



Ministry of  
Education and Science  
Republic of Latvia

## Implementation of the New System-level Performance-based Funding Model

NACIONĀLAIS  
ATTĪSTĪBAS  
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EIROPAS SAVIENĪBA

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«Participation In International Educational Studies»

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IEGULDĪJUMS TAVĀ NĀKOTNĒ

**“Investing Strategically in Higher Education:  
Aligning Public Funding with Policy Objectives”**

**April 26, 2016  
Zagreb, Croatia**



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# Outline

- **HE statistics, financing model** - Need for a reform
- **Engagement of the World Bank** - Identifying the challenges
- **New HE funding model** - Changing the system architecture
- **Implementation process and results** - Comparing institutional performance
- **New undertaking for 2016-2018** - Improving the university-internal financing and governance



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# Key Statistics: Higher education in Latvia

## Statistics (2015/16 academic year)

### Funding of HE (2014):

- State funding: 121,5 mil. EUR (0,5% of GDP)
- Private funding: 69.4 mil. EUR (0,3% of GDP)
- Other funding, incl. EU: 102,3 mil. EUR (0,4% of GDP)
- Total: 293.2 mil. EUR (1,2% of GDP)

### HEIs:

- State-established HEIs: 17
- State-established colleges: 17
- Private HEIs: 14
- Private colleges: 9
- Branches of foreign HEIs: 2

### Staff of HEIs:

- All staff: 10735
- Academic staff: 4910
- On average 20 students per faculty member
- Main age group: 30 - 50

### Students:

- All students: 84282
- Newly enrolled: 22073
- Foreign students: 5293 (8%)
- Obtained degree: 17021



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# Pre-reform model of HE financing in Latvia: 1-pillar “study place” model

2002 – 2006 - transition from historical to normative financing.  
Latvia’s HEIs financed by a formula based on input criteria.

## Input-based formula components:

- number of state-funded study places
- basic costs of a study place
- social security and welfare costs
- cost coefficient by subject area

Analysis of input and output data by MoES, HE Council sector ministries

HE Council proposal for the number of state funded study places

MoES decision and allocation of funding

Funding for study places allocated to HEIs at the beginning of calendar year



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# Context for a HE financing reform

HE – private  
or public  
good?

No funding,  
no reform

## 2012 EU Council:

New HE funding model that rewards quality, strengthens links with market needs and research institutions, avoids fragmentation of budget resources.

Fully state  
funded HE

HE only for  
labour  
market?

Sector-specific  
approach  
needed

## In 2013 - World Bank engagement:

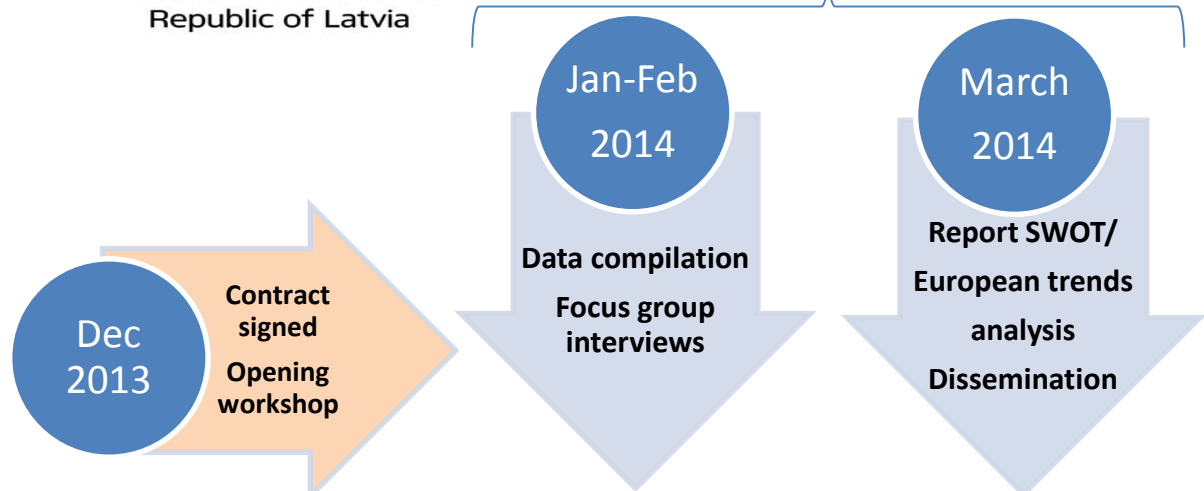
- Independent, unbiased expertise
- International perspective and comparison
- Hands-on approach, implementation experience

