**Implementation of a New Higher Education Financing Model in Latvia**

**CONCEPTUAL REPORT**

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# Introduction

The Conceptual Report “Implementation of a New Higher Education Financing Model in Latvia” puts forward a proposal for a new higher education financing model, for its implementation, describes alternative solutions and their likely impact on quality, competitiveness and accessibility of higher education. The Conceptual Report has been drawn up in accordance with the Declaration on the Action Plan of the Cabinet of Prime Minister Laimdota Straujuma to increase international competitiveness of higher education through introduction of a higher education financing model based on the study and research quality evaluation.

The Conceptual Report proposes a *three-pillar* financing model as suitable for reaching the development objectives of Latvia, ensuring alignment of the higher education offer with the needs of development of the Latvian economy and of the labour market, high-quality, research-based higher education content and performance management in institutions of higher education. The Report substantiates why improvement of higher education quality and principal change of the financing model is not possible without a significant increase in higher education funding.

At the Cabinet meeting of 10 November 2014 the government supported initiation of financing of the second pillar or performance in 2015, providing additional funding for this purpose for the results achieved in the implementation of research-based higher education. According to the government decision, the Ministry of Education and Science has developed a proposal for performance indicators of implementation of research-based higher education. The scenarios and solutions analysed in the Conceptual Report mainly refer to financing of State founded institutions of higher education and colleges.

Higher education financing reform is an *ex ante* condition for the investments of the European Union Structural Funds in higher education, in accordance with the recommendations of the Council of the European Union of 2012 and 2013, which require Latvia to implement reforms in higher education and to introduce a new financing model that stimulates quality, strengthens the link with the market and with research, prevents fragmentation of budget funds, as well as provides institutional consolidation and internationalisation. According to the recommendation of the Council of the European Union on the implementation of the National Reform Programme of Latvia for 2014, Latvia needs to accelerate implementation of the higher education reform, including with regard to implementation of a new financing model.

The Conceptual Report has been drawn up based on the task put forward in Protocol Decision No. 61, Paragraph 62 of the Cabinet meeting of 19 November 2013, in accordance with the measure “Develop sustainable higher education financing model” laid down in the Education Development Guidelines for 2014 – 2020 in the policy direction “Efficient Management of Education Financial Resources”, and the Smart Specialisation priorities for Latvia included in the Guidelines for the Development of Science and Technology for 2014 – 2020, which foresees modernisation of higher education in order to ensure human capital and knowledge base needed for the economic transformation to higher productivity. The incentives included in the financing model are focused on reaching of the objectives of the National Development Plan 2014 – 2020. The first section of the Report contains an overview of the progress and results of the study conducted by the International Bank for Reconstruction and Development (hereinafter – the World Bank) for the preparation of the model. The second and third section contain information regarding higher education financing reform, substantiate the necessity for implementation of the new financing, and outline the risks that are possible if higher education financing principles are not changed. The fourth section sets out a plan of measures for implementation of the financing model.

# 1. Progress and Results of the World Bank Study

On 2 December 2013, the Ministry of Education and Science (hereinafter – the Ministry) concluded a co-operation agreement with the World Bank and the State Education Development Agency with the aim to evaluate the financing system of higher education in Latvia and to give proposals for development and implementation of a new higher education financing model. Four analytical reports have been drawn up during the course of the research: 1) evaluation of the strengths and weaknesses of the current higher education financing model in Latvia, taking into account the best practices of financing of higher education in Europe (Annex 1); 2) evaluation of the strategic compliance of the higher education financing model in Latvia (Annex 2); 3) interim report of the study – conceptual proposal for financing of higher education (Annex 3); 4) final report of the study – proposal for financing of higher education in medium term (Annex 4). The Conceptual Report is based on the conclusions and recommendations of the World Bank, the results of public consultation, it explains the conditions and principles of implementation of the financing reform, as well as lays down the necessary measures and deadlines for implementation of the reform.

##

## 1.1. Implementation of the Study and Participation of the Sector

In order to implement the study and develop proposals for implementation of a higher education financing model that would be appropriate and optimal for the situation in Latvia, the Ministry engaged a team of financial experts of the World Bank, who have accumulated considerable international experience in development of higher education policy, have the knowledge and analytical skills in dealing with complex and comprehensive higher education reforms, organising discussion groups and steering constructive solutions in the sector. From 2 December 2013 to 24 September 2014, by organising discussions and consultations with higher education policy-makers, institutions of higher education, sectoral ministries and social partners, the experts evaluated the Latvian approach to financing of higher education in conjunction with the strategic guidelines laid down in national policy planning documents, courses of action and the results to be achieved in higher education and science. In the course of the study, the experts evaluated the vision of various higher education stakeholders and discussed the possible scenarios for implementation of the financing model, taking into account the amount of public funding (the State budget and the European Union Structural Funds), revenue stream structure of institutions of higher education, tuition fees, scholarship and loan system.

The study was implemented in three stages: 1) evaluation of the current regulatory and legislative basis; 2) evaluation of policy planning documents; 3) evaluation of implementation scenarios and impact thereof. There have been six visits of the World Bank working group to Latvia, during which consultations were organised, workshops and discussions were held, publicity of the discussion outcomes was provided. On 2 – 3 December 2013 the first visit took place, during which a tripartite co-operation agreement was signed between the Ministry, the World Bank and the State Education Development Agency, and the participants acquainted themselves with the financing problems in the sector. On 5 – 7 February 2014 interviews were organised with higher education policy-makers, institutions of higher education and co-operation partners regarding the strengths and weaknesses of the current higher education financing approach. On 12 March 2014, in collaboration with the European Commission Representation in Latvia a discussion on the initial results was held. On 23 April 2014 the higher education strategic development direction was discussed with State institutions of higher education and higher education policy-makers. On 8 July 2014, with the participation of representatives of the Parliamentary Education, Culture and Science Committee a discussion was held on the concept of the financing model. On 24 September 2014 the final study report was discussed and publicity activities were organised in public media[[1]](#footnote-1).

Altogether around 60 institutions and organisations were involved in the development of the study – the Parliamentary Education, Culture and Science Committee, the European Commission Representation in Latvia, State and private institutions of higher education, employers and co-operation partners, sectoral ministries and other institutions and organisations, providing a wide representation of institutions of higher education and social partners in the report development process. The study takes into account the work already done and discussion with regard to improvement of the higher education financing model, including the informative report of the ministry “On Performance-oriented Financing Model of Higher Education and Science and on Proposals for Successful Implementation of the State Higher Education Institutional Reform Provided for within the Framework of the Plan and the Reform of the Higher Education and Research Management Model” (proclaimed in the meeting of State Secretaries of 23 December 2010), informative report of the Ministry of Economics “On the Necessary Structural Reforms in Higher Education and Science to Enhance International Competitiveness of Latvia” (reviewed by the Cabinet on 12 January 2010), the national concept for the development of higher education and institutions of higher education in Latvia for 2013 – 2020, developed by the Council of Higher Education, and other documents that put forward arguments and proposals for improvement of financing of higher education. Thus, the proposals put forward as a result of this study reflect the views of all stakeholders and respect the principle of research in planning of the development of the sector and in decision-making.

## 1.2. Methodology for Evaluation of the Higher Education Financing Model

In the study the higher education financing aspects are viewed in conjunction with a number of factors that affect the performance of institutions of higher education, since effectiveness of higher education is determined not only by the funding amount and allocation principles; it is also influenced by factors such as human resources policy of institutions of higher education[[2]](#footnote-2), quality assurance systems, higher education management principles and other aspects. The study methodology was developed specifically for this study, taking into account solutions for financing of higher education and research, tested in international practice, the specific nature of the Latvian higher education sector, its institutional diversity, as well as the current and foreseeable amount of investments in the development of the sector. The following criteria of a **good financing model** were put forward for evaluation of the Latvian higher education financing approach: strategic orientation, incentive orientation, sustainability, legitimisation, autonomy and flexibility, practical feasibility. Explanation for the abovementioned criteria is given in Table 1.

*Table 1.* **Used Criteria for a Good Financing Model**

|  |  |
| --- | --- |
| **Strategic Orientation** | **Incentive Orientation** |
| * Promote achievement of national objectives;
* Promote development of institutional profiles;
* Ensure performance rewards and sanctions;
* Create a competitive environment.
 | * Provide clear, non-fragmented financial incentives;
* Balance expected and achieved performance;
* Avoid undesirable effects.
 |
| **Sustainability** | **Conformity with Legislation** |
| * Ensure stability and preconditions for long-term planning;
* Ensure continuity in financing mechanisms;
* Take into account cost differences in different fields;
* Promote risk-spreading and management.
 | * Provide unambiguous and balanced financing principles;
* Conform with the perception of fairness;
* Guarantee academic freedom;
* Allocate lump sums.
 |
| **Autonomy and freedom** | **Practical feasibility** |
| * Implement an adequate level of regulation;
* Guarantee autonomy of internal resource allocation; Promote accessibility of diverse income sources.
 | * Are based on available data;
* Ensure administrative efficiency;
* Respect methodological standards;
* Ensure coherence with financing levels.
 |

In spite of the variety in higher education system and financing models in the European countries, in most cases three components (pillars) forming allocation of public financing in higher education can be identified: basic (base) funding, performance funding, and innovation- and profile-oriented financing (Table 2)[[3]](#footnote-3). Within the framework of the three pillar financing model used in the European practice, different methods of allocation of financing are used: negotiated, incremental (gradual increase), formula and competition (project) financing. Upon determining the total amount of a grant, the significance of the various elements is different in different European higher education systems[[4]](#footnote-4). In determining the most appropriate method for the allocation of funding in Latvia, the higher education development objectives must be taken into account.

