GERMAN ADVISORY GROUP FOR ECONOMIC REFORMS WITH THE UKRAINIAN GOVERNMENT

Prof. Dr. Lutz Hoffmann	Director, Institute for Eastern European Studies, Munich
Dr. Lorenz Schomerus	Former State Secretary, Federal Ministry of Economics and Technology, Berlin
Prof. Dr. Stephan von Cramon-Taubadel	Institute for Agricultural Economics, Göttingen University
Group members in Kyiv:	
Dr. Richard Frensch	Institute for Eastern European Studies, Munich
Dr. Ricardo Giucci	German Institute for Economic Research, Berlin
Lars Handrich	German Institute for Economic Research, Berlin
Dr. Christian von Hirschhausen	German Institute for Economic Research, Berlin
Dr. Arnim Kuhn	Institute for Agricultural Policy, Bonn University
Dr. Ferdinand Pavel	German Institute for Economic Research, Berlin

Office: Reytarska Str. 8/5-A, 01034 Kyiv,
Tel. 0038 044 228 63 42, 0038 044 228 63 60, Fax 0038 044 228 63 36, Email: gag@ier.kiev.ua

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FINANCING STUDIES: FINANCIAL SUPPORT SCHEMES FOR STUDENTS IN SELECTED COUNTRIES

CONTENTS

1. INTRODUCTION 4

2. APPROACH FOR ANALYZING FINANCIAL SUPPORT SCHEMES 5

2.1. AIMS OF STUDENT FINANCIAL SUPPORT 5

2.2. DIFFERENT TYPES OF FINANCIAL SUPPORT 5

2.2.1. Support in cash or in kind 5
2.2.2. Specific or non-specific support 6
2.2.3. Individual or family based support 6

2.3. CRITERIA FOR ASSESSMENT 7

2.3.1. Equality of access 7
2.3.2. Promotion of talented students 7
2.3.3. Possibility of misuse 7
2.3.4. Governance 7
2.3.5. Cost efficiency 7
2.3.6. Performance orientation 7

3. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN GERMANY 8

3.1. HIGHER EDUCATION IN GERMANY – BASIC FACTS AND FIGURES 8

3.2. ADMISSION AND TUITION 9

3.3. FINANCIAL SUPPORT FOR STUDENTS 9

3.3.1. BAföG 9
3.3.2. Educational loan (Bildungskredit) 11
3.3.3. Family based support 12
3.3.4. Financial support for talented students (Begabtenförderung) 12

3.4. INSTITUTIONAL ORGANIZATION 13

3.5. OVERALL ASSESSMENT 13

4. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN THE NETHERLANDS 15

4.1. HIGHER EDUCATION IN THE NETHERLANDS – BASIC FACTS AND FIGURES 15

4.2. ADMISSION AND TUITION 16

4.3. FINANCIAL SUPPORT FOR STUDENTS 16

4.3.1. Performance related grants 16
4.3.2. Student loan 17
4.3.3. Free public transportation 17

4.4. INSTITUTIONAL ORGANIZATION 18

4.5. OVERALL ASSESSMENT 18

5. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN AUSTRALIA 19

5.1. HIGHER EDUCATION IN AUSTRALIA – BASIC FACTS AND FIGURES 19

5.2. ADMISSION AND TUITION 20

5.3. FINANCIAL SUPPORT 20

5.3.1. HECS tuition loans 20
5.3.2. Youth Allowance 20
5.3.3. Austudy 21
5.3.4. Scholarships 21
5.3.5. Private student loans 21

5.4. INSTITUTIONAL ORGANIZATION 21

5.5. OVERALL ASSESSMENT 22

6. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN ESTONIA 23

6.1. HIGHER EDUCATION IN ESTONIA – BASIC FACTS AND FIGURES 23

6.2. ADMISSION AND TUITION 24

6.3. FINANCIAL SUPPORT FOR STUDENTS 24

6.3.1. Student Loans 24
6.3.2. Rental allowance 25
6.3.3. Other sources 25
6.3.4. New student support law 25

6.4. INSTITUTIONAL ORGANIZATION 25

6.5. OVERALL ASSESSMENT 26

7. CONCLUSIONS AND LESSONS FOR THE UKRAINE 27

7.1. CONCLUSIONS 27

7.2. LESSONS FOR THE UKRAINE 27

BIBLIOGRAPHY 30

LIST OF TABLES

Table 1: Distinctions of different types of support 6
Table 1: Higher education institutions in Germany in the academic year 2002/2003 9
Table 2: Minimum and maximum calculated regular need for students 10
Table 3: Number of students receiving BAföG support and overall volume of the BAföG support in 2001 and 2002 11
Table 4: Development of the student numbers in higher education in the Netherlands 15
Table 5: Total expenditure on student support in higher education 19
Table 6: Gross participation rates in university-education 1985-1997 (number of students as a percentage of the total population in the corresponding age group) 22
Table 8: Performance of financial support schemes for students according to different criteria 27

LIST OF FIGURES

Figure 1: Criteria for assessment 8
Figure 2: Income distribution 2000 (Students by level of monthly income) 14
Figure 3: Maximum monthly financial support for a student in the Netherlands and its composition 17

1. INTRODUCTION

This paper deals with possible financing patterns of higher education studies for the Ukraine. The Ukraine is a transition country that has started to reform the educational sector rather lately. To a large extent, structures and institutions from the socialist period are still in place as well as the financing patterns. But since the country is heading for further economic and political opening up, it needs to strengthen its educational sector – especially in the field of higher education – in order to have specialists and high potentials that can drive the country's development forward. Higher education is known to have a high return on investment from an individual and social point of view. However, financing studies is difficult for the majority of potential students unless they have parents with high income or wealth. Even if students were willing to take a loan from private banks, credit rationing is likely to be a major problem. From a banker's perspective there are moral hazard problems. There is a risk of future unemployment for the borrower or of adverse macroeconomic developments. Students in turn face a high level of quality uncertainty when applying at a university unless all universities offer very similar qualities or have developed a transparent and consistent system of quality signalling (e.g. as found in the US).

For transition countries, human capital formation is quite important since a larger stock of highly skilled labour will help attract more foreign direct investment in technology-intensive and knowledge-intensive sectors. These sectors typically are associated with positive external effects like knowledge spillovers as emphasized in the new growth theory. Moreover, a high share of university students and graduates will create a broader basis for entrepreneurship which is at a premium in post-socialist countries. Thus the speed and direction of technological catching up and structural change will indeed be influenced by progress in the field of higher education. Optimal funding schemes for students can be a crucial element among several new pillars of an adequate university system.

Governments in transition countries typically face tight budget constraints and are likely to face major problems in both running the state university system and in providing additional funding for students. From this perspective, it is all the more important that funding for students is organized within a scheme that:

- encourages broader strata of people with high intellectual potential to study;
- stimulates efficient study behavior;
- creates incentives for universities to improve education programmes and develop courses in line with basic requirements of the labour market.

These requirements imply that funding pools should have an adequate dimension, providing clear incentives for efficiency-enhancing student behavior. When subsequently taking a look at some selected European countries, it is clear that each funding system has country-specific aspects which might partly be linked to the characteristics of the educational system. Nevertheless taking a closer look at the systems in selected countries can be quite useful; there is a variety of systems which provide interesting elements that can be adopted in the Ukraine.

In 2003, finding resources to finance studying is a major problem for most potential students in the Ukraine. Many may choose not to study because of a lack of resources or as living conditions during studies are anticipated to be very hard while future income is rather

uncertain. It is clear that sound macroeconomic policies – including growth policy and tax policy – can help to improve the anticipated future income of university graduates.
In the context of a possible reform in the field of funding students, this paper examines schemes for financial support in selected countries. Germany, the Netherlands and Australia are chosen because of their significant characteristics in their respective funding regimes. Australia and the Netherlands have changed their systems recently from free to tuition-based higher education. Taking a look at other transition countries is also useful. As an example for a transition country that has already adopted major reforms, Estonia is therefore analysed.

On the base of the experience of these selected countries, this paper seeks to illustrate options for the reform plans of the Ukraine. In the second section, general criteria and classifications are established that help to describe and judge financing patterns for students. Sections 3 to 6 describe existing schemes in the selected countries, and the final chapter gives some conclusions and suggests lessons for the Ukraine.