# Timeline of World Bank project for HE funding assessment



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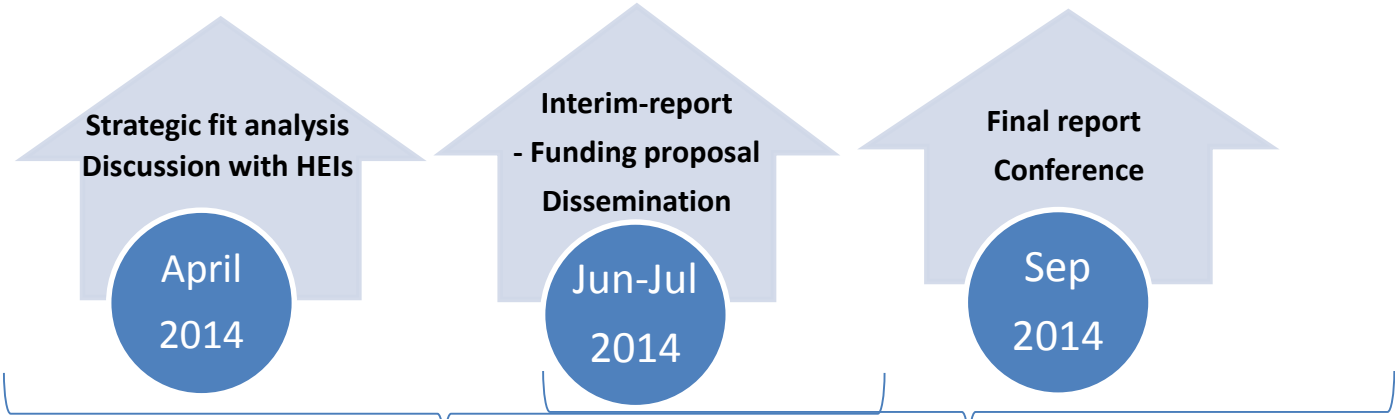
## 1st phase – SWOT/European trends' analysis



**Project components:** 3 phases

**Total length:** 10 months

**Involvement of stakeholders:**  
Rectors Council, HE Council, Students Association, Employers Associations



## 2nd phase – Assessment of strategic alignment

## 3rd phase – Funding proposal



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# World Bank findings: challenges of Latvia's HE financing system

## World Bank project resulted in 3 main reports:

- SWOT analysis in light of European trends
- Strategic fit analysis
- Proposal for HE financing and scenarios of development depending on available funds.

## Some of the findings...

- Structural underfunding of Latvian HE system leads to **performance constrains** and **quality problems**.
- The state funding model is rather “**one-dimensional**” and **static as a whole**, lacking performance-oriented funding and innovation-/profile-oriented funding.
- The **high reliance on tuition revenues** (education) and **EU Structural Funds** (research) is likely to harm long-term financial viability of HEIs.
- The funding model **lacks alignment of basic funding of teaching and research**.
- Income from private sources such as industry or community services is **underdeveloped**.



# Changing the system architecture: stability and change

- **Continuation:**

“Study places” as a form of state budget allocation

- **Performance:**

Performance-based financing for output indicators  
Integrated state allocation for study places and  
research (basic funding)

- **Development:**

Strategic specialization  
Institutional profile enhancement  
Agreements for medium – term development

**Stability**

**Change**

**Scarcity Model**

**Limited Expansion  
Model**

**Develop the Knowledge  
Society Model**



# New Higher Education Funding Model



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## Milestones of implementation process:

- **Sep 2014** – Final Report of the World Bank;
- **June 2015** – new MoES model endorsed by the CoM;
- **July 2015** – regulation for performance-based financing;
- **Nov 2015** – regulation for integration of HE and research.

	Basic funding for labour market alignment	Performance-based funding for HE&R integration	Funding for development and strategic specialization
	pillar 1: basic funding	pillar 2: performance – oriented funding	pillar 3: innovation – oriented funding
teaching	<ul style="list-style-type: none"> <li>• numbers of study places (per field)</li> <li>• cost oriented weight</li> </ul> <p><b>Budget funding for studies 85 MEUR</b></p>	<p><b>Additional budget funding for performance 6,5 MEUR</b></p>	<p><b>OP «Growth and Development» funding</b></p>
research	<ul style="list-style-type: none"> <li>• numbers of research staff (per field)</li> <li>• cost-oriented weight</li> </ul> <p><b>Budget funding for research 27 MEUR</b></p>	<ul style="list-style-type: none"> <li>• <b>Research staff FTE (MAs, PhDs)</b></li> <li>• <b>Industry funded research;</b></li> <li>• <b>International research.</b></li> </ul>	<p>profile-oriented target agreements teaching + research + third mission</p> <p>funding of centers of excellence</p>



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# Incentives for higher education and research integration (2nd pillar)

## Performance criteria according to policy priorities:

### 2nd pillar funding FORMULA:

$$F_{2z} = F_{zda} \times \left( 0,3 \times \left( \frac{P_z}{\sum P_z} \right) + 0,25 \times \left( \frac{S_z}{\sum S_z} \right) + 0,25 \right)$$