*Table 2.* **Pillars of the Financing Model**

|  |  |  |
| --- | --- | --- |
| **Basic (base) financing** | **Performance funding** | **Innovation-/profile-oriented financing** |
| The allocation component that remains stable over a specific period of time. Its purpose is to provide predictable and reliable funding which provides the continuity of the basic functions of institutions of higher education.  | The allocation component the main purpose of which is to create financial incentives for development. Performance-based financing is allocated, taking into account the foreseeable and achieved output indicators of studies and research. | The allocation component which is oriented towards intentions expected to be carried out in the future and towards profiling of institutions of higher education. Its aim is to promote innovations, research (or study) excellence, development of institutional specialisation and profiles. |

Financing model with clearly differentiated allocation components allows the use of the allocated grant in a better targeted and more efficient way. Basic financing is an amount of public funding that covers the main part of costs of economic activity, thereby enabling continuity of operation of institutions of higher education and the possibilities to implement their core tasks of studies and research. In the majority of European systems, State institutions distribute basic funding to institutions of higher education, using the so called block grants. The main purpose of performance-based financing is to promote competition and strive for excellence. Development funding is allocated by means of a competition within the framework of projects. The purpose of this financing is to support innovations and development of profiles of institutions of higher education. The financing model distinguishes between input and output indicators. Input indicators include the number of study places and number of students, the number of persons employed in teaching and research, previous financial results of institutions, and other data. In turn, output indicators include the number of graduates, number of credit points acquired, student assessment scores, publications, and other indicators characterising performance. As evidenced by studies on development of the higher education system, the importance of output (performance) indicators in financing of higher education has grown significantly over the past decade[[5]](#footnote-5).

**In the course of the study, the financing system of higher education in Latvia was evaluated in the following breakdown:**

* State funding for studies and research (allocation of State budget funds via funding for study places and research);
* Diversification of financial sources for institutions of higher education (Structural Funds, tuition fees, market revenues, external research income);
* Financial autonomy of institutions of higher education (lump-sum as opposed to line-item allocations, freedom to spend the funds flexibly and build financial reserves, discretion to set salaries);
* Student support system (scholarships, subsidised study places, rotation, tuition fees, loans) (Figure 1).



*Figure 1.* **Higher Education Financing Aspects**

## 1.3. Results of the Evaluation of the Higher Education Financing Model

According to the Latvian laws and regulations in the field of financing of higher education and research[[6]](#footnote-6), the current financing procedure consists of the following components of State funding: 1) formula funding (basic funding of studies), which is related to the number of study places; 2) performance agreements for preparation of a certain number of specialists and for development of scientific activity; 3) formula funding (basic funding of science) for institutions of higher education, scientific institutions, and scientific institutes established by institutions of higher education; 4) funding to scientific activities through competitions. In the study of the World Bank it was concluded that, although result-oriented elements can be identified in the current system, these mechanisms do not work efficiently. Formula funding that is based on the number of study places has no performance-oriented components. Although the performance agreements, which are concluded between institutions of higher education and the ministry, include certain performance indicators (the number of specialists to be prepared), the agreements have no real effect on the allocation of funding, namely, non-compliance with the agreement provisions does not foresee any effective sanctions. The annual determination of places limits the opportunities of the institutions of higher education to plan preparation of specialists in the long term. The current methodology for calculation of study costs is not clear – what is the purpose of determining the minimum and optimum study cost coefficient and why there are such significant differences between the study costs in breakdown by the field of studies. The study cost coefficients are outdated, and do not reflect the real costs in the fields of studies. Science funding is not linked to the study funding and joint development strategy of institutions of higher education.

### 1.3.1. Strengths and Weaknesses

The World Bank experts have concluded that the current State funding model appears as a mainly input based “one-pillar” model, which does not ensure balance between stability, performance, and orientation towards innovations. The study also shows that the system relies heavily on the Structural Funds of the European Union, in particular in the field of research and development, which cannot be a long-term solution for stable research funding. Concurrently the funding from sectors and other private sources is underdeveloped. The experts point out: “While, in principle, State funding is allocated according to study places, i.e., for educational needs, this is *de-facto* nearly the only State financing instrument, and thus has to accommodate many competing needs of universities. The small performance-oriented elements, for example, small competitive research funds, are based on the criteria which are not transparent to the stakeholders and thus miss the desired effects. (..) The cost basis for the study places in legislation is outdated, besides universities only receive approximately eighty percent of the determined basic costs.” Summary of the evaluation of the strengths and weaknesses of the Latvian higher education financing model is given in Table 3.

*Table 3.* **Evaluation of the Latvian Higher Education Financing Model**

|  |  |
| --- | --- |
| **STRENGTHS** | **WEAKNESSES** |
| ***Context: strategic orientation*** |
| * Diverse system of HE (many institutions, niche players, different profiles, public/private);
* Substantial number of private IHE;
* Start-up of quality assurance for study programmes and research institutes;
* Research institutes with a larger critical mass of material and technical and human resources and a clear operational focus;
* Large number of young people who acquire HE;
* High employment rate and high rate of return on HE;
* Functioning data monitoring system (including performance and financial data);
* High adaptability of the system and IHE demonstrated in times of economic crisis;
* MoES and sectoral ministries are multiple voices for the interests of IHE.
 | * Apparently low political priority given to HE and science (taking into account low spending on HE, R&D);
* Inconsistent policy measures and blocking of political reform because of polarised discussions (public vs. private benefit);
* Fragmentation of study programmes;
* Tendency to study abroad;
* Unclear human resources policy, with opportunities to have more than one job;
* High teaching load for personnel, little time for research;
* Quality assurance for teaching and research only in start-up phase;
* Many graduates seeking employment abroad;
* No clear balance between consolidation and competition.
 |
| ***Financing: Incentive Orientation*** |
| * Study places allow national planning according to the needs of the labour market;
* Study places offered on the basis of merit, including rotation possibilities that stimulate competition;
* EU Structural Funds for research allocated with some element of competition;
* Many paying students are attracted (willingness to pay/additional resources for IHE);
* Existence of performance agreements between IHE and the MoES.
 | * One-pillar model, which is based on the State funding for study places instead of a several pillar model with balanced functions;
* No real performance orientation in State funding, hence also weak links to national and institutional strategies;
* Lack of funding for innovative initiatives;
* No clear approach to the role of State funding for private IHE;
* No support for research-related development, e.g., post-doctoral studies, knowledge transfer activities, etc.
 |
| ***Financing: Sustainability*** |
| ***Financing: Sustainability**** Funding for study places ensures cost-oriented stability in the system, with a “money follows student” element;
* Availability of substantial EU Structural Funds for HE and R&D (reason for survival during economic crisis).
 | * Underfunding of the HE and research system compared to most other European countries and to governmental objectives;
* The promised funding increase not yet effectuated;
* Lower financing tariffs for HE students compared to primary and secondary education;
* Cost basis for subsidised study places is outdated.
 |
| ***Financing: Conformity with Legislation*** |
| * Availability of student loans for many students with attractive repayment conditions;
* Full-fee paying option creates access opportunities.
 | * Many competing needs in case of budget increases (better quality in teaching, doctoral schools, post-doctoral careers, triple helix model, etc.);
* Opaqueness and subjectivity in allocation of subsidised study places, planning problems as a result of annual interventions;
* Subsidised study places particularly benefit students from better socio-economic groups;
* No subsidised study places for part-time students;
* Student loans not attractive to some groups, e.g., the “guarantor requirement” forms a significant hurdle;
* Hardly any neither social needs-based support nor means-testing mechanism for students from low-income families.
 |
| ***Financing: Autonomy and freedom*** |
| * Large degree of (financial) autonomy for IHE;
* Financial autonomy allows entrepreneurial freedom;
* Good preconditions of resource diversification.
 | * Heavy reliance on EU Structural Funds for R&D, which may not be a sustainable long-term situation. Co-financing problem.
* Relatively low financing from sectors/enterprises.
 |
| ***Financing: Practical feasibility*** |
| * Substantial student mobility (many systems have problems to send students abroad). This means other countries pay tuition costs.
 | * Decentralised system for student loans and scholarships (efficiency risks and problems for IHE in relation to evaluation of needs);
* Debt cancellation mechanisms too generous;
* Mismatch between academic year and fiscal year.
 |

(Abbreviations used in tables and figures: EU – European Union; HE – higher education; IHE – institution of higher education; MoES – Ministry of Education and Science; R&D – research and development)

### 1.3.2. Compliance with the Strategic Directions of Development

The study evaluated the compliance of the Latvian higher education financing aspects (public financing instruments, diversification of financial sources, financial autonomy of institutions of higher education and support to students) with the strategic directions of action and objectives laid down in the Latvian higher education and research policies, i.e., to raise the quality of higher education and its link with the labour market, to increase the research quality and (international) competitiveness, to promote efficiency of the higher education sector, to ensure technological development, innovations, creativity, and entrepreneurship, to restore and develop human resources of institutions of higher education, to promote access to higher education, to promote international recognition of higher education, to strengthen basis of the higher education financing, to create a new and transparent higher education quality assurance system.