2. APPROACH FOR ANALYZING FINANCIAL SUPPORT SCHEMES

2.1. Aims of student financial support

Before analyzing different schemes of student financial support, the aims of such support must be defined. The general goal is to give young people who have the abilities and the willingness to study access to higher education, despite a lack of their own financial means. Qualification and not the financial background should decide whether they can enrol in higher study programmes or not.
But ensuring equality of access is not the only aim of financial support schemes. Promoting the most talented and encouraging effective study behaviour are other aims that can be sought. It is a question of priorities to what degree these aspects are emphasized in the design of the system.
This paper compares the schemes in several countries. Thus, differences in the national legal and institutional framework must be taken into account. In some countries, higher education institutions are free of charge, while in other countries, it is common to require students to pay tuition fees. Another difference can be found in the procedure of application to higher education institutions. In some countries, students must go through special entrance examinations before admission, while in other countries, students are admitted on the base of their general level of knowledge as proven in secondary school. In part 2.2, different types of financial support are defined, because this support can manifest itself in different ways. In part 2.3, criteria for the assessment of schemes in the different countries are established as guidelines for conclusions and lessons.

2.2. Different types of financial support

2.2.1. Support in cash or in kind[1]

Support in cash refers to money transfers in favour of a student or exemptions from payments for students. Grants to students count as support in cash as well as reduced fees for students. Support in kind refers to the provision of services and goods directly (e.g., free accommodation or free transport for students).

[1] The word "cash" may be misleading. Normally students do not get cash in terms of bills and coins but they rather get money transferred to their bank account. Support in cash includes all kinds of monetary support while support in kind is connected directly to the provision of goods or services.

2.2.2. Specific or non-specific support

Specific support is liked to the consumption of goods or services of a certain kind, for example support for students' meals. Non-specific support is not bound to a certain type of service or good and can be used for any purpose.

2.2.3. Individual or family based support

Individual support is directed to the student while family based support is given to the family considered responsible for the well-being of the student. Child benefits are typical family based supports as well as tax allowances for families with children enrolled in educational institutions.

The categories are not mutually exclusive but rather complementary of each other. Every form of public assistance to students can be described using the aforementioned distinctions. A general student grant for example is an individual, non-specific assistance in cash. Student loans are of the same type, unless they are given only for the purpose of covering tuition fees or for another defined purpose. In this case, they would be individual, specific assistance in cash.
Support in kind is generally specific and individual like free meals to students in universities. General free admission can be considered a specific, individual support in kind as well. See the following table for a categorization of the most common forms of public support for students.

Table 1: Distinctions of different types of support

	in cash or in kind	**specific or non-specific**	**individual or family based**
General grants to students (not refundable)	in cash	non-specific	individual
Student loans (refundable)	in cash	non-specific	individual
Free admission to higher education institutions	in kind	Specific	individual
Exemption from registration/tuition fees	in kind	specific	individual
Reduction of registration/tuition fees	in kind	specific	individual
Child benefits	in cash	non-specific	family based
Tax allowance for families with children in student age	in cash	non-specific	family based
Social benefits for students for accommodation, health care or meals	in cash	specific	individual
Free public transportation for students	in kind	specific	individual

2.3. Criteria for assessment

The following criteria help to find out how the different systems perform and what lessons can be drawn. All systems analyzed in this paper are judged to be good (+), mediocre (0) or poor (–).

2.3.1. Equality of access

A system that yields a high equality of access defines young people with poor social background as a target group for support. It should be ensured that the support available enables the student to live above the subsistence level. If the maximum support is in the range of the subsistence level or even below, poor students are possibly excluded from higher education. Granting free access to all students also contributes to equality of access since tuition fees may keep students with few financial resources of their own from entering higher schools or universities. If on the other hand, the system is characterized by high tuition fees and low levels of support, they perform poorly in terms of equality of access.

2.3.2. Promotion of talented students

A financial support scheme for students promotes talented student, if – in addition to secondary school results – entrance exams play an important role in the access procedure. In this case, pre-selection makes certain that only the better students enter higher education and enjoy the benefits of financial support. Another aspect in this respect is the support of talented students during their studies. A system offering additional support for talented students performs well. On the other hand, a system that neither selects in line with grades or results in entrance exams nor offers additional support for talented students during their studies is judged negatively on this criterion.

2.3.3. Possibility of misuse

A financial support scheme should keep the possibility of misuse low in order to ensure that the target group of support is reached. A system which leaves the door open for free riders represents a poor example and is therefore labeled with a minus.

2.3.4. Governance

This criterion sheds light on the institutional functioning of the system. A system that has a complicated legal framework and requires a big executive body offers poor governance. On the other hand, a system with good governance is clear and easy to understand and does not need many institutions and a lot of consultation for the applicants.

2.3.5. Cost efficiency

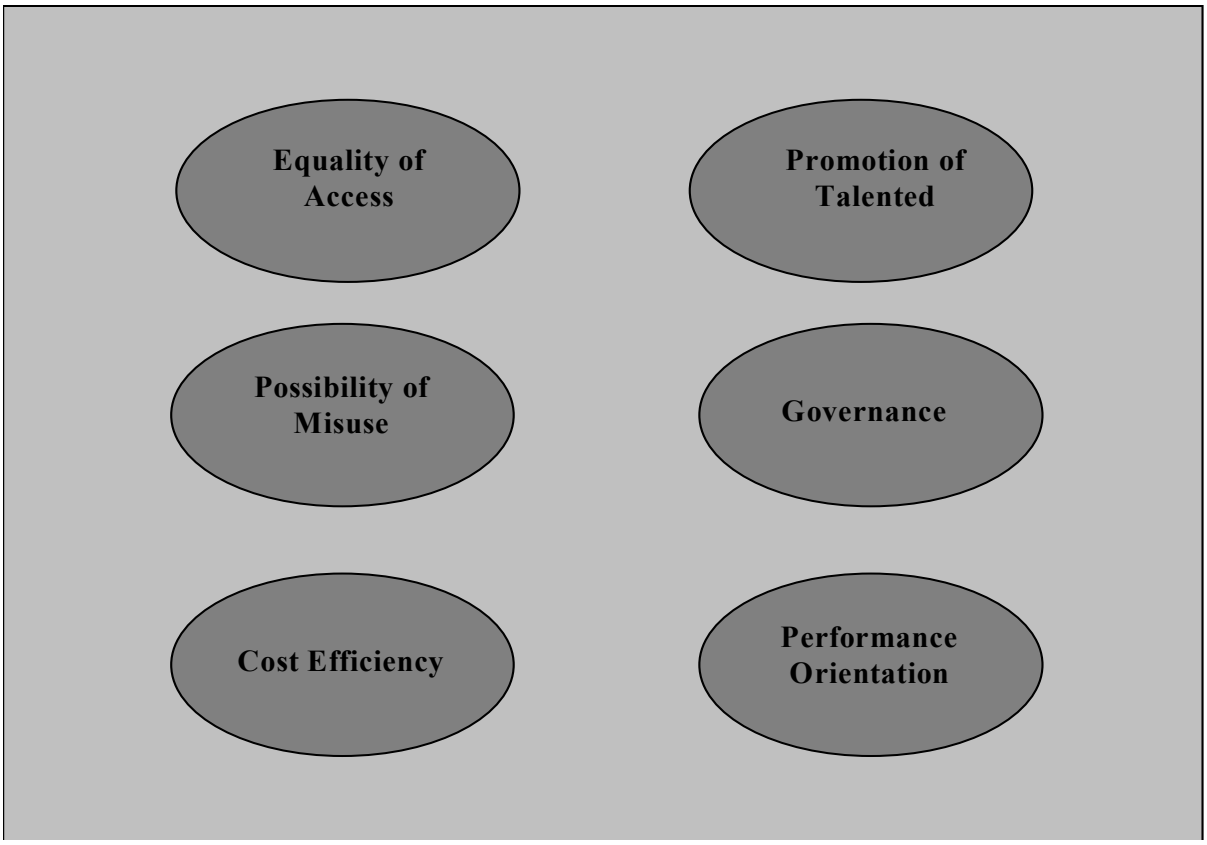
The cost efficiency of a system is judged by its need for financial resources vis-à-vis the result. In this respect, both the total volume of the student support and the cost of administration are taken into account. A system can be effective but still low in its cost efficiency, for example if the target group of the support scheme is met but only by spending a lot of government money on financial support and by using costly procedures.

2.3.6. Performance orientation

The orientation towards performance is also an important criterion. Do students have to show good results in their studies in order to get full support during their whole period of study? If yes, the system has a favourable structure of incentives. On the other hand, if students get

support independent of their performance, there is the possibility of a wrong incentive to prolong the studies. A system with a strong orientation towards achievement prefers to support successful students rather than those who just pass or even fail.

