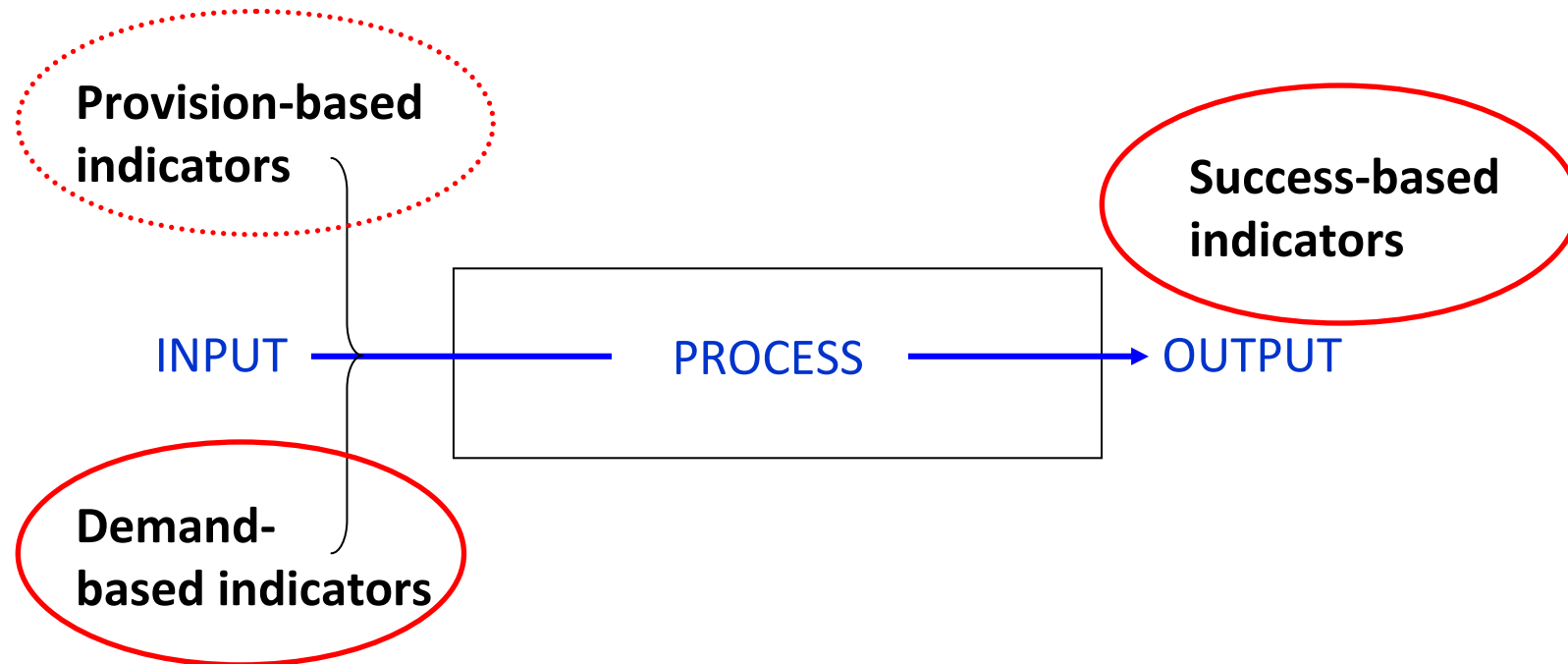 - separate competition within subject areas
  - weightings

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Incentives in formula funding models

- limited funds: improved performance, but still lose out?
- limited losses (and gains): tolerance bands

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Indicators used in formula funding models

Provision-based indicators

Success-based indicators

Demand-based indicators

INPUT ⟶ PROCESS ⟶ OUTPUT

Indicators used in formula funding models

Observations

- main areas: teaching and research
  also included: gender equality, internationalisation
- focus on teaching rather than research
- concentration on just a few homogenous
  indicators:
  - teaching: number of students/graduates
  - research: third-party funding; doctorates and
    Habilitationen