The evaluation results show that the current financing system is not strategically oriented, i.e., the conditions for allocation of funding are poorly linked to the priorities of the higher education policy and do not contribute to meeting the strategic objectives. The weakest point of the system from the perspective of strategic relevance is insufficient public funding, which poses a threat to the quality of education and research and limits efficiency of the sector. Lack of stable financing, particularly in research, hinders achievement of the objectives in the development of technologies, innovations, and entrepreneurship. Insufficient financing contributes to excessive reliance on other sources of income, such as tuition fees and Structural Funds of the European Union, which should be invested in development.

The weak strategic attraction is also affected by the one-sidedness of the system. The financing conditions are primarily focused on the input parameters, besides the control of performance of liabilities is incomplete. The system lacks the elements that are directed to reaching specific policy objectives, for example, the attraction of young scientists to research or improvements in international publication indicators. In the absence of efficient elements that motivate institutions of higher education to diversify their sources of income, to develop co-operation with external partners, the system becomes seemingly self-sufficient and is not focused on development. And finally, the current financing procedures have a negative impact on access to higher education, which is a pre-set condition of the Latvian higher education policy. Subsidised study places are provided only to about a half of the students (in State founded institutions of higher education), and in the allocation thereof social accessibility criteria are not applied. In the implementation of a new financing model of institutions of higher education also interests of students must be taken into account, evaluating how it is possible to diversify the student support system and expand opportunities for acquiring higher education by diversifying the income sources of institutions of higher education.

### 1.3.3. Proposals for Implementation of a New “Three-Pillar” Financing Model

The financing proposal made by the World Bank for improvement of the Latvian financing system is aimed at the development of the system, which is characterised by **investments that correspond to the strategy, dynamics, possibility of adjustment and openness to attraction of external resources, rational utilisation of resources.** This includes a targeted increase in State funding for higher education and science, closer integration of funding for studies and research, introduction of performance and competition-oriented components in the financing mechanism, efficient monitoring of performance indicators of the systems, support in meeting the strategic development objectives of institutions of higher education, creating room for innovations, implementation of financing instruments to motivate institutions of higher education to extend their co-operation with external partners, contributing to income diversity of institutions of higher education, as well as implementation of financing mechanisms for the attraction of new academic and research personnel.

**The World Bank proposes to introduce a three-pillar model for research financing of higher education and institutions of higher education where the basic funding ensures sustainability of the system, performance funding contributes to achievement of results, while development funding contributes to the link with long-term economic development needs.** The proposed financing model balances the following aspects:

* Conformity with the public and economic development needs;
* Stability and growth incentives;
* Orientation towards investments and results;
* Funding to achieve the objectives in the future (*ex ante*) and funding for the progress achieved (*ex post*);
* National objectives and institutional missions;
* Financing of basic functions of research and targeted financing of priority research areas;
* Public and private investments;
* Student financing, taking into account both social needs and achievements;

Financial autonomy and responsibility for the utilisation of funds and quality.

The new financing model preserves the study places as the basis of the system, supplementing it with funding to stimulate institutional performance, development, and competition for the best results in studies and research. The three financing elements (basic activity, performance, and development) of the State funding are differentiated, and conforming balanced quality criteria are designed. The model links the study and research funding, and thus ensures a scope for the different missions of institutions of higher education. An institution of higher education receives a budget grant for studies and scientific activity in a single allocation, the structure and utilisation of which is provided for in the performance agreement. The performance agreement includes reporting requirements for the results achieved that comply with the allocation conditions.

**Upon full implementation, the new *three-pillar* financing model can be characterised as follows:**

The first pillar is formed by the base funding for studies and research for ensuring the basic activity of institutions of higher education in studies and research. This is the stability financing, which ensures operation of the higher education system. The base funding for studies is determined by the number of places, taking into account the costs of studies in the specific area and level of studies. The allocation of study places in breakdown by field is determined by public and economic development priorities and profile of the institution of higher education. Private institutions of higher education may apply for a small proportion of study places, receiving a State budget funding for high-quality and innovative study programmes that are not offered at State institutions of higher education. Funding to the scientific activity of an institution of higher education is linked to the study funding, ending the practice that the scientific activity is separated from the academic activity, and allocating funding to scientific activity in institutions of higher education rather than to scientific institutes founded by institutions of higher education. An institution of higher education receives funding for its scientific activity, which is calculated, using the number of personnel involved in research and costs of scientific sectors in the specific field of research. For the first pillar funding an institution of higher education concludes a medium-term performance agreement with the ministry and (where applicable) sectoral ministry, strengthening the agreement enforcement supervision.

The second pillar is the performance funding or *ex post* funding, which is awarded for the operational results achieved. This is a competition and growth funding that promotes competition in the sector. This funding is granted on the basis of performance indicators conforming to certain policies, which are embedded in the financing framework (for example, the number of scientific publications, industry funding attracted, the number of graduates in a given field). The amount of funding to be used as performance funding is determined by the ministry. Performance indicators reflect the study and research results; the percentage of the funding (weight) to be allocated thereto is determined taking into account the policy priorities. In addition to the general indicators during the negotiation process with the institutions of higher education such indicators may also be determined, which meet the profile and strategic objectives of institutions of higher education, for example, employment rate, provided that there is access to objective data on employment of graduates.

The World Bank experts suggest that performance funding should be granted according to the following indicators:

* Proportion of graduates, duration of studies, employment of graduates, in order to create incentives to reduce the drop-out rates or timely detect drop-out risks;
* Number of students who have acquired master and doctoral degree, number of participants of post doctoral programmes in order to promote preparation of highly qualified specialists and renewal of human resources in higher education and research;
* Number of incoming and outgoing students, as well as guest lecturers, international research and educational co-operation projects in order to promote international co-operation in the study and research work (internationalisation);
* Bibliometric indicators, to stimulate dissemination and quality of research findings;
* The proportion of students who participate in academic and application research;
* Third-party funding attracted for research in order to stimulate the attraction of external funding and promotion of higher education and research link with the industry;
* Applied research and implemented co-operation projects with the industry to stimulate the transfer of research results, including master and doctoral works developed for the needs of the industry, etc.

Performance indicators are aligned with the performance parameters of institutions of higher education included in the comparison tool of institutions of higher education *U-Multirank*[[7]](#footnote-7).

The third pillar is the funding that is provided for the development of higher education and research offer according to the strategic specialisation and research programme of the institution. Development funding is *ex ante* funding, which is focused on reaching the strategic objectives in the future. It shall be granted to nationally strategically important projects, for example, centres of excellence, human capital development in the priority areas, implementation of research initiatives, promotion of knowledge transfer and co-operation with the industry. Development funding is granted by means of a competition. For sustainable development, support to study and research innovations must be provided both from the State budget and from the European Union Structural Funds.

The three-pillar financing model proposed by the Ministry of Education and Science based on the World Bank's proposal, is presented in Figure 2.



*Figure 2.* **Three-pillar Higher Education Financing Model[[8]](#footnote-8)**

**Despite the fact that upon introduction of the three-pillar financing model, the study places financed from the State budget remain a significant part of the Latvian higher education funding, the World Bank experts point out that it is necessary to revise the planning process of study places, making it more efficient and transparent.** Upon planning the study places both the investment priorities of the ministry according to the policies, and the overall performance indicators and performance indicators of the previous period of the institution of higher education are taken into account. Every three years, based on the priorities and offer of institutions of higher education, the ministry in co-operation with sectoral ministries agree with each institution of higher education on the medium-term allocation of subsidised study places. The purpose of the performance agreements concluded with institutions of higher education is to define the national objectives of the higher education sector, encouraging institutions of higher education to involve themselves in meeting these objectives. Concurrently the performance agreement allows more efficient implementation of strategic planning of institutions and specialisation of institutions of higher education. Thus, the agreements have a co-ordinating role in alignment of national and institutional strategies.

The ministry annually evaluates the study place performance indicators and takes a decision on the amount of the first pillar funding, based on the available budget and the fulfilment of the requirements laid down in the performance agreement. Competition between institutions of higher education should be promoted, offering arguments for additional study places, including for development of new innovative programmes. The World Bank experts consider that private institutions of higher education should be encouraged to participate in the competition for budget funding for high-quality and innovative study programmes conforming to the economic development priorities, which are not offered in State institutions of higher education.

The amount allocated per study place in each discipline or field (e.g., social sciences, medicine, etc.) is based on the cost ratio between the study directions (i.e., cost coefficients) and on the available budget for study places (base funding). Their ratio is analysed and, if necessary, updated based on the cost structure. The ministry determines the minimum volume of programmes and cost efficiency indicators, and does not finance programmes that do not reach the minimum volume of a programme or cost-effectiveness threshold. The actual number of students in the study direction may vary (for example, +/- 5 to 10 percent). If fluctuations in the number of students exceed the set thresholds, it may affect allocation of the funding and the ministry's offer for the next period that is specified in the performance agreement. Periodically, the ministry conducts a review of the study places in a specific field (on a regular basis, every 3-5 years and when needed). Thus, the incremental approach to the allocation of study places in breakdown by field is examined on a regular basis in respect to the policies and achievement of objectives laid down in the performance agreement, and the results of the examination serve as the basis for restructuring the funds. The examination uses criteria such as the overall structure of study places, costs of study programmes, qualification of academic personnel, employment rates after graduation, research activities, involvement of employers in the development of the content of study programmes, satisfaction of students, and other aspects.