Figure 1: Criteria for assessment



The definitions in part 2.2. and the criteria in part 2.3. set the fundament for this analysis. In the following chapters, the financial support systems of selected countries are described and analyzed.

3. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN GERMANY

3.1. Higher education in Germany – basic facts and figures

In Germany, 1.93 million students were enrolled in study programmes at 359 higher education institutions in the academic year 2002-2003. There are three different types of higher education institutions in Germany: universities, art academies (*Kunst- und Musikhochschulen*) and higher schools for applied sciences (*Fachhochschulen*). More than 2/3 of students study at universities, but a considerable number is enrolled in higher schools of applied sciences. Art academies, where the numbers of places available for study are very limited, provide 2 percent of the students with academic courses and training. The total number of higher education institutions has risen over the past decade from 318 in 1992 to 359 in 2002, whereas the number of students remained more or less constant (1.83 million in 1992 and 1.93 million in 2002) (STATISTISCHES BUNDESAMT 2001 and 2003).

Table 1: Higher education institutions in Germany in the academic year 2002/2003

	Number of institutions	Share of institutions	Number of students	Share of students
Universities	122	34 %	1.381.750	72 %
Art academies	50	14 %	31.600	2 %
Higher schools of applied sciences	187	52 %	517.573	27 %
	359	100 %	1.930.923	100 %

Source: STATISTISCHES BUNDESAMT (2003)

In the Federal Republic of Germany, the states (*Länder*) are responsible for education. They can take autonomous decisions regarding the organization and financial affairs of all types of schools, and they keep a strong influence on the budgetary decisions of the universities and other higher education institutions. Thus, educational institutions are far from possessing budgetary autonomy.
Most higher education institutions in Germany are run by public authorities. The share of private institutions is rather small but has risen considerably in the past decade. In 2000/2001, this value reached 11.7 percent. Yet as the numbers of students in private higher schools are small, they represent only 1.4 percent of the student population (STATISTISCHES BUNDESAMT 2003).

3.2. Admission and tuition

Admission to universities and higher schools of applied sciences is generally free and is granted to those who successfully graduated from upper secondary schools. There are no entrance examinations, apart from those for art and music academies. Students may register freely, if there are enough places. In certain subjects, the number of places available for study is limited and is centrally distributed by a special office (*ZVS*). In addition, universities and higher schools of applied sciences may restrict the number of students by fixing a required average grade that must be met in order to be accepted. There are no tuition fees in public schools.[2] Private institutions usually require students to pay tuition fees.

3.3. Financial support for students

3.3.1. BAföG

The acronym BAföG stands for "*Bundesausbildungsförderungsgesetz*", which is a law that unites different types of support for students in secondary, vocational and higher education institutions. It was introduced in 1971 and has been changed several times. The latest amendments were made in 2001. All amounts mentioned in this paper are based on the BAföG law as of 2001 and are valid up to the present moment (October 2003).

The BAföG system combines different types of support. It is a mixture of grants and loans as well as specific social benefits. All BAföG assistance is given to the individual student and is considered as support in cash. It is not universal but targeted to support those who do not have the adequate means to pay for an education corresponding to their interests, abilities and

[2] Some states (eg. Baden-Württemberg and North-Rhine Westphalia) have recently introduced tuition fees for long-term students who have exceeded the regular period of studies by a considerable number of years.

capacities (§ 1 BAföG). As a general rule, it considers parents obligated to pay for the living expenses of their children as long as they study. Only in cases in which the student and his or her family cannot cover the cost of living does the BAföG system offer financial assistance.

Eligibility
Students can only apply for BAföG support if they are enrolled in a study programme in a certified university, *Fachhochschule* or art academy (§ 2 BAföG). They must have German citizenship, but there are several exemptions for foreigners with a German parent or spouse, refugees, students with parents that have worked in Germany for a certain minimum period and EU-citizens with residence in Germany (§ 8 BAföG). There is also an age limit; students must start their studies before the age of 30 (§ 10 BAföG).

The BAföG system is two-fold. First, an amount is calculated that is supposed to cover standard expenditures during studies (*Ausbildungsbedarf*). In a second step, the student's and the parents' income and assets are checked to see if there are enough sources available to finance the studies. Only if this is not the case is BAFöG support given to ensure the coverage of these standard expenditures.

Calculation of standard expenditures during studies
Standard expenditures are calculated on the basis of the costs for living, accommodation, health insurance and obligatory nursing insurance (*Pflegeversicherung*). Differences among students regarding the type and costs of accommodation (at parents' home or in apartment or dormitory) and the coverage of health and nursing insurance (fully, partly or not covered by the parents' insurance) result in different calculated regular needs. The minimum amount for the calculated needs within the BAFöG system is 377 €, the maximum is 585 € per month. See table 2 for details.

Table 2: Minimum and maximum calculated standard expenditures for students

	minimum	**Maximum**
Basic assistance	333 €	333 €
Assistance for accommodation	44 € (if student lives at parents' home)	133 € (if student lives in own accommodation) + 64 € (if rent is higher than 197 €)
Assistance for health insurance	-	47 €
Assistance for nursing insurance	-	8 €
Sum	**377 €**	**585 €**

Source: BMBF (2002)

Actual payments
BAföG support in the range of calculated standard expenditures *(Ausbildungsbedarf)* for a student is paid only if the student does not have any other financial sources to cover them. If he earns enough himself, no BAföG support is given.[3] But if the student has no income, the

[3] Students' income may consist of positive income from work, rent from property and rent and interest from all other assets. This exact definition of income can be found in § 2 EStG and §§ 21, 22, 24, 26-30 BAföG.

parents must supply the student with financial means. In every application process for BAföG support, the parents' income is checked based on the past several tax declarations. The actual net income of both parents and the applicant himself are added up, then several deductions are made depending on the size of the household and the status of the household members (§ 23 and § 25 BAföG). The amount after the deductions is called *Anrechnungsbetrag* and represents the money available for the students' living expenses. If this amount is higher than the calculated standard expenditures *(Ausbildungsbedarf)*, no BAföG support is given. If the amount is below the calculated expenditures, the state covers the difference.

BAföG support is given throughout the course of study until the end of the regular period of studies (*Regelstudienzeit*), which varies between 3 ½ and 5 years depending on the subject and type of school. Further support can only be given up to an additional 12 months if the student is about to finish his studies. The support can be cancelled, if the student fails to pass examinations within a reasonable amount of time (§ 48 BAföG), but in practice, this is rarely done.

Repayment
As mentioned in paragraph 3.1, BAföG support is a mix between a grant and a loan. 50 % of the money transferred to the student is considered a non-refundable grant, whereas the other 50 % is a loan that must be paid back. There are several favourable conditions for the student concerning the loan (§ 18 BAföG). First of all, it is free of interest. Second, the repayment must start only five years after graduation and can be paid in installments as low as 105 Euro per month over a period of up to 20 years. If the debtor starts paying back the loan earlier, the total amount of debt can be reduced. Third, repayment of the loan is deferred if the debtor's income is below 960 €. Fourth, the maximum amount that must be paid back is 10,000 €. If the student has accrued debt in excess of 10,000 €, this additional amount is considered a non-refundable grant.

Additional support given in special cases (e.g., additional support after the regular period of studies has passed or support after the subject has been changed; see § 17 BAföG) is not considered an interest-free loan, but rather an interest of EURIBOR rate + 1 % must be paid. If the student fails to pay back the money in the foreseen time period, a fine in the range of 6 % is imposed.

Table 3 gives an overview of the dimensions of BAFöG support in the past few years.

Table 3: Number of students receiving BAföG support and overall volume of the BAföG support in 2001 and 2002

Jahr	Total number of students	Average number of students in every month	Overall amount of BAföG support	Average amount of support per student
2001	406,776	271,843	1,265,301	365
2002	451,505	303,576	1,350,543	371

Source: BMBF(2002)

3.3.2. Educational loan (*Bildungskredit*)

The *Bildungskredit* is a loan programme that exists independently of the BAföG. It aims to support students already advanced within their studies. Unlike a regular bank loan, the student does not have to prove access to securities like properties or assets. The issuing bank,

Deutsche Ausgleichsbank, offers reduced interest rates because the government covers the loss in case the student does not pay back the loan to the bank.

All students between the ages of 18 to 36 who have studied for at least two years in a higher education institution and have passed the foreseen examinations can apply for an educational loan. The loan is given independently of the student's or his parents' income or possessions or other support for education. Students who have already studied for six years cannot be supported unless they prove they can finish their studies in the near future.