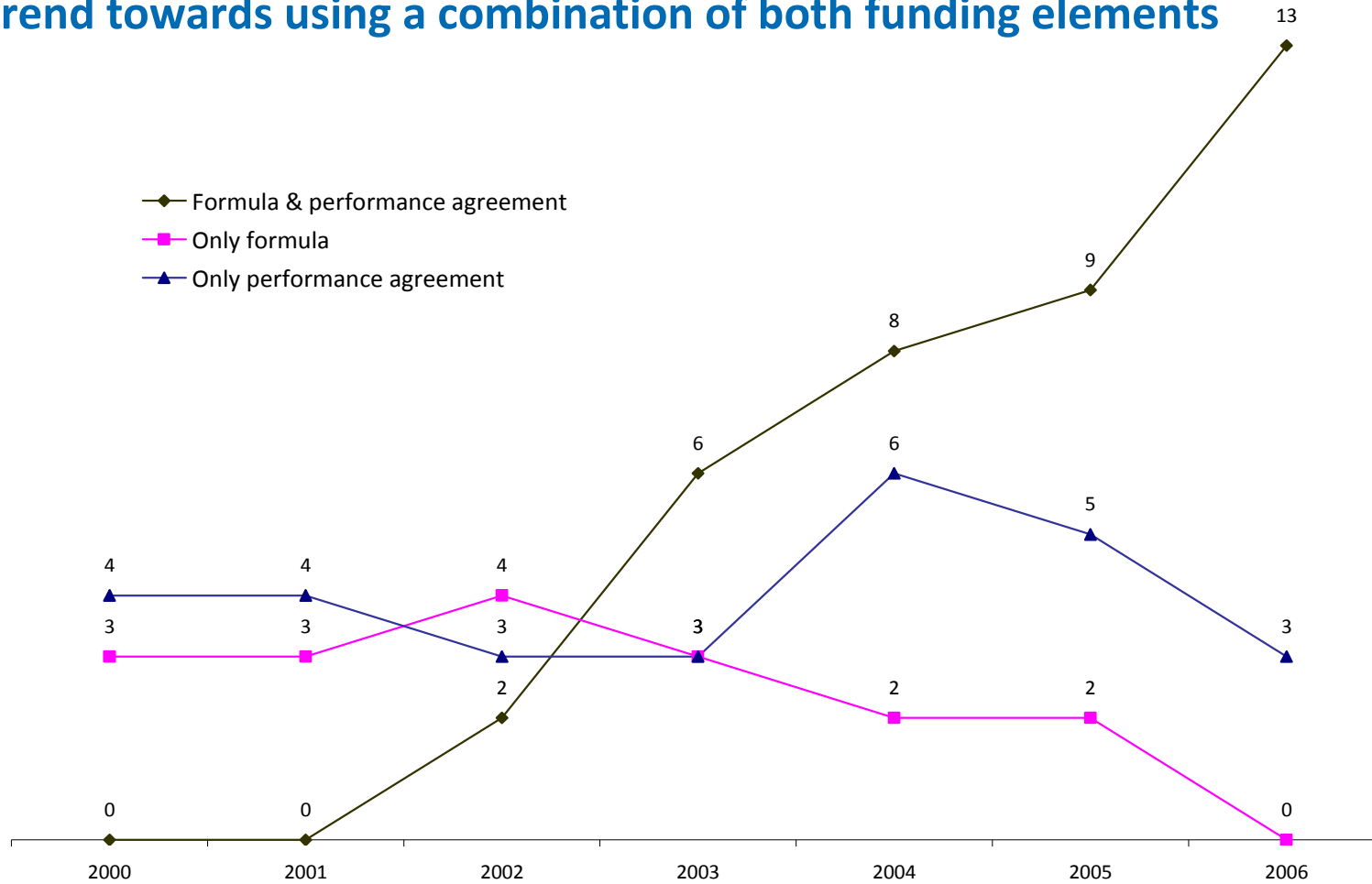# *Indicators used in formula funding models*

Problems

- conflict of stability and reactivity
- time lag: reference to values from previous years
- differences between subject groups
- number of indicators used

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Use of target agreements

The number of Länder using formula-funding and/or performance agreements 2000-2006:
A trend towards using a combination of both funding elements