#### Building HR in research and technology development

- MA students, PhD students, «young» scientists engaged in research **(P – 0.3)**

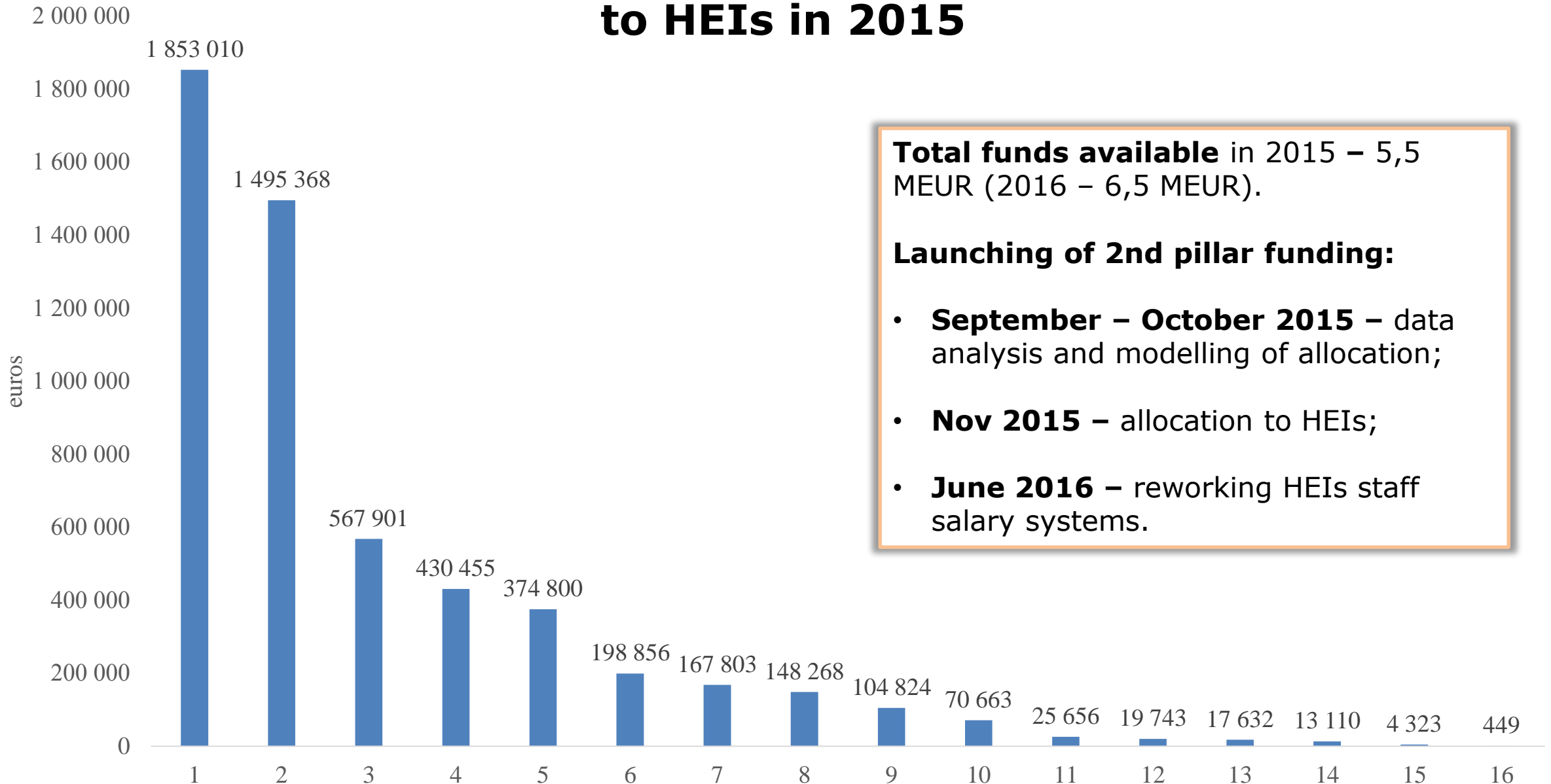
#### International competitiveness of research

- International funding for research and development projects (Horizon 2020 etc.) **(S – 0,25)**

#### Industry relevance of research

- R & D contract funding by public and commercial entities **(L – 0.25)**
- Funding by local governments for regional research projects **(R – 0.1)**
- Funding for creative and artistic projects **(M – 0.1)**