The student is provided with a non-specific, individual support of 300 € per month for a period of 3 – 24 months. Repayments must be started no later than four years after the last transfer. The minimum monthly instalments are 120 € per month. The debt including interest in the amount of EURIBOR rate + 1 % per year may be paid back earlier.

3.3.3. Family based support

In Germany, parents are usually responsible for the maintenance of their children as long as they are enrolled at educational institutions. There are two types of support that enable families to pay for this maintenance, child benefits and tax allowances for parents.

Child benefits
In order to support parents with this task, child benefits *(Kindergeld)* is granted as long as the children study, at the latest until the age of 27. Since this benefit is directly connected with the educational status of children older than 18, it must be considered an indirect non-specific family based student financial support in cash. In 2000, the child benefit was 138 € for a family with one child. For the second child, an additional benefit of 168 € was given and for each further child, the benefit rose by another 179 €.

Tax allowances for parents
Apart from the child benefit, family based student financial support is provided through tax allowances. If a family has a child still studying, the amount of the parents' taxable annual income is numerically reduced by up to 2,828 €.[4]

Although both kinds of family based support exist, only one of them can be taken. The tax offices themselves are obliged to check which of the variants is more favorable to the family and then proceed in this way (§ 31 EStG). Usually, the variant through tax exemptions is only favourable for families with high incomes and as a result high marginal tax rates within the progressive German tax system.

3.3.4. Financial support for talented students *(Begabtenförderung)*

The BAföG system aims to support students to keep a minimum standard of living during their studies if they have no other means. As long as the students pass a minimum number of examinations, the support is extended. It does not matter if the student performs very well or merely average. The support of the most talented students is provided by a number of foundations that represent different groups in society, the economy and the political sphere. All these foundations have (among other tasks) the duty of supporting students with extraordinary academic results as well as a commitment to social or political activities.

[4] The amount of 2,828 € is a sum of the following possible tax allowances: 1,824 € *Kinderfreibetrag* + 1,080 € *Betreuungsfreibetrag* + 924 € *Ausbildungsfreibetrag (§§ 32, 33 EStG*).

The representation of different groups and parties ensures a certain degree of pluralism within the selection of talented students. The foundations receive money from the federal budget in order to run their student support programmes. The transfer includes a share for administrative costs.
The overall volume of financial support for talented students via the mentioned foundations was 71.4 million € in 2001 and was increased to 80.2 million € in 2002 (*BMBF 2003*).

3.4. Institutional organization

In Germany, a large number of institutions are involved in the system of financial support for students. This is partly due to the federal structure of Germany and the autonomy of the states in educational matters, but mostly it is due to the fact that for every type of support, a different institution assumes responsibility.
The BAföG system has its own executive body. There are 78 BAföG offices in Germany (of different sizes) that consult students during the application procedure and receive the applications themselves. The states (*Länder*) are responsible for the structure and the financing of BAföG administration, including the labour expenditures for these offices. The educational loan programme is administrated by the *Deutsche Ausgleichsbank* (*DtA*), which is a promotional bank *(Förderbank*) owned by the federal government. This bank has recently merged with the *Kreditanstalt für Wiederaufbau* (*KfW*), which is also a federal government institution.
Public support for talented students is organized by 11 different foundations that each have individual departments for the student support programme. Their administrative work in connection with support for talented students is paid through federal government monies.
Finally, the tax offices are involved because in the process of the BAföG application, tax declarations issued by tax offices must be submitted for both the applicant and his or her parents. All family based support is coordinated by the tax offices as well.

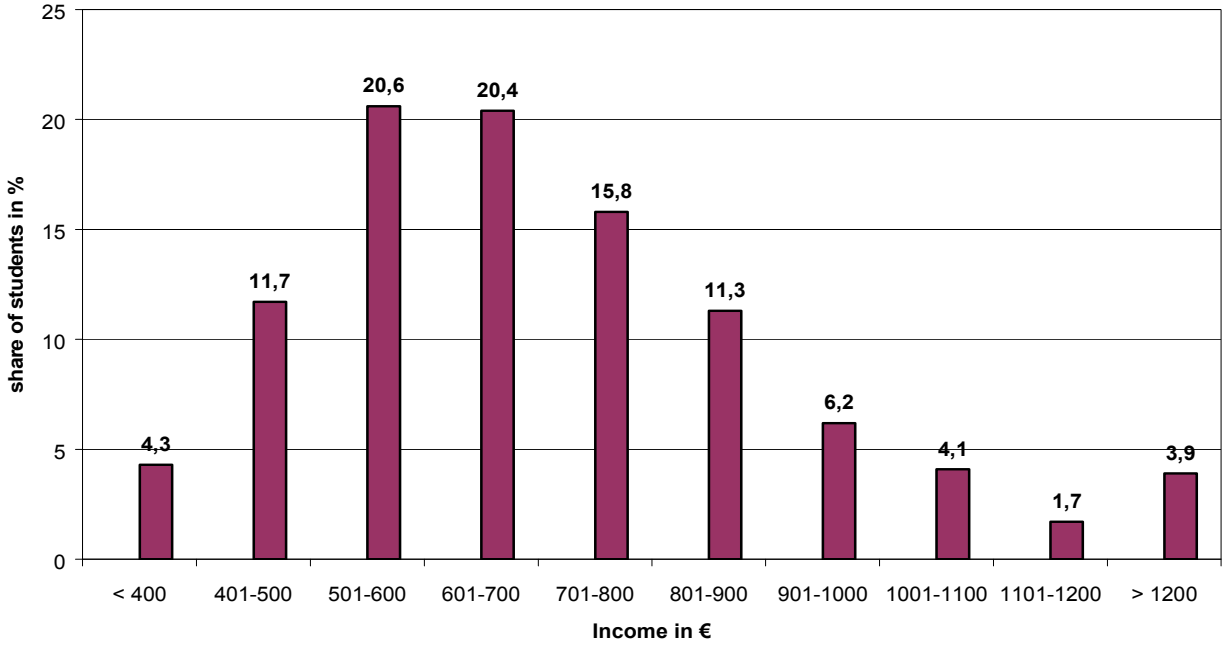
3.5. Overall assessment

Equality of access

In Germany, children with poor social backgrounds form the target group of the financial support scheme. Potential students have several options to receive financial aid from different sources. They can apply for individual basic support (BAFöG) and for a loan with preferable conditions (*Bildungskredit*) separately. Since child benefits for the family are paid up to an age of 27, the family based support is a possibility as well. Finally, there are no tuition fees for students studying at a regular pace. Putting all this together, the German system offers a lot of opportunities for potential students, and it is effective in the sense that students with poor social backgrounds are not excluded from higher education for financial reasons.
The basic social assistance to all inhabitants in Germany (*Sozialhilfe*) is calculated on the basis of need. In 2002, 332 € was considered the amount needed to insure a minimum level of subsistence. This amount does not include costs for accommodation and is almost identical to the basic level of assistance within the BAFöG support scheme. BAFöG support for accommodation is low, but it should cover the costs for places in student dormitories in most cities. If parents hand over their disbursements of federal child support to the students, living costs can be tackled.
Figure 2 shows the distribution of financial sources among students in 2000. 40% of the students have a disposable income of 500-700 €. But still, 4.3% of the students had less than

400 €, which means they live on the edge to poverty. The German system still ensures a high equality of access (+).

Figure 2: Income distribution 2000 (Students by level of monthly income)



Source: BMBF (2001)

Promotion of talented students

In general, graduation from the highest class of secondary school is the only precondition for access to higher education; no entrance exams or tests work as additional selection criteria. The German system enables all graduates from secondary school to start studying and puts little emphasis on talent in the application procedure. Yet as a lot of money is spent on talented students during the studies via foundations, overall performance in terms of the promotion of talented students is mediocre (0).

Possibility of misuse

There are several possibilities for misuse within the system. The state of North-Rhine Westphalia has recently started an initiative to check the eligibility of the students who have already received BAföG aids. An estimated 30% of those have received too much or were not eligible for the BAföG support they have received. This is a clear sign of low effectiveness in the system (–).

Governance

The regulatory framework is quite extensive. The BAföG law alone consists of 66 articles and several additional decrees. As there are a high number of exemptions explicitly defined in the law, it is difficult for the student to calculate the extent of financial support on his own, and he often requires consultancy. To what extent BAföG support is granted to individual students often depends on the quality of the consultancy provided by the BAföG administrative body, which is a clear sign of low transparency and poor governance.

In addition, many other institutions on different federal and state levels are involved in the process of handling applications and distributing financial support to students. As a result, potential support is generally sufficient but the composition of the support is rather eclectic. Thus, the governance of the system in Germany is low (–).