The co-operation with the sectoral associations and ministries is strengthened by involving them in the planning process of study places and in the planning of preparation of specialists needed for the sector. In addition to the process transparency, the Higher Education Council or an independent panel (representatives of the ministry, representatives of institutions, international experts) may act as consultants when assessing the allocation of study places. The compliance of the three-pillar financing model with the tasks of the financing system reform, namely, solving of the problems of the current financing model according to the results of the study conducted by the World Bank is presented in Table 4[[9]](#footnote-9).

*Table 4.* **Compliance of the New Financing Model with the Set Requirements**

|  |  |  |
| --- | --- | --- |
| **Problems of the Current Model** | **New Model** | **Evaluation Criteria****of the New Model** |
| HE in Latvia is underfunded, especially in terms of public funding. | Modernisation of the financing model and strengthening of its links with policy objectives to justify the possible increase of public funds. | *Strategic Orientation:* Promotes implementation of national strategies.*Legitimisation:* Provides transparent and balanced financing structures.*Practical Feasibility:* Ensures coherence with financing levels. |
|  “One-pillar” and static state financing model lacking two important components, namely, performance-oriented funding and development-oriented funding. | Implementation of the three-pillar financing model consisting of basic funding, performance (result-oriented) funding, and development (innovation-oriented) funding. | *Strategic Orientation:* Promotes implementation of national strategies and development of institutional profiles.*Incentive Orientation:* Ensures clear and non-fragmented financial incentives for performance, competitive environment, clear objectives, ensures balance between *ex post* and *ex ante* performance.*Legitimisation:* Provides transparent and balanced financing structures. |
| Financing model lacks alignment of basic funding for studies and research. | Implementation of the first pillar (basic funding) which aligns the study and research funding flows.  | *Sustainability:* Supports stability and takes into account cost differences.*Incentive Orientation:* Provides clear, non-fragmented incentives.*Practical Feasibility:* Uses available data and ensures administrative efficiency. |
| Study place model and State research financing model do not create meaningful and appropriate performance incentives for IHE. | Implementation of the second pillar (performance-oriented funding) to create performance incentives for IHE.  | *Incentive Orientation:* Ensures financial incentives for performance.*Strategic Orientation:* Promotes development of institutional profiles.*Legitimisation:* Makes financing transparent and complies with the perception of fairness.*Practical Feasibility:* Respects methodological standards. |
| Model offers IHE only limited incentives for promoting national higher education strategies and strengthening institutional profiles.Research financing flows (including EU Structural Funds) do not contain clear and transparent incentives for diversification of institutional profiles, consolidation activities between IHE, collaboration between research organisations or with external partners.High reliance on EU Structural Funds harms the long-term financial viability of IHE. Income from private sources, for example, community services is relatively underdeveloped. | Implementation of the third pillar (innovation-oriented funding) to provide State funding for activities and projects that contribute to the objectives set out in a performance agreement. The objectives take into account national priorities and IHE profiles and strategies (for long-term development).EU Structural Funds are to be included in the third pillar, although they have mainly a short-term character, which supports important immediate changes in the sector (e.g., diversification of financing sources, consolidation activities, and collaboration with external partners).The third pillar contains State funding for research competence centres, taking into account evaluation results and the national strategy of research priorities. | *Strategic Orientation:* Promotes implementation of national strategies and institutional profiles.*Incentive Orientation:* Provides competitive environment, balances *ex post* and *ex ante* performance orientation.*Sustainability:* Allows long-term planning, promotes risk-spreading.*Practical Feasibility:* Ensures administrative efficiency. |
| IHE not always use their financial autonomy, and not always show a high level of responsibility towards external stakeholders (both public and private). | Offering study and capacity building activities in the field of financial management in order to stimulate acquisition of financial management and planning.Maintaining high level of financial autonomy, but increasing responsibility and transparency through performance data, annual performance agreement reports, and published financial statements. | *Autonomy and Flexibility:* Allocates lump sums, guarantees academic freedom, implements adequate level of regulation, guarantees autonomy of resource allocation and promotes accessibility of diverse income sources. |
| Dual track system with merit-based selection of students for State-funded study places is likely to support full-time students from better-off socio-economic backgrounds.Current student support system is highly decentralised, and its strong merit-based emphasis is likely to have a negative impact on accessibility and participation, especially in case of students from disadvantaged backgrounds, and to some extent, part-time students. | Continued reliance on tuition fees, but introduces more need-based scholarships to ensure participation and accessibility. Merit-based elements are included in the scholarship and loan scheme, but only as a second-order allocation criterion.Introduction of State guarantee for student loans enabling all students (full-time and part-time) to benefit from loans. Loan debt of the highest performing graduates could be partially cancelled using public funds.Scholarships and loan schemes should be administered by a central authority. | *Incentive Orientation:* Ensures financial incentives for performance.*Sustainability:* Guarantees continuity in financing mechanisms, promotes risk spreading.*Legitimisation:* Supports the perception of fairness.*Autonomy and Flexibility:* Promotes accessibility of diverse income sources.*Practical Feasibility:* Ensures administrative efficiency. |

The World Bank recommends to revise the complementary elements of the financing system that are essential for effective financial management and for reaching the higher education policy objectives: planning of personnel remuneration policy, student support system, structural reforms in the sector and consolidation of resources, quality assurance. The World Bank proposes to:

* Provide student support that would be oriented towards social needs (rather than only merits);
* Revise the existing dual track student system (paying and budget students);
* Promote institutional and resource consolidation and increase of intellectual critical mass;
* Give greater priority to the human resources policy in higher education and science, promote transparency of the academic labour market;
* To improve the higher education quality evaluation system.

**The financing model change is not directly related to the reform of tuition fee system and student support system. However, the World Bank experts point out that tuition fee reform should be considered to move towards the objective of increasing access to higher education and participation, as well as to reduce the growing social inequality in Latvia.**

The study concluded that the current dual track system is in its essence unfair because the beneficiaries of such system are students from better-off families. Although the principle of rotation currently existing in universities allows each year to qualify for a subsidised study place, the division between paying and budget students is maintained, and a certain group of students are consistently left without State support. In addition, only the budget students have the opportunity to qualify for a State scholarship, which is an additional exclusionary factor with respect to paying students. The World Bank experts have recommended a review of the mechanisms of allocation of budget funding with regard to full-time and part-time studies, taking into account that combining of studies and work is a reality for students today. Refusing the condition that the State finances only full-time studies, more students could apply for State subsidised study places, including students with lower income who cannot afford to devote full time to studies. Concurrently an institution of higher education is responsible for the quality of part-time studies. It is important to introduce additional support tools for meeting social needs of students, because the current system is heavily based on academic achievements. The experts advise to review the elements of student support – the conditions for scholarships, loans and loan cancellation, and to include a socially fairer student support system in the higher education financing model.

# 2. Higher Education Financing Reform

Options to improve the system and to ensure benefits of the new financing model are directly related to the amount of investments in higher education. As the World Bank experts point out, the current Latvian higher education funding (both public and private) is not sufficient to achieve the objectives set forward for higher education. This is based on investments in higher education in Latvia compared to other EU countries.[[10]](#footnote-10) According to *Eurostat* data (2010), public funding for higher education and research in Latvia accounts only for 0.8 % of the Gross Domestic Product (GDP), which is a significantly lower indicator as compared to the European average of 1.26 % of the GDP. Also, funding from the private sector in higher education is relatively small, mainly tuition fees paid by part-time and full-time paying students for study places not financed by the State. Public financing for higher education during the financial crisis of 2008 was drastically reduced – by more than 50 %, concurrently also reducing research funding. During the crisis, it was cut off and still no funding for scientific activity in institutions of higher education is ensured. As a result, the opportunities of institutions of higher education to provide competitive remuneration to academic and scientific personnel, to develop research-based higher education, to provide study and research integrity and thus to implement the mission and tasks in the preparation of new scientists laid down in Section 5 of the Law On Institutions of Higher Education are limited. During the time period from 2009 to 2013, base funding of science for institutions of higher education was paid only in the amount of 25 – 27% of the amount laid down in legal acts. Despite the fact that in 2014 the amount of base funding grew for the first time since 2009, institutions of higher education still received only 40% of the calculated level of funding in accordance with the Cabinet Regulation.

A consistent investment policy linked to the country's economic growth has been embedded in the Latvian legislation, laws and regulations. Paragraph 27 of Cabinet Regulation No. 994 of 12 December 2006, Procedures for the Financing of Institutions of Higher Education and Colleges from the Funds of the State Budget, (hereinafter – Cabinet Regulation No.994) provides for annual increasing of the value of the coefficient of the study costs per one-tenth part, in turn, Section 78, Paragraph seven of the Law On Institutions of Higher Education provides for an annual increase in funding for studies in State-founded institutions of higher education by not less than 0.25 per cent of the gross domestic product, until the State-granted funding for studies in State-founded institutions of higher education reaches at least 2 % of the gross domestic product. For the funding to institutions of higher education to reach 2 % of the GDP, additional EUR 406 million are needed. Section 33 of the Law On Scientific Activity prescribes an annual increase of funding for scientific activity of not less than 0.15 % of the gross domestic product until the State-allocated funding for scientific activity reaches at least 1 % of the gross domestic product. For the funding to scientific activity to reach 1 % of the GDP, additional EUR 231 million are needed[[11]](#footnote-11).