# Total allocation of performance funding (2nd pillar) to HEIs in 2015

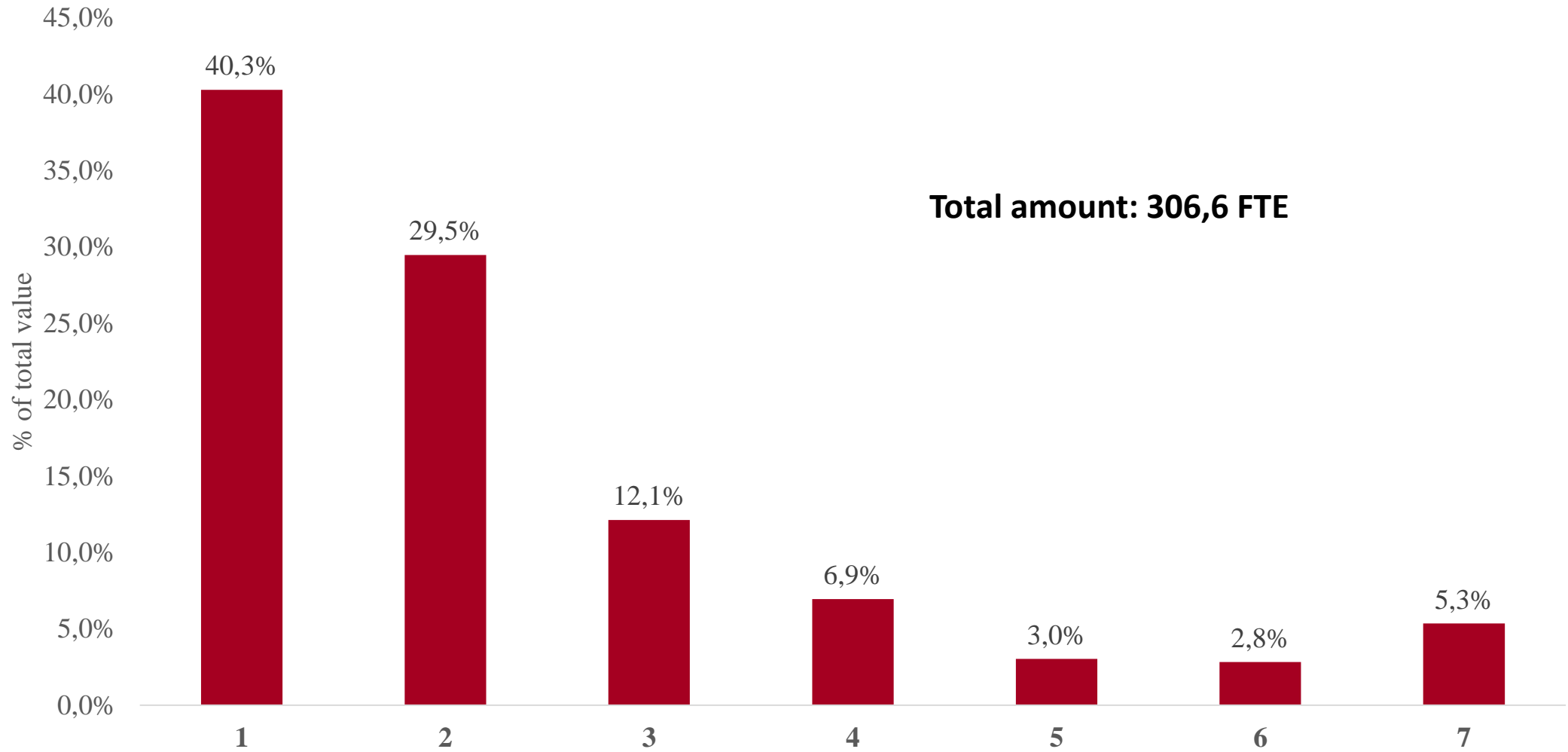


**Total funds available** in 2015 – 5,5 MEUR (2016 – 6,5 MEUR).

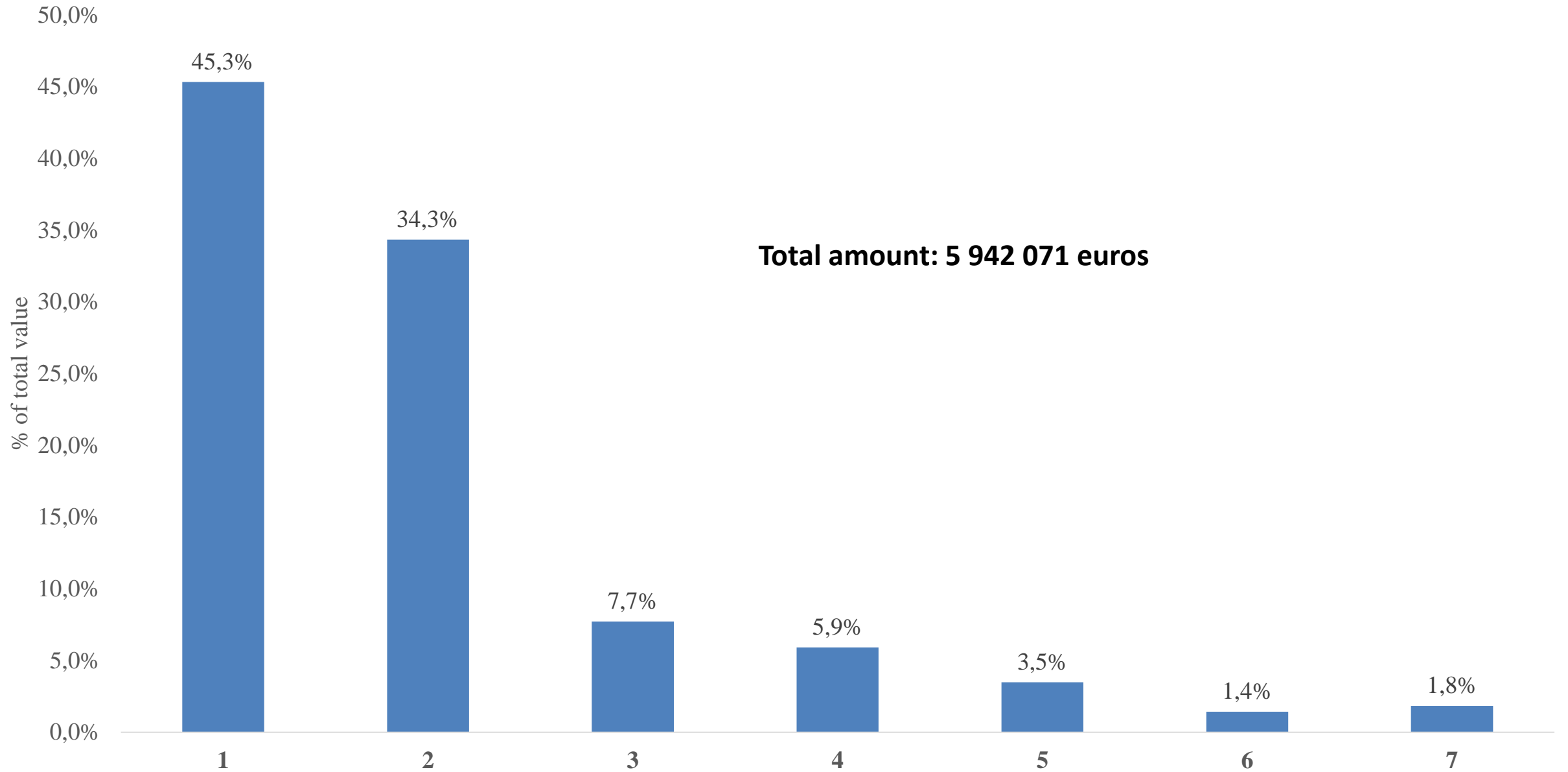
## **Launching of 2nd pillar funding:**

- **September – October 2015** – data analysis and modelling of allocation;
- **Nov 2015** – allocation to HEIs;
- **June 2016** – reworking HEIs staff salary systems.