Cost efficiency

As mentioned before, there are a lot of institutions with many employees involved in the student financial support system. Since administration is covered in different budgets, no one calculates the overall administrative costs of the system. But the overall costs are estimated to be relatively high. Taking the low governance and medium effectiveness into account, the cost efficiency of the German system must be classified as low as well (–).

Performance orientation

Basic support for students is given on the base of enrollment. The duration of support is restricted to the regular length of time foreseen by the programme of study. Therefore, there is an incentive to finish within the regular study period. But no differentiations are made between the students performing very well and students passing their classes with low grades. Since there are in most cases no tuition fees, students may study up to seven or even more years and even with poor performance without facing extra costs, except for the costs of living. This reveals a rather low level of incentives in the system to show good results in courses and complete higher education quickly (–).

4. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN THE NETHERLANDS

4.1. Higher Education in the Netherlands – basic facts and figures

In the Netherlands, the system of financial support for students and the structure of the universities were reformed twice over the last 20 years and are still in a state of transition. In the 1980s, the number of students exploded. Yet in the 1990s, it was the number of students quitting school before finishing a degree or exceeding the standard period of study that rose sharply (BÄTZEL 2003, 269; OCENW 2003).
Higher education is divided into two different kinds of schools, universities designed to educate the scientific offspring and institutions for higher professional education (*HBO: Hoger Beroepsonderwijs*). In 2002, 65 institutions of higher education in the Netherlands educated 475,400 students. About two-thirds of the students were enrolled in professional education institutions (307,500 students). Only 167,900 students were enrolled in the 17 universities of the country (EURYDICE 2003). The number of students in all types of higher education institutions has risen over the past three years (See table 4).

Table 4: Development of the student numbers in higher education in the Netherlands

Number of students (in 1000)	1999/2000	2000/2001	2001/2002
Higher professional education (HBO)	290.8	298.1	307.5
Universities	158.6	162.0	167.9
Total	449.4	460.1	475.4

Source: EURYDICE 2003

Of the universities, 14 were public and three private. It should be noted that the private universities get the same level of financial resources from the Dutch government as their public counterparts and are evaluated in the same manner (BÄTZEL 2003, 268).

Financing of the universities follows a strategy of flat rate budget *(Globalhaushalt)* and is regulated by the Student Finance Act of 2000 (OCENW 2003). The financing is connected to the number of students who pass their classes and finish their degree within the regular period of study. The institutions have the freedom to choose how to use their money in order to meet personnel cost, equipment cost and all other expenditures (EURYDICE 2003). The budget is output-oriented and the universities are carefully evaluated to ensure they keep to standard. The institutions are encouraged to build clusters in their scientific topics to stimulate economies of scale in research (BÄTZEL 2003, 268). Besides the publicly financed study programmes, universities can offer other programmes and finance them via fees. The universities also get a basic budget for scientific projects. Additionally, the schools are in competition for further funds and try to get cash from third parties (BÄTZEL 2003, 274).

4.2. Admission and tuition

Study places in higher education institutions in the Netherlands are centrally distributed. An independent institution, the IB Group, receives applications from potential students. On the basis of secondary school marks and their preferences, students are allocated among the free places in all universities and higher professional education institutions (IB-GROEP 2003).
The system of financial aid and tuition for students is based on the one hand on the idea that higher education causes positive external effects and is an important factor for the just distribution of chances between the citizens. On the other hand, a part of the costs can be paid by the users (BÄTZEL 2003, 274). The tuition is the same for every student enrolled in higher education classes. In 2002/03, the tuition was 1,396 € per study year (1,304 € in 2000/01 and 1,330 € in 2001/02) (EURYDICE 2003). Higher education institutions can set their own fees for students who exceed the standard time of study (BÄTZEL 2003, 275). Tuition covers approximately 20 percent of the overall costs of higher education institutions (EURYDICE 2003).

4.3. Financial support for students

To finance tuition and support living expenses, the Netherlands has a system of financial aid and loans. When it was first introduced, student independence from their parents' income and status was one of the stressed features of the system. Today, some elements of dependency from the income of parents have been introduced because of problems in financing the system. The support consists of three components, which are explained in the following paragraphs.

4.3.1. Performance related grants

All students in higher education who are under the age of 34 and who have begun their studies before the age of 30 get basic non-means-tested support. This support is non-specific individual support in cash which is as a rule independent from the financial situation of the parents. In 2001, it amounted to 206 € per month for students who did not live at their parents' home. For students living with their parents, basic support was slightly lower.
Students may apply for additional support of up to 214 € per month, dependent upon their parents' income. Basic and supplemental support are both considered loans that must be

repaid and accrues interest. But the loan is transformed into a non-refundable grant if the student manages to pass 50 % of his standard study load each year. Therefore, this support is called a "performance-related grant". It gives an incentive to finish studies in reasonable time (EURYDICE 2003).

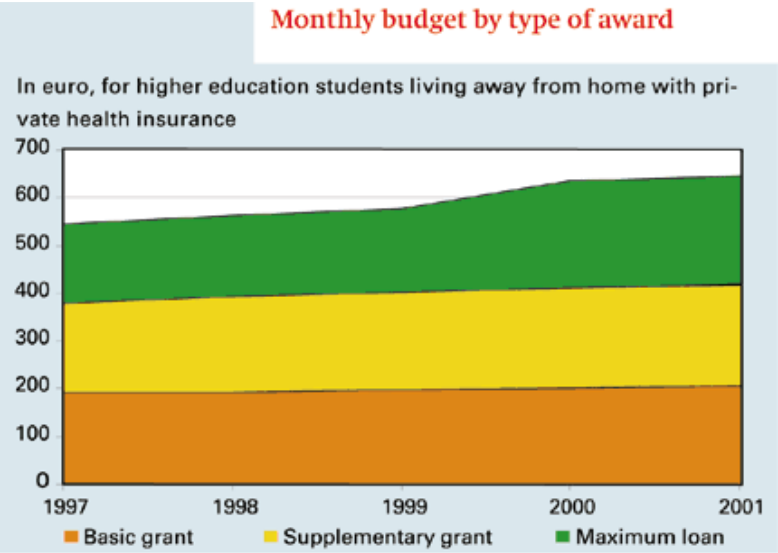
4.3.2. Student loan

All students can apply for an interest bearing loan of up to 443 € per month (this amount is lower for students who live with their parents) (OCENW 2003). This type of support is again non-specific, individual and in cash. Former students must begin paying back the loan within two years after finishing their higher education at the latest. The whole sum must be paid back within 15 years. The repayment is only deferred if the income of the former student and his or her husband or wife is less than a certain minimum. After 15 years, any remaining portion of the loan is cancelled. Payments that cover the interest of the loan are tax deductible (EURYDICE 2003).
In 2001, 27 % of the university students and 16 % of the HBO students borrowed money in the framework of the student loan scheme, which is a mirror image of the application process administered by the IB Group (OCENW 2003).

4.3.3. Free public transportation

There is also a ticket for public transportation within the whole country which is issued for students that take part in the student loan program (EURYDICE 2003). By its nature, this support is specific, individual and in kind. Students cannot use all public transport all the time but must choose between different packages. For example some give free transport during weekends but not during workdays, other limit the right to use public transport on weekends. The price for this service is negotiated every year between the government and the transportation companies. This amount enters the performance related support scheme which means that just like the basic and supplement support, it changes from a loan to a grant if the student performs well in his classes (OCENW 2003).

Figure 3: Maximum monthly financial support for a student in the Netherlands and its composition



Source: OCENW 2003

4.4. Institutional organization

A special authority, the Information Management Group (*Informatie Beheer Groep*), exists within the Netherlands to handle the admission process, tuition payments and student loans, and its offices are located in the city of Groningen. It is also concerned with other forms of education and fees as parents pay for secondary schooling as well (OCENW 2003). In the future, every child will be issued a personal identification number at the age of 3½ for use in education. An identification number of this kind will make it easier to follow the person's educational achievement over several years as well as financial support and loans during higher education. The education number is the same as the tax and social insurance number. Apart from the IB Group and the universities or HBOs, no other institution is involved in the administration of financial support schemes. In order to get supplemental grants, students must submit a copy of their individual and their parents' income statements as issued by the tax offices every year.