As pointed out by the World Bank experts, the current amount of public funding and structure shows inconsistency in the policy, setting high objectives for higher education, but not providing funding to achieve them, and thus not implementing the policies developed. The amount of funding to the sector shows that in fact its development is not a political priority, which is in contradiction to the State policy planning documents. Investments must meet the development objectives pursued.

## 2.1. Implementation Scenarios of the Financing Model Developed by the World Bank and Their Impact on the Budget, Competitiveness and Accessibility of Higher Education

Taking into account the current situation in financing of higher education and research, within the framework of the study conducted by the World Bank **three scenarios** for the advancement of higher education financing reform, depending on the funding granted to the sector, were put forward:

A. **Knowledge society model;**

B. **Limited expansion model**;

C. **Scarcity model.**

According to the abovementioned scenarios or funding growth forecast, the implementation of performance-based financing instruments is carried out in proportion to the growth in the level of funding. All scenarios offer the possibility to make the system more competitive and quality-oriented; however, in case of insufficient funding, even maintaining a stable base funding, competitiveness and quality growth occurs with a considerable time lag. The discussed scenarios apply to State-founded institutions of higher education; they reflect the expected decline in the number of students in higher education. Data of the ministry show that the number of students in the past 10 years has decreased by more than 30 %[[12]](#footnote-12). According to the forecasts of the Ministry of Economics, until 2020 the number of students in higher education will continue to decrease just as rapidly[[13]](#footnote-13).

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### 2.1.1. Knowledge Society Model

Knowledge society scenario (scenario A), provides for a substantial increase in public investment in higher education and research. Funding of the first pillar grows at an annual increase of 2.5 %. The second pillar (the performance-based financing) and the third pillar – support to development, innovations, and strategic specialisation has been introduced. Funding for the second and third pillar is increasing by 15 percent annually (Figure 3). Most of this growth is ensured by government investments, but support to innovations is also provided by the business sector and industry. Income from tuition fees is an alternative source of income, the share of which will decrease in the future. However, institutions of higher education provide the opportunity to study for private funds and thus diversify their income structure.



*Figure 3.* **Knowledge Society Model**

The World Bank estimates of scenario A provide for increase in the first pillar (basic funding) to EUR 111.5 million, increase of the second pillar (performance funding) to EUR 28.3 million, increase of the third pillar (innovation funding) to EUR 20.2 million in 2025. Tuition fee amount is maintained at the current amount – EUR 15 million annually. The total target amount of funding to institutions of higher education in 2025 constitutes EUR 175. It is essential that upon full implementation of the three-pillar financing model, the largest share of funding is budget funding for ensuring the main activity of institutions of higher education – study and research work. Concurrently efficient incentives are ensured for diversification of income portfolio of institutions of higher education. Knowledge society model in absolute figures is presented in Table 5.

*Table 5:* **Amount of Knowledge Society Model Funding**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Pillar 1 funds** *(million EUR)* | **Pillar 2 funds***(million EUR)* | **Pillar 3 funds***(million EUR)* | **Tuition fee***(million EUR)* | **Total** *(million EUR)* |
| 2014 | 85 | 0 | 0 | 15 | **100** |
| 2015 | 87.1 | 7 | 5 | 15 | **114.1** |
| 2016 | 89.3 | 8.1 | 5.8 | 15 | **118.1** |
| 2017 | 91.5 | 9.3 | 6.6 | 15 | **122.4** |
| 2018 | 93.8 | 10.6 | 7.6 | 15 | **127.1** |
| 2019 | 96.2 | 12.2 | 8.7 | 15 | **132.2** |
| 2020 | 98.6 | 14.1 | 10.1 | 15 | **137.7** |
| 2021 | 101 | 16.2 | 11.6 | 15 | **143.8** |
| 2022 | 103.6 | 18.6 | 13.3 | 15 | **150.5** |
| 2023 | 106.2 | 21.4 | 15.3 | 15 | **157.9** |
| 2024 | 108.8 | 24.6 | 17.6 | 15 | **166** |
| 2025 | 111.5 | 28.3 | 20.2 | 15 | **175.1** |

Knowledge society model foresees investments in higher education and research according to the economic development guidelines. The State plans the development of the sector, providing a stable budget funding, thus the sector's reliance on private funds reduces to a large extent. Concurrently institutions of higher education use the opportunities to attract external funding, which is promoted by the incentives incorporated in the financing mechanism. Tuition fee is complemented with compensatory mechanisms that focus on social needs. Knowledge society model ensures sustainable development of institutions of higher education, promotes competition and striving for excellence, reduces social inequality and expands access for vulnerable social groups. Such a scenario allows for the possibility that the tuition fee is revised, introducing the cost sharing principle, in which the State partially finances all study places. Concurrently it should be taken into account that the knowledge society model offered by the World Bank foresees a much more moderate investment policy than it is laid down in the Latvian legislation with respect to funding growth in the sector versus the gross domestic product. The scenario proposed by the World Bank reflects a more balanced development and is more commensurable with the economic situation and actual budget abilities.

*Table 6*. **Components of Knowledge Society Model**

|  |  |
| --- | --- |
| **Components Included** | **Extra Components Introduced when Future Funding Level Allows** |
| * Revised study place model (pillar 1);
* Performance agreements and basic funding for research (pillar 1);
* Universal indicator-based funding formula (pillar 2);
* Funding of IHE-specific indicators (pillar 2);
* Performance agreements negotiated by the MoES, institutions, and sectoral ministries that cover both teaching and learning initiatives and centres of excellence (pillar 3);
* Provision of financial management training and support for institutional management to increase autonomy;
* Transitional use of Structural Funds (e.g., for consolidation);
* Need-based support to students (with a merit component), as a compensation for tuition fee and support for social needs;
* Enhanced study and student loan programme, promoting accessibility of State guaranteed loans.
 | * Not applicable
 |
| **Alternatives for Consideration** |
| * Revised tuition fee;
* “Innovation Fund” for internationally competitive research in collaboration between institutions of higher education and/or research institutes, sector and international research organisations as a separate part of the third pillar.
 |

###

### 2.1.2. Limited Expansion Model

Limited expansion model (Scenario B) foresees a less rapid pace of growth. The first pillar funding is maintained at the current level despite the reduction in the number of students. The second pillar (performance-based financing) and third pillar (development funding) are introduced. With the funding of the first pillar remaining at EUR 85 million annually, the second and third pillar increase by 5 % annually, including additional funds from business and sector (Figure 4). By 2025, the second pillar (performance) funding increases to EUR 11.4 million, funding of the third pillar (innovations) – to EUR 8.1 million. By implementing such policy, the total investments in 2025 account for EUR 119.5 million.



*Figure 4.* **Limited Expansion Model**

Limited Expansion Model in absolute figures is presented in Table 7.

*Table 7.* **Limited Expansion Model**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Pillar 1 funds** *(million EUR)* | **Pillar 2 funds***(million EUR)* | **Pillar 3 funds***(million EUR)* | **Tuition fee***(million EUR)* | **Total***(million EUR)* |
| 2014 | 85 | 0 | 0 | 15 | **100** |
| 2015 | 85 | 7 | 5 | 15 | **112** |
| 2016 | 85 | 7.4 | 5.3 | 15 | **112.6** |
| 2017 | 85 | 7.7 | 5.5 | 15 | **113.2** |
| 2018 | 85 | 8.1 | 5.8 | 15 | **113.9** |
| 2019 | 85 | 8.5 | 6.1 | 15 | **114.6** |
| 2020 | 85 | 8.9 | 6.4 | 15 | **115.3** |
| 2021 | 85 | 9.4 | 6.7 | 15 | **116.1** |
| 2022 | 85 | 9.8 | 7 | 15 | **116.9** |
| 2023 | 85 | 10.3 | 7.4 | 15 | **117.7** |
| 2024 | 85 | 10.9 | 7.8 | 15 | **118.6** |
| 2025 | 85 | 11.4 | 8.1 | 15 | **119.5** |

In limited funding conditions, it is necessary to improve the existing financing mechanisms. This includes revision of the sectoral structure of study programmes, specialisation according to the development directions and profile of study and research programmes laid down in the strategies of institutions of higher education, which have been aligned with the labour market demand, implementation of efficient financial incentives to move towards the stated growth objectives, taking into account the policy priorities. Maintaining the current level of funding for the sector, financial incentives for growth, and competitiveness are to be provided gradually. Tuition fee system is not significantly reformed, because it remains an essential source of income for institutions of higher education; however, it ensures that part of the funding is directed to social needs, creating compensatory mechanisms for covering tuition fees for vulnerable social groups. The student loan system is revised, putting more emphasis on support for social needs.