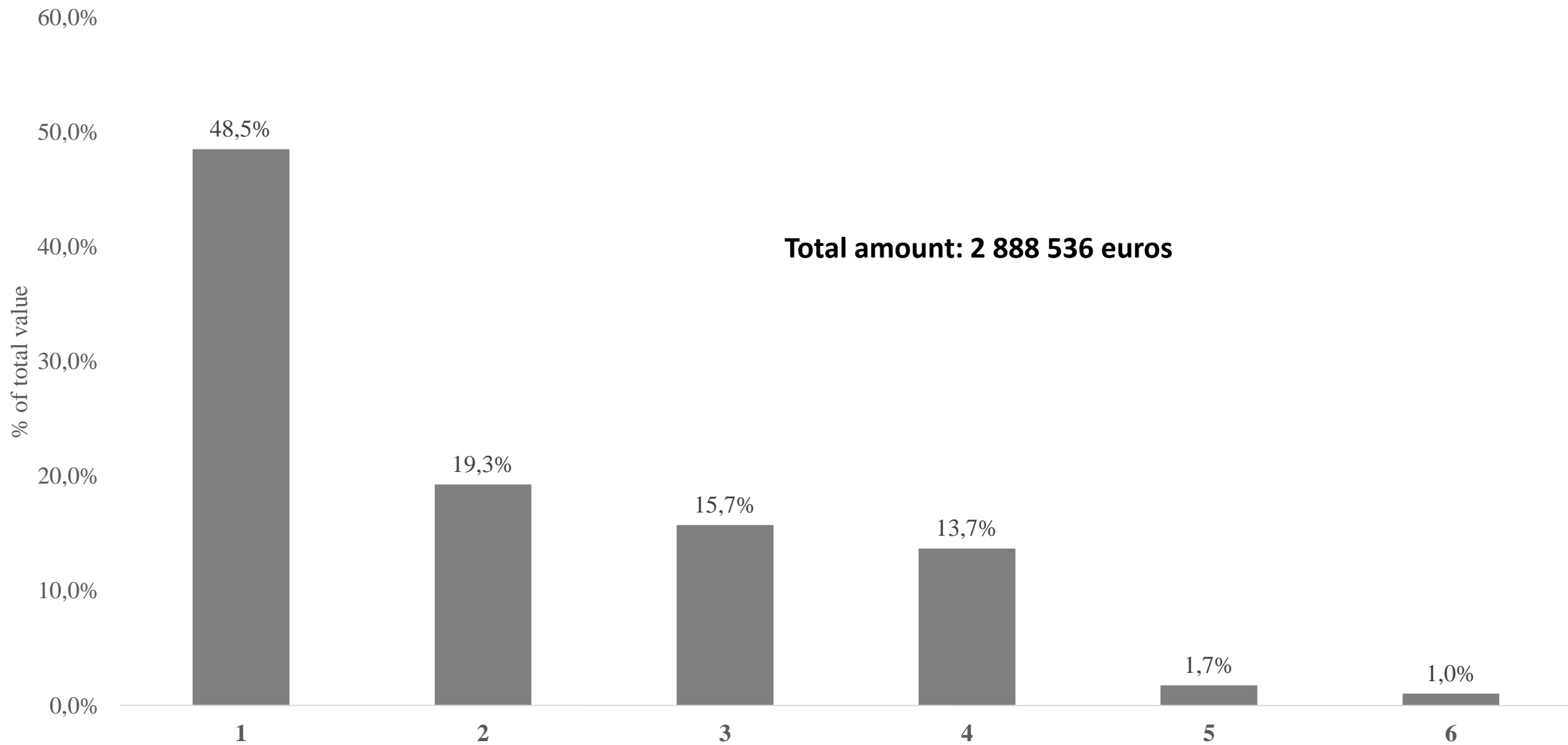
# Employed «young» scientists in HEIs in full time equivalent in 2014



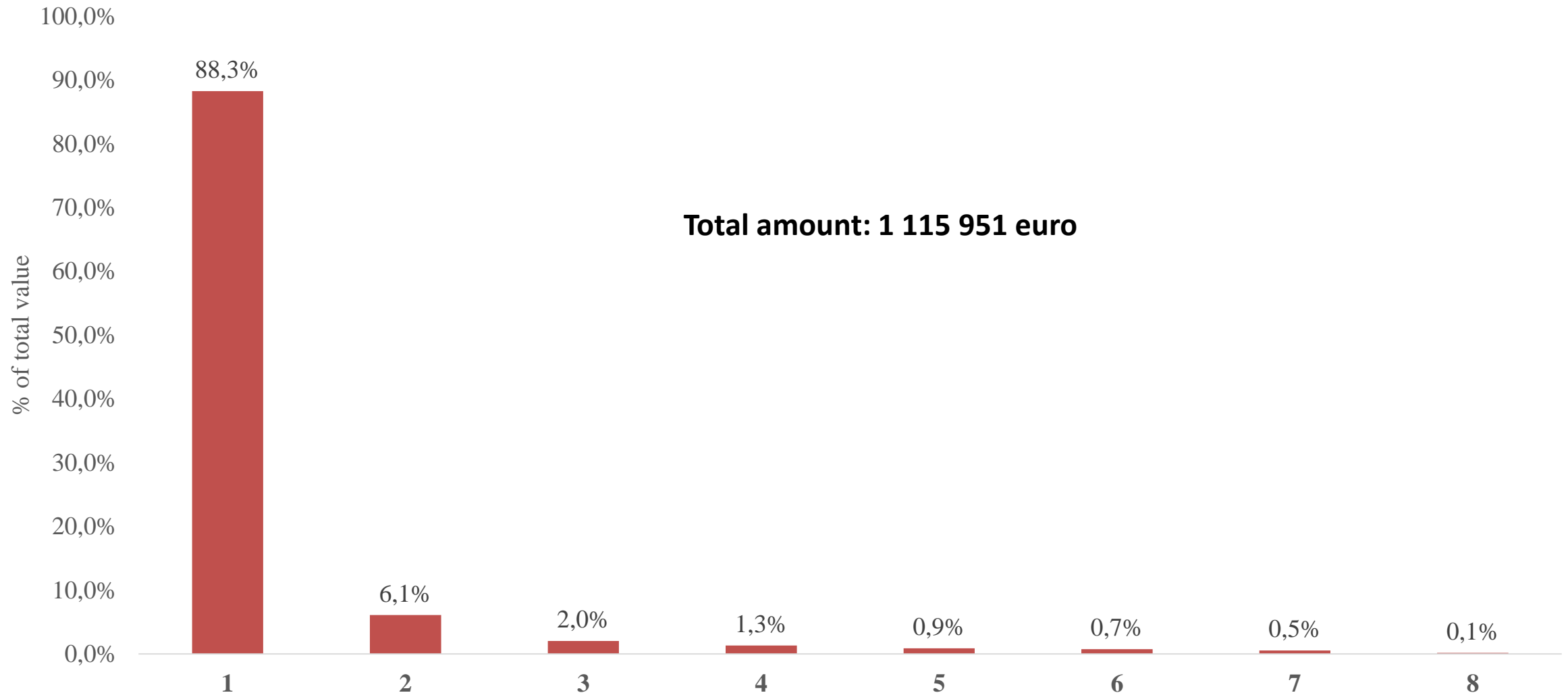
# Amount of international R&D funding in 2014