4.5. Overall assessment

Equality of access

The target group of the Dutch system of financial support is formed by students with poor social backgrounds. The system is partly universal. Every student in the Netherlands is entitled to a basic grant independent of parent income. This grant of 206 € is by far not enough to cover living costs, but at least it covers the usual tuition fees and leaves approximately 90 € per month for disposal. Like in Germany, social aid is calculated on the basis of a basket that should enable a person to meet bare necessities. Including accommodation costs, this amounts to 524 € per month. A student who takes the supplemental grant as well as the student loan has more than 600 €, which is enough to live above the level of subsistence without relying on resources from working or from the family. The number of students has not decreased after the introduction of tuition fees. (+)

Promotion of talented students

The distribution of available study places is centrally organized. Good results in secondary school improve the possibility for entering the university of one's choice. Yet no entrance exams or tests are used as additional selection criteria. (0)

Possibility of misuse

Not much is known about misuse of the system. But since the education identification number – which is the same as the tax and social insurance number – will be introduced, misuse could be discovered easily. Therefore, in the system of financial support in the Netherlands there is a low possibility of misuse (+).

Governance

The system is quite straightforward and the composition of the support – basic grant, supplemental grant and student loan – is clear. An independent institution, the IB Group, has been created to administer all matters concerning financial support for students. Since there are no child benefits for people older than 18 and no special tax deductions, tax offices do not carry any additional work loads in connection with student support. The IB Group is controlled directly by the Ministry of Education, and by changing the amounts and limits of

the three types of support as well as the regulations for the use of public transport, the system is quite flexible and can react to misalignments without major effort. The governance of the Dutch system is therefore quite good (+).

Cost efficiency

The Dutch system requires quite high budgets. Partly this is due to the fact that the basic grant of 206 € is paid to every student. The other types of support must be financed as well. Table 5 displays the expenditures by type of higher education in the last several years.

Table 5: Total expenditure on student support in higher education

Total relevant expenditure on student finance and public transport passes by type of education (in million €)	1999	2000	2001
Universities	390.3	463.9	492.7
higher professional education (HBO)	747.1	809.5	829.6

Source: (EURYDICE 2003).

No data has been available on the administrative costs, but since there is an independent institution that must be run, the costs of staff and equipment are considerable. Still, they are not as high as in Germany. Overall cost efficiency is judged to be mediocre (0).

Performance orientation

In the Dutch system, there are strong incentives to finish studies within the standard period of study. This is in large part due to the idea of the performance related grant. If students take too long to finish their higher education, grants are transferred into loans. Additionally, higher education institutions have the right to levy higher tuition fees if the regular study period is passed. On the other hand, the actual results (passed with distinction or simply meeting minimum requirements) are of no importance. The system aims at supporting fast students rather than excellent ones. Overall, the orientation towards achievement is mediocre (0).

5. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN AUSTRALIA

5.1. Higher Education in Australia – basic facts and figures

In 2000, Australia had 47 public institutions of higher education with 695,500 enrolled students (DEST 2003). 40 of these were universities, while the others were specialized schools like art or military academies. In addition, there were more than 100 private providers of higher education accredited by federal and state governments. The public institutions and the government negotiate the budget and the number of students the school is to educate. The government acts like a customer of the universities who pays for a service in the field of education. Additionally, universities try to raise funds for scientific research. The universities may offer a number of additional places for students and ask for fees higher than the standard. All higher education institutions are quite autonomous in their budgetary decisions. In 1997, only 54 per cent of the budget of public higher education institutions was financed by the government (BÄTZEL 2003, 252). The private higher education schools are run independently of federal and state budgets, but their quality standards are controlled by government offices.

5.2. Admission and tuition

Potential students apply for study places at the Tertiary Admission Centres which exist in every state of Australia. The distribution is ruled by the preferences of the students, but in the end, the universities decide themselves on the admission. Within the application procedure, many schools rely on the students' results on special tests (*Special Tertiary Admission Test; STAT*) designed for university admission and offered by independent agencies.[5]
Before 1989, higher education was free in Australia (STURN 1999, 50). Then the HECS (*Higher Education Contribution Scheme*) was installed and students had to pay tuition. First, there was a standard tuition of 2,442 Australian Dollars for all Australian students. In 1997, the scheme was changed to a system of different tuitions for different subjects reflecting the differences in potential future earnings. Students in medical and law schools have to pay the highest tuition (6,136 AUS-$ per year in 2003; approx. 3,610 €), Students in natural sciences, business administration, economics and technical subjects pay less (5,242 AUS-$ in 2003; approx. 3,084 €) and students enrolled in the humanities, sociology and education pay the least amount of tuition (3,680 AUS-$ in 2003; approx. 2,165 €) (DEST 2003). Part-time students pay less depending on the number of courses they take.

5.3. Financial support

5.3.1. HECS tuition loans

In general, the tuition fees must be paid by the students directly to the higher education institutions. Students who pay tuition from their own resources at the beginning of the academic year get a reduction of 25%. Those who cannot afford to pay themselves can apply for support in the framework of the HECS (*Higher Education Contribution Scheme*). In this case, a special fund controlled by the government covers the tuition fees. Since the money is transferred directly to the higher school, the support can be defined as a specific individual support in kind. It is given as a loan that must be paid back by the student after graduating or after withdrawal. The repayment scheme is called the "deferred payment scheme" and is tied to the (former) student's income. There are 6 classes of income which have a different repayment plant for the tuition loan. As long as former students receive an income below a minimum they have no pay-back obligation at all (24,365 AUS-$ in 2003; 14,332 €). But as soon as they cross this line, a share of the income is directly deducted from the income by the tax office. This share appears like an extra tax, rises progressively and lies between 3 and 6 percent. People can decide to pay more and get the debt reduced up to 15 percent. The loans are non-interest bearing but are adjusted to the inflation rate. If a student dies before his debt is fully paid, the rest is paid by his estate. If that does not cover the debt, the parents or relatives do not pay the rest, rather the remaining amount is covered by the federal government (BÄTZEL 2003, 255). The whole HECS-system is only accessible for students registered with Australian tax offices. Therefore, foreigners cannot apply for a HECS tuition loan and must pay the full tuition.[6]

5.3.2. Youth Allowance

The Youth Allowance is part of the general social policy of Australia. It is designed to support young people under the age of 25 who no longer live with their parents and have financial

[5] This test are similar to GMAT test in the USA.
[6] There are special rules for citizens from New Zealand. Under certain conditions, they have access to the HECS.

difficulties for several reasons.[7] Students may apply for youth allowance just like the unemployed and disabled, orphans, injured or other deprived persons. They can get between 160 and 406 AUS-$ per fortnight, depending on their status (living at or away from home, having children, etc.) (DEST 2003). This support is non-refundable and can be considered a non-specific individual support in cash.

5.3.3. Austudy

While students 25 and older may not apply for youth allowance, they are entitled to the so-called Austudy support. This support – like the Youth Allowance – is a non-refundable allowance up to 406 AUS-$ per fortnight, but it is exclusively meant for full-time students. This support can be taken up to six months after the regular period of the study program has ended (CENTRELINK 2003). It is also a non-specific individual support in cash.

5.3.4. Scholarships

In addition to the above-mentioned support, students may apply for scholarships. The Ministry of Education provides scholarships for students from rural areas with low income and for indigenous Australians in order to cover living and accommodation costs. Most other scholarships are given by private institutions like foundations, federations, companies or associations on the basis of achievement, political or social activities or other interests. These are non-specific individual types of support in cash and are given independently from public sources. In some cases, universities offer scholarships directly for talented or for socially-deprived persons.

5.3.5. Private student loans

Several private banks offer loans with special conditions for students. These offers are made by the banks themselves and follow the usual loan procedure without any government influence or guarantees.

5.4. Institutional Organization

The institutions who calculate and collect the money are the schools and the Australian Tax Office. The schools and universities give information about the rate of the tuition to the Tax Office. Here, the data are collected and compared to the income of the former student. Depending on that income, the tax office calculates the amount of the debt reduction and collects it directly like an income tax (STURN 1999, 55). The money collected from the tax offices is directly handed over to the HECS-fund controlled by the central government. The credit risk of the HECS-loans is rather low. A 1995-study predicted that 96 percent of the men and 77 per cent of the women will have paid back their loans by the time they reach the retirement age of 65 years.
The Youth allowance and the Austudy support is administered by "Centrelink", an institution that is not especially created for these purposes but exists anyway as part of the social policy of the country.
The system bears many institutional requirements. The communication between schools and universities and tax offices must work failure-free. The possibility to install a system like this depends on the effectiveness of the tax collecting mechanisms.

[7] The students will be seen as independent from their parents when they are or were married, when they have children, have worked 18 months full-time or two years part-time or when they have lived at least one year in a partnership together (BÄTZEL 2003, 256).