*Table 8.* **Components of the Limited Expansion Model**

|  |  |
| --- | --- |
| **Components Included** | **Extra Components Introduced when Future Funding Level Allows** |
| * Revised study place model (pillar 1);
* Performance agreements negotiated in co-operation between the MoES, institutions and sectoral ministries;
* Continued financial autonomy and support for institutions;
* Transitional use of Structural Funds (e.g., for consolidation);
* Tuition fee serves as an important source of income;
* Need-based student support, but only to compensate the tuition fee;
* Training of financial management and support for institutional management to increase autonomy;
* Improved student loan procedures;
* Teaching innovation fund provides start-up capital for new programmes. The fund ensures sufficient amount of resources to implement a certain number of initiatives per year
 | * Basic funding for research (pillar 1);
* Universal indicator-based funding formula (pillar 2);
* Funding of performance indicators specific for institutions of higher education (pillar 2);
* Development funding to cover both teaching and study initiatives and creation of competence centres (pillar 3).
 |
| **Alternatives for Consideration** |
| * With the higher private cost investment (tuition fee), a portion of those additional funds (e.g., 20 %) must be immediately reallocated as support to students unable to afford the tuition fee;
* A financing model based on the number of new entrants, students, graduates, doctors according to three different funding tariffs (social sciences, science and engineering, medical programmes) and relative success indicators in attracting third party funding.
 |

In its essence the limited expansion model foresees that the State strengthens the element of competition in the sector. Institutions of higher education have an opportunity to apply for funding for good results in the study work and research. In limited funding conditions optimisation of the available funds should be ensured by implementing structural reforms; stricter monitoring of performance agreements should be provided; well focused and balanced performance criteria are required; and efficient use of the additional financial opportunities found should be ensured. However, scenario B may not be considered as a sustainable solution for advancement towards international competitiveness of the Latvian higher education and research sector, because Latvia will not be on equal positions with other European countries in investments in higher education and research. For the growth of system performance and international competitiveness a targeted increase in public funding in all the pillars is needed.

### 2.1.3. Scarcity Model

Scarcity model (scenario C) is the least favourable scenario for the development, because it shows a situation in which public expenditure is maintained relatively stable, but due to the reduction in the number of students, the first pillar funding is decreased (to illustrate the situation, the annual 2.5 percent decrease in the number of students is taken, with the proportion of paying and budget students in State institutions of higher education remaining unchanged[[14]](#footnote-14)). Additional public funding is invested in forming second and third pillar reserves to make the system more competitive and oriented towards the strategic objectives. Due to demographic fluctuations, the first pillar funding may shrink to EUR 64.3 million in 2025, which may be compensated by the second and third pillar funding, the growth of which is forecast to be respectively EUR 18.6 million and EUR 12.4 million in 2025. All in all, the funding remains almost unchanged – EUR 110.3 million; however, it has a negative effect on the stability of the system. It is expected that in this scenario results in terms of performance and achievement of the policy objectives will be significantly lower.



*Figure 5.* **Scarcity Model**

Scarcity Model in absolute figures is presented in Table 9.

*Table 9.* **Scarcity Model**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Pillar 1 funds** *(million EUR)* | **Pillar 2 funds** *(million EUR)* | **Pillar 3 funds***(million EUR)* | **Tuition fee***(million EUR)* | **Total** *(million EUR)* |
| 2014 | 85 | 0 | 0 | 15 | **100** |
| 2015 | 82.9 | 3 | 2 | 15 | **102.9** |
| 2016 | 80.8 | 3.6 | 2.4 | 15 | **101.8** |
| 2017 | 78.8 | 4.3 | 2.9 | 15 | **101** |
| 2018 | 76.8 | 5.2 | 3.5 | 15 | **100.5** |
| 2019 | 74.9 | 6.2 | 4.1 | 15 | **100.3** |
| 2020 | 73 | 7.5 | 5 | 15 | **100.5** |
| 2021 | 71.2 | 9 | 6 | 15 | **101.1** |
| 2022 | 69.4 | 10.7 | 7.2 | 15 | **102.3** |
| 2023 | 67.7 | 12.9 | 8.6 | 15 | **104.2** |
| 2024 | 66 | 15.5 | 10.3 | 15 | **106.8** |
| 2025 | 64.3 | 18.6 | 12.4 | 15 | **110.3** |

Based on this scenario, the reform is basically focused on the revision of the current system and promotion of process efficiency, the second and third pillar financial instruments are being introduced gradually according to the amount of additional funding.

*Table 10* **Components of Scarcity Model**

|  |  |
| --- | --- |
| **Components Included** | **Extra Components Introduced when Future Funding Level Allows** |
| * Revised study place model (pillar 1);
* Performance agreements are negotiated in co-operation between the MoES, institutions, and sectoral ministries (no additional funding for financial incentives unless funds are pulled from the study place model, which is not recommended under this scenario)
* Training of financial management and support for institutional management to increase autonomy;
* Transitional use of Structural Funds (e.g., for consolidation, innovation funds, etc.);
* Tuition fee serves as an important source of income;
* Balancing of merit-based scholarship with needs-oriented support to students.
 | * Basic funding for research (pillar 1);
* Universal indicator-based funding formula (pillar 2);
* Funding of performance indicators specific for institutions of higher education (pillar 2);
* Funding to cover both teaching and study initiatives and creation of competence centres (pillar 3);
* Need-based financial support to students;
* Improved student loan programme (based on the needs and State as the guarantor)
 |
| **Alternatives for Consideration** |
| * Maintain the study place model but add a fixed allocation per student to include a premium per graduate with different funding tariffs (social sciences, science and engineering, medical programmes);
* Limited scholarships based on the need and merit.
 |

### 2.1.4. Solutions for Financing Policy Change

As pointed out by the World Bank experts, principal change of the current model is possible by implementing the Knowledge Society Model (Scenario A). By increasing investment in the sector only slightly (Scenario B) or preserving the current amount of funding (C or zero scenario) and with the number of students decreasing, the options for diversifying the financing instruments in the second and third pillars and for achieving sustainable change in the system are very limited. It can be said that currently the higher education sector of Latvia is on its way from a systemic lack of funds and related risks to new growth opportunities, which is confirmed by the additional funding allocated to institutions of higher education and colleges in 2015. The solutions included in the Conceptual Report outline progress towards an optimal financing of the system according to the Knowledge Society Model, proposed by the World Bank, planning more substantial funding increase for higher education and research in long term according to the economic growth rates in accordance with the Law On Institutions of Higher Education, and the Law On Scientific Activity.

According to the proposal of the World Bank, the ministry submitted a request for funding within the framework of the New Policy Initiative, to support the Knowledge Society Model. In evaluating the additional funding requested by the ministry, the Cabinet supported launching of the performance-based higher education funding in 2015, providing for resources also for the start-up of the introduction of the second pillar in addition to the existing higher education and science funding.

With Clause 13.2 of Paragraph 28 of Protocol Decision No. 61 of the Cabinet meeting of 10 November 2014, *Informative Report On the Proposals Submitted by the Ministry to the “Law On the Medium-term Budgetary Framework for the Years 2014, 2015 and 2016” for Financing the Implementation of the New Policy Initiatives and Evaluation of Expenses for Measures that Have a Positive Impact on the Amount of Fiscal Space Submitted by Other Ministries,* the ministry's proposal to reduce the costs in sub-programme 05.02.00 “Basic Funding of Science” for 2015 and from now onwards every year by EUR 1,500,000, and increase the spending on the newly developed sub-program 03.03.00 “Development of Scientific Activity in Institutions of Higher Education and Colleges” by the respective amount of funding, in order to ensure implementation of the performance-based higher education financing model (second pillar), allocating funding to the institutions of higher education and colleges that have introduced performance management, was supported.

In order to develop financing of the second pillar, the Cabinet supported allocation of additional funding to financing of research-based higher education in 2015 in the amount of EUR 4 million, as well as in 2016 and 2017 in the amount of EUR 5 million (per year). With Clause 33 of Paragraph 28 of Protocol Decision No. 61 of the Cabinet meeting of 10 November 2014 it was decided to foresee in the Draft Law On State Budget 2015 that the Ministry of Education and Science ensures distribution of the extra funding allocated for higher education in 2015 in the amount of EUR 4,000,000 between institutions of higher education under the supervision of the Ministry of Education and Science, the Ministry of Culture, the Ministry of Health, and the Ministry of Agriculture. The ministry shall ensure allocation of the funding according to uniform criteria.

## 2.2. Financing of Institutions of Higher Education and Colleges in 2015 and 2016

In order to ensure implementation of a fundamentally new model of financing, corresponding with the national development priorities, implementation strategy of the higher education financing reform set by the ministry is to follow the Knowledge Society Model, which corresponds to the European Strategy 2020 “Smart, Sustainable and Inclusive Growth”. Due to the limited funding, it should be increased purposefully, prioritising research-based higher education and performance incentives. **The ministry will gradually introduce the three-pillar model, the implementation of which will be done in three parallel stages: 1) optimisation of planning and implementation of the study place model; 2) performance funding according to the strategic specialisation laid down in the strategy of institutions of higher education; 3) support to excellence and innovation.**

According to the budget for 2015 supported by the government and the amount of funds allocated for financing of the new model, the ministry will launch performance funding in 2015 and will move towards complete implementation of the new model. Concurrently the ministry will encourage institutions of higher education to introduce a performance management system, to improve the remuneration policy of academic personnel, providing for measures for integration of the academic and scientific personnel, for implementation of unified and transparent recruitment and remuneration principles, to update development strategies, which provide for the development of research-based higher education and research programmes that correspond to the strategic specialisation of the institution for years 2015 – 2020.