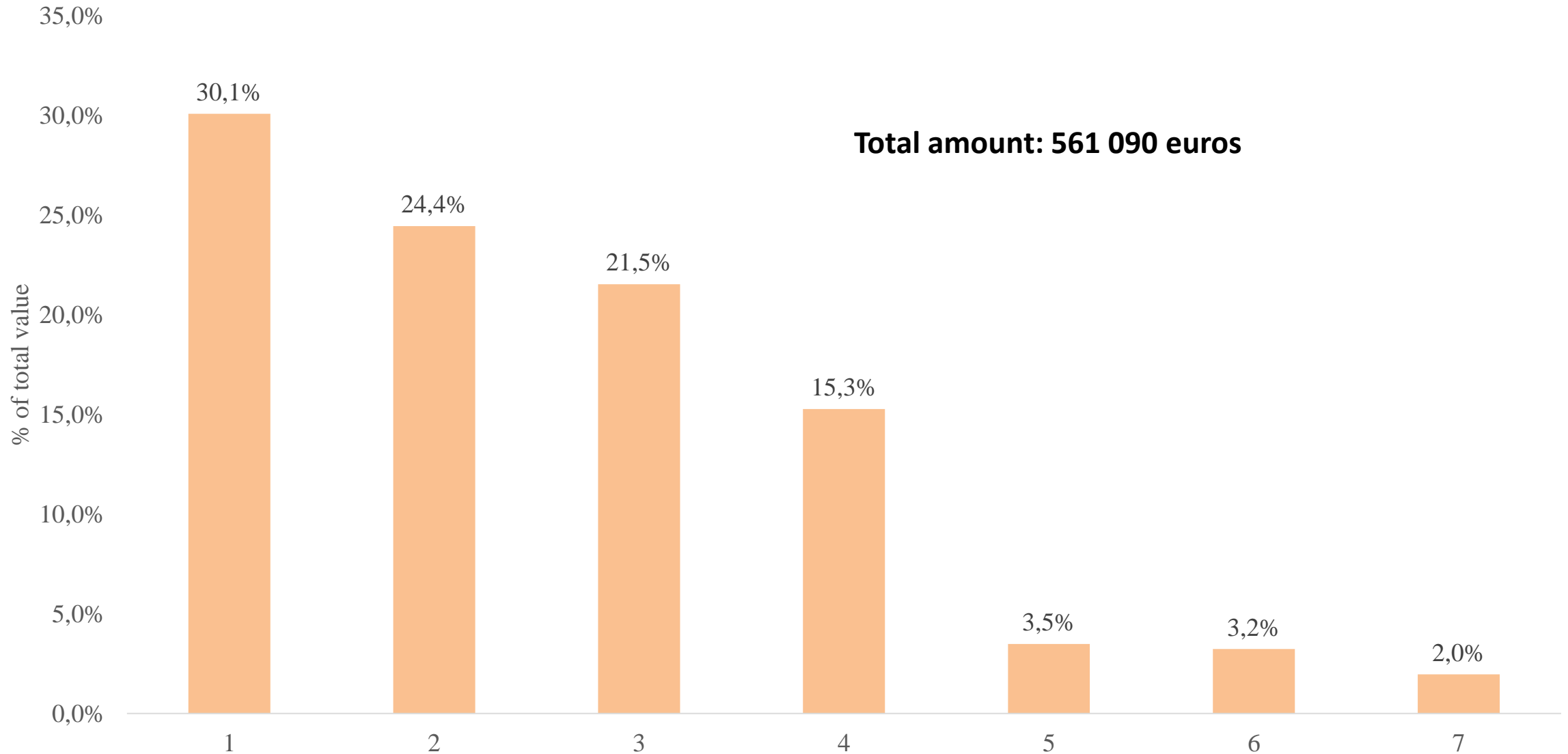
# Amount of attracted R & D contract funding in HEIs in 2014