Legend:
- Formula & performance agreement
- Only formula
- Only performance agreement

A. Schwarzenberger: Funding allocation in German higher education

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2. Operationalisation of incentives for competitive performance in formula-based funding

3. Indicators used in formula funding models

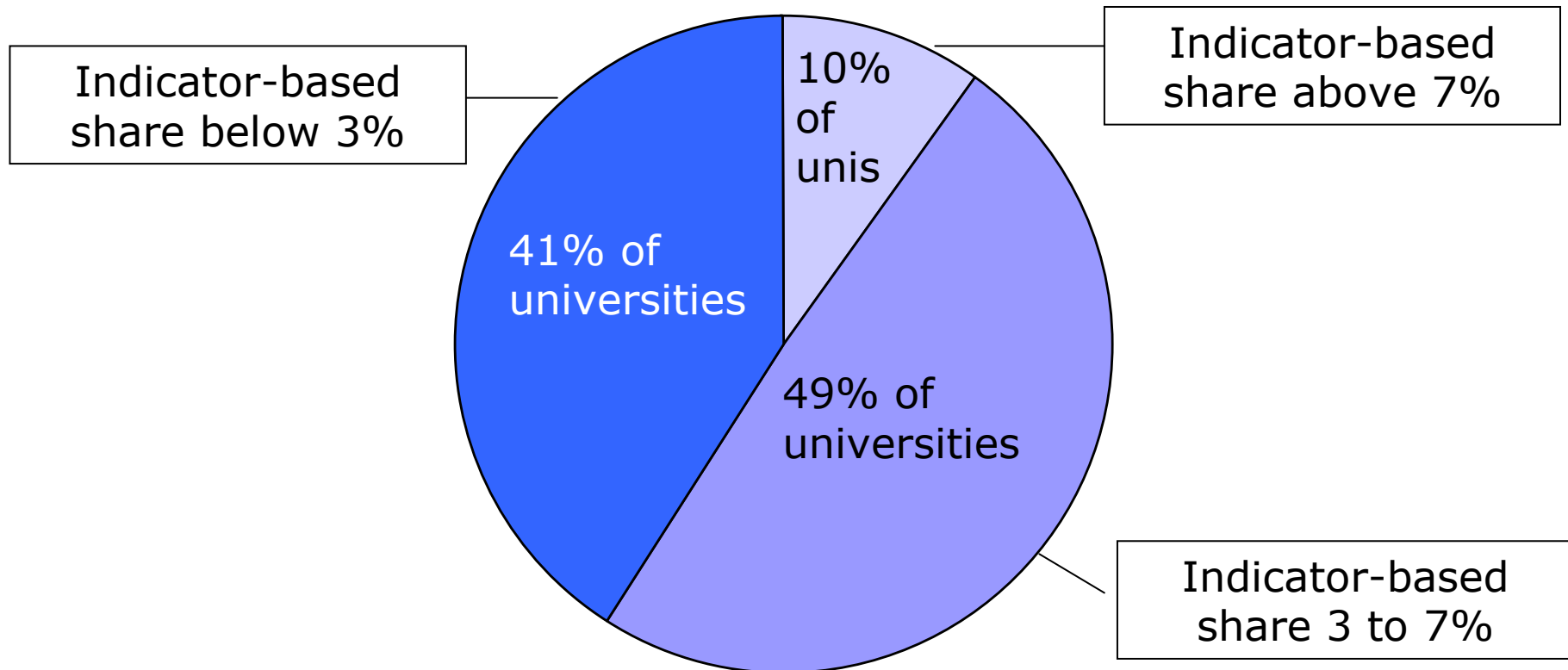4. Use of target agreements

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Internal allocation procedures

State of implementation at public German universities (2003):

- 86% of universities use indicator-based models, a further 12% have concrete plans to introduce them

- 29% of universities use target agreements, a further 28% intend to introduce them

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Relevance of indicator-based funding for the budget

Indicator-based share below 3%

10% of unis

Indicator-based share above 7%

41% of universities

49% of universities

Indicator-based share 3 to 7%

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Thank you for your attention