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### 2.2.1. Main Stages of the Financing Reform

The financing reform will be implemented in three parallel stages:

**Stage 1** – optimisation of planning and implementation of the study place model. It will include higher education input and output data analysis and their connection with the utilisation of the funding. Stakeholder negotiations will be carried out to ensure closer connection of higher education with the labour market (through intermediation of the Study Direction Council) and tripartite consultations with institutions of higher education and sectoral ministries. At this stage the study place planning will be introduced in a 3 – 5 year perspective. The proposals of the study *Updating of Study Basic Cost Methodology and Study Field Coefficients* (final report of the study is enclosed in Annex 5), as well as proposals of the study *Evaluation of Financial – Economic Activity Indicators of Institutions of Higher Education and Consolidation of Public Reports* (final report of the study is enclosed in Annex 6) will be implemented;

**Stage 2**– strategic specialisation of institutions of higher education and implementation of performance funding. For the promotion of specialisation of institutions of higher education, strategies for the institutions of higher education will be drawn up to mark their study and research programme profile. Funding of the second and third pillar will be invested in sectors of activity with the highest performance and output potential. There will be a single basic funding allocation for higher education and research, and development of performance-based higher education funding criteria. The regulatory procedures for financing will be revised and “strategically positioned” performance agreements will be developed. At this stage the proposals of the study *“Research on Recruitment of Academic Personnel of Institutions of Higher Education and Remuneration Policy System”* will be introduced (final report of the study is enclosed in Annex 7).

**Stage 3** – promotion of excellence and innovation. This stage involves development of strategies of institutions of higher education, implementation of development measures and implementation of projects of institutions of higher education, study content improvement and implementation of innovation projects. Resource sharing and strategic specialisation depending on the profile of research and study programmes of institutions of higher education, joint doctoral programmes and post-doctoral research will be developed. Support to solving of topical and practical problems of enterprises and other external customers and other support instruments will be provided.

### 2.2.2. Funding Allocation Principles According to the New Financing Model

The funding amount **F** that is allocated to an institution of higher education and college from the State budget funds under the new financing model is calculated, using a formula that expresses the components forming the funding of institutions of higher education and colleges:

**F = F1 + F2 + F3,** where

**F1** – the amount of base funding;

**F2** – the amount of performance funding;

**F3** – the amount of targeted funding for innovations and development of studies and scientific activity.

The amount of base funding is calculated, using the following formula:

**F1** = **F1s + F1z,** where

**F1s** – the amount of base funding of studies;

**F1z** – the amount of base funding of scientific activity.

The amount of performance funding is calculated, using the following formula:

**F2** = **F2s + F2z,** where

**F2s** – the amount of funding based on performance indicators of studies;

**F2z** – the amount of funding based on performance indicators of scientific activity.

The amount of funding for innovations and development of strategic specialisation is calculated, using the following formula:

**F3** = **F3s + F3z,** where

**F3s** – funding for consolidation of study directions and capacity building, development of innovative study programmes, creation of joint study programmes;

**F3z** – support to strengthening of research and innovative capacity of scientific institutions and of ability to attract external funding.

In 2015, the ministry will implement gradual introduction of **F1** and **F2z** components according to the amount of funding supported by the Cabinet for financing of institutions of higher education and colleges. The ministry will provide the base funding for studies and research in institutions of higher education and performance funding for scientific activity in institutions of higher education and colleges.

The ministry will ensure implementation of the first pillar component **F1** from the sub-programme 03.01.00 *Institutions of* *Higher Education* and sub-programme 03.11.00 *Colleges* of the ministry's budget programme 03.00.00 *Higher Education,* sub-programme 05.02.00 *Base Funding for Science* of the budget programme 05.00.00 *Science,* as well as budget sub-programme 02.03.00 *Higher Medical Education* of the Ministry of Health, budget programme 20.00.00 *Cultural Education* of the Ministry of Culture, and budget sub-programme 22.02.00 *Higher Education* of the Ministry of Agriculture*.*

The ministry will ensure implementation of the second pillar component **F2z** from the sub-programme 03.03.00 *Development of Scientific Activity in Institutions of Higher Education and Colleges* of the ministry's budget programme 03.00.00 *Higher Education.* **F2s**component (implementation of additional performance criteria) will be provided, with increase in the total performance funding.

Financing of the third pillar component **F3** from the European Union Structural Funds will be launched in 2015. Primarily, the funding will be provided in the specific support objective (SSO) activities of the European Union Cohesion Policy Fund Operational Programme “Growth and Employment” for the planning period 2014 – 2020 (hereinafter – Operational Programme), including SSO 8.1.1 *To increase the number of modernised STEM, including medical and creative industries, study programmes;* SSO 8.2.1 *To reduce the study programme fragmentation and strengthen the sharing of resources;* SSO 8.2.3. *To ensure better management of institutions of higher education;* SSO 1.1.1. *To increase research and innovation capacity of Latvian scientific institutions and their ability to attract external funding, by investing in human resources and infrastructure.* The third pillar financing will be implemented in accordance with the Law On Management of European Union Structural Funds and the relevant Cabinet regulations for implementation of specific support targeted activities. As of 2020 it is planned to gradually increase the share of State budget funding for formation of innovations fund.

The planned funding of the State budget and European Union Structural Funds from the three pillar perspective for implementation of a new higher education financing model as of 2015 is included in Annex 8.

### 2.2.3. Procedures for the Financing of Institutions of Higher Education and Colleges from the Funds of the State Budget

Financing of institutions of higher education and colleges from the funds of the State budget is regulated by Cabinet Regulation No. 994. Paragraph 9 of the aforementioned Regulation lays down the amount of study funding on the basis of the number of study places, which has been specified by the State for the relevant institution of higher education or college, the base costs of a study place, and coefficients of the costs of thematic educational area of studies. In 2015 the ministry will revise the procedures for financing of institutions of higher education and colleges from the funds of the State budget by incorporating consolidated study cost coefficients in Cabinet Regulation No. 994 and updating the methodology for the calculation of the base costs of studies.

The ministry has already launched optimisation of the allocation process of study funding and broader attraction of co-operation partners and sectoral ministries. Clarification and verification of the data on number of study places and prepared specialists in 2013, as well as the number of planned study places and specialists to be prepared in 2014 was carried out during the time period from 1 September 2014 to 1 December 2014. Proposals of 12 Sectoral Expert Councils with respect to the necessary changes in study directions compliant with their specifics and redistribution of subsidised study places were evaluated. There have been several meetings with Sectoral Expert Councils and evaluation of the proposals made by employers. The draft allocation of subsidised study places for 2015 has been prepared in consultation with institutions of higher education and colleges.

In the allocation of subsidised study places for 2015 the results achieved in the previous year in the preparation of specialists (actual execution of subsidised study places, the number of specialists prepared as compared to the planned, drop-out) were taken into account; promotion of reduction of fragmentation of study programmes and fragmentation of directions was ensured. Taking into account the target laid down in the Education Development Guidelines for 2014 – 2020, in 2017 to direct 50 % of all subsidised study places to Science, Technology, Engineering and Mathematics (STEM) programmes, and in 2020 – 55 %, according to the forecasts of the Ministry of Economics with regard to the demand for specialities in 2020, it was ensured in 2015 that the number of study places in the thematic groups *Engineering, manufacturing and construction, Natural sciences, mathematics* *and ICT* and *Agriculture*, together account for 42 % of all study places.[[15]](#footnote-15)

The “envelope” principle (the total funding of an institution of higher education is not reduced) was maintained in the allocation of study places in 2015; concurrently proposals of institutions of higher education for fundamental changes in redistribution of study places among institutions in the coming years were evaluated. In planning the number of study places for 2015, a slight increase was preserved in the number of study places in college-level study programmes according to the education development objective, to promote the extension of STEM directions in the 1st level vocational higher education programmes.

Upon analysing the employment and labour market developments in the European Union, the Ministry of Economics points out that the main future challenges of employment in Europe will be linked to ensuring balance between the demand and supply of labour force skills, as well as to creation of new jobs. As pointed out by the Ministry of Economics, there is a concern that the supply of **science, technology, engineering and mathematics skills could be insufficient and may hinder the economic growth of Europe.** In the future the compliance of the skills of labour force with the labour market demands will be of key importance.[[16]](#footnote-16)

Compared to other European countries, Latvia belongs to the group of countries, which shows average results in preparation of specialists in science and technologies and in promotion of STEM attractiveness among young people, namely, there are 13.3 – 16.4 STEM speciality graduates per 1 thousand inhabitants from 20 to 29 years of age. The leading European countries in production of STEM specialists are Finland, Great Britain, Ireland, France, Portugal, as well as Lithuania and other countries in which there are 19.3 – 23 STEM graduates per 1 thousand of inhabitants(Figure 6, *Eurostat* 2015 data).



*Figure 6.* **Science and Technology (STEM) Graduates in Europe**

Naturally, the low indicators of STEM graduates form the structure of economically active population where there is a small share of STEM specialists. Compared to other European countries, specialists in science and technologies account for less than 40 % of the economically active population in Latvia, which is not the lowest rate in Europe, however, is lagging behind the other Baltic countries, as well as Scandinavian countries, Great Britain and other developed countries with high welfare level of the society (Figure 7, *Eurostat* 2015 data).



*Figure 7.* **Human Resources in Science and Technologies (% of economically active population)**

Taking into account the restructuring of the economy in medium and long term, which is determined by the directions marked in the Latvian development planning documents[[17]](#footnote-17), in the future changes are expected in demand for labour force in distribution by occupational group. Demand for highly qualified specialists (master and doctoral degree holders) will grow more rapidly, there will be a distinct drop in the demand for labour force that enters the labour market without a particular speciality and skills. It is expected that in medium term there will be insufficient supply of science and engineering specialists, and demand for science and engineering specialists, as well as ICT specialists will witness a rapid growth. Concurrently a large surplus in the number of specialists in the humanities and social sciences is expected. In these areas, increase in labour supply by 2020 can build almost half of the total growth of the labour force with higher education.