# Amount of attracted R & D funding or subsidies from local municipalities in HEIs in 2014



# Amount of attracted funding for creative and artistic projects in HEIs in 2014







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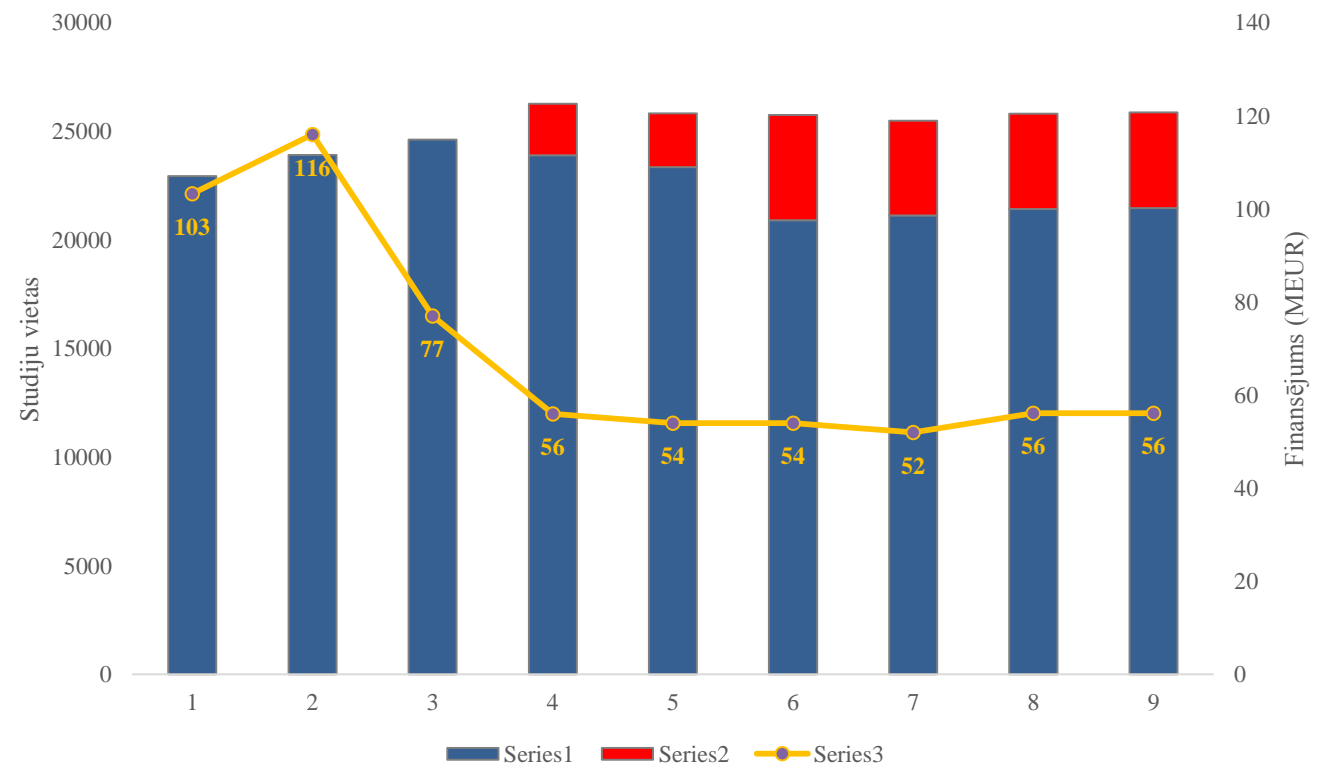
# Revision of the 1st pillar

## Changes in progress:

- New regulation to introduce the estimated basic study cost – **1800 euros**.
- The proposed changes will return basic funding to **pre-2009 levels**.
- Proposal for revision of **study coefficients** in progress.
- In order to fully implement these changes **additional funding is needed**.

In 2009 MoES reduced:

- 1) Basic cost of a study place from 1800 EUR to 1333 EUR, the number of study places remained the same;
- 1) Total funding from 119 MEUR to 63 MEUR.





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## New undertaking for 2016-2018

- EU Council's recommendations for Latvia 2015:

**«Ensure that the new financing model of the higher education system rewards quality. Better target research financing and incentivise private investment in innovation on the basis of the Smart Specialisation Framework».**

- New World Bank and MoES cooperation project is in preparation:

**Phase I** – University-internal governance and performance-based financing in Latvian HEIs;

**Phase II** – Selection, Promotion and Remuneration of Academic Staff, Doctorate;

**Results** – Recommended models for Latvian HEIs internal governance, financing and HR policies in light of best international practice. Proposal for policy planning and further investment for the development of human capital in higher education, research and innovation in Latvia according to the Smart Specialization Strategy goals and priorities.



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**Thank you!**

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