5.5. Overall assessment

Equality of access

The Australian case illustrates that the introduction of tuition does not necessarily have a negative influence on participation in higher education. During the reform discussions, some people expected that fewer students would go to university after introducing tuition and that the less wealthy students would stay away from university. Both predictions did not come true. Even after the tuition fees were increased heavily in 1997, the number of students has grown steadily (see table 6). The enrolment rate of students from less wealthy families did not get worse after the introduction of fees. A study carried out in 1996 showed that fees are only the 13th out of 17 reasons not to commence a university education. Negative influences where only shown for children from poor families in rural areas and students with their own children (BÄTZEL 2003, 260).

Table 6: Gross participation rates in university-education 1985-1997 (number of students as a percentage of the total population in the corresponding age group)

Age	**1985**	**1990**	**1995**	**1996**	**1997**
18	14.7	19.7	22.2	23.3	23.6
19	15.5	20.6	23.8	24.8	25.8
20-24	9.1	11.0	13.6	14.3	15.0

Source: BÄTZEL 2003, 259

The HECS system covers tuition fees only. Financial support for socially-deprived persons is given within the Youth allowance and the Austudy program. The minimum support level of 160 AUS-$ per fortnight (80 AUS-$ per week) is far from covering all basic necessities. The Australian Bureau of Statistics estimated the amount needed in order to live at the subsistence level to be around 360 AUS-$ per fortnight (180 AUS-$ per week). The maximum level of financial support mentioned in this chapter is not far above this level.
The target group of the system is clearly not the talented, but students who are financially deprived. Since the enrolment rate of population groups with poor social backgrounds is not specifically low, the overall performance is judged to be mediocre (0).

Promotion of talented students

The access to higher education institutions is based on secondary school achievement as well as the results of the STAT test. Therefore, there are high standard for selection and talented students are preferred within the system. (+)

Possibility of misuse

The possibility of misuse is very low. When taking advantage of the HECS loan program, a student's debt is registered by the tax office. As long as he or she does not leave the country or keeps reporting too low income, the repayment procedure cannot be circumvented. Since the Australian tax offices are considered to work quite effectively, the possibility of misuse is low. (+)

Governance

The legal framework is quite clear. The Australian system even manages without an extra institution. It relies on the existing institutions (tax offices and Centrelink) in fulfilling the necessary tasks and on functional communication between higher education schools and the tax offices. In order to finance the HECS tuition loans, a fund is created that is controlled by the federal government. The pay-back system via tax offices has proven to be effective in collecting the debt of former students so that the flow of repayments is expected to almost cover the costs of paying the HECS loans for present students. The governance of the system is good (+).

Cost efficiency

The administrative costs of the loans were manageable in the Australian case. Tax offices estimate the additional costs for administration of the HECS to be around 5.5 million AUS-$ per year. This accounts for only 1 percent of the volume of the HECS system and indicates very low administrative costs. The overall volume of financial support is also low in comparison to Germany and the Netherlands. Since the effectiveness is still judged to be medium, the cost efficiency of the system is high (+).

Performance orientation

Financial support in the framework of the Youth Allowance is not at all connected to the student's performance. The Austudy does not consider performance in terms of grades either, but it is tied to a standard period of studies. Apart from tuition reductions and scholarships given by the universities on their own account, there is no mechanism that regards the performance of students in terms of grades. Yet tuition puts pressure on the students to finish higher education quickly. Therefore, the orientation towards performance of the Australian system is mediocre (0).

6. FINANCIAL SUPPORT SCHEME FOR STUDENTS IN ESTONIA

6.1. Higher education in Estonia – basic facts and figures

Since Estonia's independence in 1991, the educational system has undergone profound changes. During Soviet times, Estonia had 6 schools of higher education, and the number of students numbered roughly around 20,000. In the meantime, more than 60,000 students are enrolled in over 50 institutions and about 39% of the population aged 20 obtain higher education (ESA 2002). Table 7 shows the rapid development of these basic figures between 1996 and 2001. The number of students has grown mainly on account of applied higher education in public and private vocational schools (ESA 2003a). The high demand for higher education has also been met by new private universities. In the academic year 2001/2002, 20.6% of all students studied in private higher education institutions.

Table 7: Number of students and higher education institutions in Estonia 1993 – 2002

academic year	Total number of students	students in private institutions	total number of higher education institutions	public univer-sities	private univer-sities	state higher schools	private higher schools	higher vocational schools
1996/97	30,072	5,838	32	6	1	8	12	5
1997/98	34,542	7,818	35	6	4	8	13	4
1998/99	40,621	10,478	37	6	5	9	13	4
1999/00	49,574	12,397	41	6	8	8	11	8
2000/01	56,437	12,963	47	6	9	8	12	12
2001/02	60,409	12,470	52	6	10	7	10	18

Source: Estonian Statistical Office (2002 and 2003a)

The University Act of 1995 grants universities a quite autonomous status. They decide themselves on the filling of staff vacancies and admission of students.

6.2. Admission and tuition

The admission to university and higher schools is generally based on the results of an entrance examination. Students must have graduated from upper secondary schools but must also show their abilities to meet the expectations of the chosen study programme. A number of students admitted without tuition fees is announced in advance by the Ministry of Education. Only the best students are offered free study places, based on these entrance examinations. In 2001/02, there were on average 2.46 applications per vacancy, in public universities 4.13 applications per vacancy (ESA 2002). The others may be admitted as well, but they have to pay tuition fees. In private institutions, students generally have to pay for tuition unless they get a special grant directly from the institution where they apply. The tuition-free places for students in public institutions are paid by the budget of the national Ministry of Education. In 2002, 47% of the students in all higher education institutions paid tuition fees between 3,000 and 50,000 EEK per year. In public universities and state higher schools, 37% of the students paid tuition fees (ESA 2003a).

6.3. Financial Support for students

6.3.1. Student Loans

In 1998, Estonia introduced a student loan programme. Students registered in higher education institutions approved by the Ministry of Education may get a loan from two selected commercial banks (*Hansapank* and *Eesti Ühispank*). Every year, the central government declares a maximum for the yearly student loan. The upper limit was 15,000 EEK (ca. 959 €) between 1998 and 2002 and was increased in 2003 to 17,000 EEK (ca. 1,086 €). Students must apply for the study loan every year directly in one of two commercial banks that are partners of the government within this programme. The loan is given only during the regular period of tuition, which is usually between 3 and 6 years depending on the study programme in which the student is enrolled. A fixed interest rate of 5% per year is charged, and repayment must start no later than 12 months after the studies have been finished (graduated or dropped out). The maximum period of repayment is twice the tuition time of the student. When setting the loan contract between the student and the bank, a surety must be named who has permanent residency in Estonia and has had a regular income for at least three

months before the beginning of the loan period. Often, the parents co-sign for their children. The banks may hand over the debt of defaulted loans to the government only if repayment cannot be collected from the surety either. In 2002, in the Estonian government began making public the list of persons who have not paid back their student loans in an effort to keep the number of defaults low.

6.3.2. Rental allowance

Students can apply for rental allowance at local government offices. If he has an annual income of less than 1,000 EEK (ca. 64 €), 60% of rental costs can be reimbursed by the local community. But there is an upper limit on the rent per square meter and a maximum size of the room for which a person can get support, and the applicant must show up in person and turn in receipts of rental payment. This support is not exclusively for students but for many other social groups like retirees or unemployed persons as well.

6.3.3. Other sources

Apart from student loans and rental allowances, there are hardly any other state funded sources for financing studies. Some faculties give extra scholarships for excellent students, funded by the central government. But this number is rather low, with only about 10% of the students who enjoy tuition-free study places getting these additional scholarships. Some stipends are granted from foundations or private companies. Private sources of income from working, parents or other family members are much more important for financing studies. In 2002, about 60% of the students worked in addition to studying. Some commercial banks offer special loans in order to cover tuition fees, but these loans are strictly private agreements and not supported by the state.

6.3.4. New student support law

In August 2003, a new law on student support was passed. It entitles the top 30% of every study programme to get a grant of 800 EEK per month. The selection is strictly based on the grades and every year, distribution starts over again. No student can rely on the grant for a long time. Although the law has just been passed, the public debate on this issue has not ended and several changes to the system can be expected in the near future.

6.4. Institutional organization

In the Estonian system, very few institutions are involved. The government directly negotiates with higher education institutions every year on the costs caused by the students who study free of tuition. The student loan is handed out by commercial banks that have special agreements with the government. So far, no institution has been created that administrates financial aid for students. In the context of the new law, additional administrative costs appear. The higher education institutions are meant to bear these costs, but at present, negotiations are underway with the government to find a means of reimbursing these costs.
The rental allowance involves local government offices and tax offices certifying the low income of the student. But since the rental allowance is not exclusively for students, these offices exist anyway as part of the general social protection system.

6.5. Overall assessment

Equality of access

In order to cover the costs of living, all students have access to student loans with a comparatively low interest rate, but there is no interest-free aid. Until recently, there were no public grants either. Students with poor social backgrounds may have difficulties ensuring an acceptable level of maintenance. The estimated means required to ensure the level of subsistence was 1,389 EEK per month (ca. 89 €) in 2002 (ESA 2003b). The maximum annual loan of 15,000 EEK (17,000 EEK in 2003) is slightly below the subsistence level (slightly above in 2003; at the moment of the introduction of this loan, the maximum was above the subsistence level as well). Only in combination with rental allowances can income-challenged students meet their basic needs. Despite these restrictions, the number of students has doubled within the last six years. Nevertheless, the Estonian system performs badly in terms of equality of access. (–)

Promotion of talented

Unlike the other systems portrayed in this paper, the Estonian system is targeted especially at the most talented students. In order to have access to tuition free study, students must be among the best in their entrance exam and show excellent results in their classes to keep their exemption from tuition fees. There is a strong preference for talented students. (+)

Possibility of misuse

In the Estonian system, students get little support. Most of it is issued as loans from commercial banks. These loans are based on the standard conditions like other loans from banks. Sureties must be named who must pay in the event of default. Overall, the possibilities of misuse are judged to be low. (+)

Governance

As mentioned in part 6.4, very few institutions are involved in the financial support scheme for students. There is no extra administrative institution, relying instead on selected commercial banks that provide students with loans within a state loan program. The maximum limit of loan disbursements can be adjusted easily, and cooperation with the banks seems to work. Finally, legislative framework is clear, allowing for quite effective governance of the system (+).

Cost efficiency

Because of the low institutional involvement illustrated above, administrative costs of the system are kept low. The level of student aid is low as well. Since the system serves its basic purposes in terms of effectiveness and as the overall costs are low, the cost efficiency of the financial support scheme in Estonia can be considered high (+).

Performance orientation

The main instrument of the Estonian system – the student loan program – is available to all students. But these loans do not cover the expenses for tuition fees. There is a strong incentive to get exempted from tuition fees by showing good results in the entrance exams and

throughout the studies. Reforms from August 2003 introduced an additional grant in order to improve the financial situation of students. And again, new regulations support the most talented and successful students. Therefore, the Estonian system is high in its orientation towards achievement (+).

7. CONCLUSIONS AND LESSONS FOR THE UKRAINE

7.1. Conclusions

The financial support schemes portrayed in this paper differ substantially. Among the selected countries, Germany is the only one that has not undergone major changes in the financing of higher education within the past decade. Australia, the Netherlands and Estonia carried through reforms in the course of the 1990s. As a result, they seem to perform better than the German system, which is judged inadequate in several categories. The German system clearly emphases a goal of equality in access, and a large degree of the legal and institutional framework created seeks to realise this goal. But the goal is reached at high costs, and the support is hardly performance-orientated. The case of the Netherlands offers an example of a country that reaches a good equality of access and at the same time gives incentives for efficient study behaviour. The systems in Australia and Estonia are again different from the German and Dutch cases. They do not put that much emphasis on equality but rather have the idea of support the most talented persons. Estonia is extremely orientated towards achievement. Both systems are also interesting because they rely on existing institutions (both tax offices and commercial banks) instead of creating new institutions (IB Group and BAFöG offices, respectively). In this manner, they reach high cost efficiency. Table 8 sums up the assessments made for the financial support schemes of the selected countries in the previous chapters.

Table 8: Performance of financial support schemes for students according to different criteria

	Equality of access	Promotion of talented	Possibility of misuse	Governance	Cost efficiency	Performance orientation
Germany	+	0	–	–	–	–
Netherlands	+	0	+	+	0	0
Australia	0	+	+	+	+	0
Estonia	–	+	+	+	+	+

7.2. Lessons for the Ukraine

Several aspects of the analysis are interesting for other countries like the Ukraine that plan to reform their financial support schemes for students. First of all, the priority within the support scheme must be clarified. Should the system be targeted at socially-deprived persons or should the support primarily be directed to the most talented young people of the country?

If the social equality of access is most important, Germany and the Netherlands can be seen as examples. Both systems give people from poor social backgrounds good opportunities to finance their studies with government grants and loans. But these systems bear high costs in terms of budgets for support and administrative costs. In the case of Germany, a complicated legal and institutional framework results in low cost efficiency as well. The Netherlands

provide a better example of how a clear composition of the support scheme and a centralized administration avoid low efficiency. Using the "performance-related grant", the Dutch system also sets positive incentives to finish education quickly. The country's experience shows that the introduction of tuition fees does not necessarily reduce participation and exclude young people with poor social backgrounds from higher education. Australia has made similar experiences in this respect.

If, on the other hand, a country reforming its system deems the promotion of talented students more important than the equality of access, the Australian and the Estonian financial support schemes should be closely examined. Both countries have introduced entrance exams and tests – in addition to secondary school graduation results – as gatekeepers for talented students. In the Estonian case, performance orientation is also strong during the period of studies. This might be an advantage when trying to include commercial banks within the system of student and tuition loans. As long as the selection and grading systems are effective, the banks should be confident that students have good chances in the labour market after graduation. Therefore the banks may be willing to take over some of the administrative tasks of the loan program in exchange for the potential to gain highly educated people as customers. Estonia and Australia have designed systems that do not need extra offices and institutions to administer financial aid programmes to students, which is very cost efficient.

When reforming the financial support scheme, a country must decide on its priorities. Surely, a mixed system that aims at both equality of access and selection of the most talented students is possible, but there is the danger that it becomes too complicated in its structure (see the case of Germany) and too costly. It is better to make a clear choice of priorities.

Are there any specific problems that hinder the introduction of one of the systems portrayed in this paper? Some will be discussed in the following paragraphs.

- **Low budgets** – Since the Ukraine is a country with low income, financial resources are particularly scarce. Financial support schemes for student aid may not be too costly. The systems in Germany and the Netherlands require higher budgets than the other systems and are therefore hardly applicable to the Ukraine.

- **Poor functioning of institutions and corruption** – The transparency of public as well as private institutions is known to be low in the Ukraine, and corruption is a problem. To avoid difficulties over the long-run, the number of institutions involved in the system should be kept low. A decentralized structure would result in poor governance and low transparency. Australia, the Netherlands and Estonia give good examples of efficient administration. On the other hand, the requirements for cooperation between different institutions should be kept low as well. The Australian system is highly dependent on the effectiveness of the tax offices. Since tax collection is a major problem in the Ukraine, the Australian system could not work in this case. Again Estonia is quite interesting in this respect, because the involvement of tax offices is low.

- **Long term planning** – Loan-based support schemes require long term planning. Thus, the legal and institutional framework must be stable and it should be able to build expectations about deault risks on solid grounds. If risks are generally high, it is possible that neither the students nor banks or other loan providing institutions accept the conditions. Therefore, if loan programmes are not expected to work in the Ukraine, a system based on grants and allowances should be chosen.

On the other hand, if there is trust in good economic performance in the long run, it can be expected that young people do not have high objections to loans. Especially in transition countries where the potential for catching up is very high, the income of a person may rise quickly within a decade. If such a development is expected, higher education is a good investment and even private commercial banks should be easily convinced that loan programs work.

- **Low development of banking sector** – The systems described in this paper work best if students have bank accounts. The functioning of the banking sector is a precondition for the introduction of an advanced financial support scheme. It is questionable if the Ukrainian banking sector meets these requirements as of yet. Also in the context of financial aid reform for students, efforts for further development of the banking system should be made.

A very important aspect of the analysis has not yet been discussed. Quality assessment of higher education institutions plays a crucial role in all systems. This paper has implicitly assumed that all students study in higher education institutions receive good education. Spending money on students who enrol in schools that do not even meet minimum quality standards of higher education is a waste of money. Schools offering low quality education for high tuition fees must not be allowed to profit from governmental subsidies via financial support schemes that reimburse or advance tuition fees. This kind of misuse can only be avoided through evaluation and quality assessment of higher education institutions. Access to financial aid from the government should be restricted to students enrolled in truly accredited schools and universities whose quality should be controlled from an independent agency.

C. S., October 2003

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