The abovementioned confirms the importance of the allocation of subsidised study places in alignment of the labour market demand with the actual supply of specialists and skills. In 2016 structural changes in study places will continue in order to ensure an adequate number of study places in specialities, where demand is expected according to the labour market forecasts. Concurrently stable funding shall be ensured for existence of the branches of science, which promote preservation of the Latvian national identity and historical memory and serve as the basis for strengthening of the cultural awareness and national identity, for creation of value-based society. **In planning of the study places it is necessary to ensure a balanced coverage of the national economy and national identity interests.** The ministry will provide reallocation of targeted funding in favour of STEM programmes by reducing the number of study places in the study programmes, in which overproduction is expected, namely, in thematic groups of social sciences and education, and ensure an appropriate planning policy in the areas that are important for the preservation of national identity.

Base funding of science for the institutions of higher education, which are also scientific institutions, is ensured in accordance with Cabinet Regulation No. 1316 of 12 November 2013, Procedures for the Allocation of Financial Reference Amount to Scientific Institutions, (hereinafter – Cabinet Regulation No. 1316) from sub-programme 05.02.00 “Base Funding of Science”. The calculation of the base funding of science already includes performance-based elements – part of the funding is granted, taking into account the amount of attracted external funding, scientific publications, as well as master and doctoral works defended by the academic personnel. These criteria account for 19 % of the total base funding. Taking into account the proposal of the international evaluation of the Latvian science to promote consolidation of scientific resources by developing a smaller number of scientific institutions with strong critical mass and significant international profile, it is provided for in the conditions of the base funding of science that as of 2015 additional 10 % of the base funding of science are allocated to scientific institutions, which have received “4” and “5” in the international science evaluation. As of 2016 allocation of base funding is stopped for those research institutions which have received “1” and “2” in the international science evaluation. The abovementioned conditions constitute a financing element of the performance-based scientific activity of institutions of higher education. Scientific institutions must, by 1 April 2015, submit information for the calculation of the base funding for 2016 according to the guidelines prepared by the ministry “Guidelines for the Submission of Documentation for the Calculation of the Base Funding of Scientific Organisation”[[18]](#footnote-18).

**As of 2016 all institutions of higher education will receive the base funding of studies places and science** in a single allocation, which will be foreseen in the performance agreement for a time period of 3 –5 years. The ministry will conclude bilateral agreements with institutions of higher education under its supervision. With regard to study places in sectoral institutions of higher education (culture, agriculture and medicine) tripartite agreements will be concluded between the ministry, the sectoral ministries and institutions of higher education under their supervision. Strategic specialisation of institutions of higher education will be marked in performance agreements, depending on the profile of study and research programmes of institutions of higher education, and the relevant performance indicators of the institution of higher education will be incorporated, preparing them in consultation and co-operation between the ministry, sectoral ministries and institutions of higher education.

Performance agreements will ensure the link of the allocation of the base funding with the quality of the study process and research, as well as contribute to the study and research integrity. Linking of studies and research is already incorporated in agreements of the new sample, which are concluded with institutions of higher education under the supervision of the ministry in 2014 on the preparation of a specific number of specialists and development of scientific activity in the institution of higher education. Supplementary conditions for the receipt of the State budget funding for studies and research are included in the agreements:

* To develop the priority areas of institutions of higher education;
* To continue negotiations with other institutions of higher education, local governments, employers, planning regions for the implementation of closer cooperation;
* To promote conformity with the provisions of the Smart Specialisation Strategy in the study process;
* To implement co-operation with employers in the development and improvement of the study programmes, preparation of scientific publications;
* To engage in the implementation of a common inter-institutional plagiarism prevention system, as well as to improve the plagiarism prevention system in the institution of higher education;
* To introduce performance management, linking it to the remuneration policy.

In 2015 in collaboration with institutions of higher education and sectoral ministries a new performance agreement format will be developed for its implementation as of 2016. Performance agreements are concluded based on Section 12, Paragraph two of the Law On Institutions of Higher Education, which prescribes that the highest management body and decision-making body of an institution of higher education in strategic, financial and economic issues shall be the founder thereof, but the highest representation and management body and decision-making body in academic and scientific issues – the constitutional assembly of an institution of higher education. Performance agreements will express the set objectives in clear and measurable results, they will contribute to the dialogue between the ministries and institutions of higher education at the level of objectives and results, and will serve as the basis for the allocation of public funds, using clear financing conditions and sanctions. Performance agreements will reflect the study and research work, as well as measures in the implementation of the *third mission* – a set of activities for the promotion of public participation, prosperity, and economic growth, which results from the basic tasks of the institutions of higher education in education and research*[[19]](#footnote-19)*. Performance agreements will be created in the negotiation process with institutions of higher education, with the involvement of sectoral ministries. Agreements will be concluded with regard to the results to be achieved in higher education and scientific activity of institutions of higher education, ensuring progress towards further linking of studies and research. Agreements will mark development progress of institutions of higher education, taking into account the results to be achieved in higher education and research laid down in the National Development Plan for 2014 – 2020, Education Development Guidelines for 2014 – 2020, Science, Technology Development and Innovation Guidelines for 2014 – 2020, Smart Specialization Framework. The agreement will incorporate the strategic development vision of the institution of higher education and the planned projects for the receipt of development and innovation support funding.

By introducing the financing procedure, as of 2016 the process of determining the number of study places will be optimised, assessing the possibilities to also finance innovative study programmes of private institutions of higher education, which are not offered at State institutions of higher education. The principle of transparency will be respected in the financing of private institutions of higher education from the State budget funds. The ministry will plan the total number of study places in various disciplines, providing for an opportunity for redistribution of study places between institutions of higher education. The planning process will take place through consultations with the stakeholders, assessing the labour market forecasts and the available data on the development of demand. The common target indicators in the national economy sectors of Latvia will be published.

The items of the study place base cost calculation and the calculation methodology, as well as determination of the values of study cost coefficients in thematic areas of education, which are currently included in Cabinet Regulation No. 994, were drawn up in 1996. The current study cost coefficient system (optimum and minimum coefficients of 30 thematic areas of education) is fragmented and does not correspond to the actual study cost, as well as is not aligned with the related areas of science. To ensure that base funding of studies is granted in compliance with the real study costs, the ministry has carried out the study “Updating of Components of Base Costs of a Study Place of Institutions of Higher Education, Calculation Methodology and Study Cost Coefficients and Adjusting Thereof According to the Real Costs”. Based on the study results, the methodology for granting base funding will be revised in 2015. It will reduce the fragmentation of the system of coefficients, creating a smaller number of cost groups and linking them with the classification of the fields of science. The updated methodology for the calculation of base costs of a study place and the consolidated scope of cost group coefficients will be taken into account in the financing of study places as of 2016. Amendments to Cabinet Regulation No. 994 will provide for the updated methodology for the calculation of base costs of a study place and the updated sectoral coefficients according to the results of the study carried out by the ministry. Upon introduction of a uniform classification system for higher education and science, cost coefficients will be linked to the classification of sciences of the Organisation for Economic Co-operation and Development (OECD).

According to the recommendations of experts of the World Bank, updating of the study cost coefficients ensures optimisation of financing procedure and more efficient utilisation of the funding allocated to the sector. The updated factors will affect the funding, which is granted to an institution of higher education according to a specific number of study places in the respective field. The number of study places for an institution of higher education is planned, taking into account the study place performance and drop-out indicators, the labour market forecasts, the priority directions of development of the national economy, and the interests of national identity.

Based on the study findings the ministry will prepare a proposal for consolidation of study directions in nine categories of costs:

**Group 1, coefficient of costs 1.0** – Law; Humanities; Social and behavioural sciences; Information and communication sciences; Business and administration;

**Group 2, coefficient of costs 1.5** – Teacher education and education sciences; Private services; Transport services;

**Group 3, coefficient of costs1.9** – Computer sciences; Mathematics and statistics; Organisation and management of sports work;

**Group 4, coefficient of costs 2.5** – Construction; Navigation; Engineering sciences; Manufacturing and processing;

**Group 5, coefficient of costs 2.9** – Natural sciences; Environmental protection; Agriculture, forestry and fishery; Translation and applied linguistics;

**Group 6, coefficient of costs 3.6** – Architecture; Art (except for art programmes “Audio-visual Media Art” and “Design”); Musical education; Pharmacy; Health and social care;

**Group 7, coefficient of costs 4.5** – Medical treatment; Civil defence; Music and choreography; Audio-visual media art and design;

**Group 8, coefficient of costs 5.0** – Veterinary; Dental care;

**Group 9, coefficient of costs 6.0** – Military defence.

The new study cost coefficients show the optimal study costs in breakdown by field of education for sustainability- and development-oriented research-based higher education. **According to the estimates of the ministry, the funding necessary for ensuring the current number of students studying from the State budget funds, for implementation of the consolidated study cost coefficients and the updated methodology for the base calculation of study places, is EUR 160.5 million for all sectoral ministries.** Consolidated coefficients of study cost and base costs of a study place will be introduced gradually by moving to allocation of study funding depending on the number of graduates, as well as providing additional State budget funding for new study programmes.

The methodology used in the study for updating of study cost coefficients and detailed estimates are included in the final report “Study on the Updating of Study Cost Coefficients in Higher Education and Proposals for Their Consolidation” (Annex 5).

In 2015 the ministry will launch quality improvements of financial statements of institutions of higher education, based on the proposals of the study “Evaluation of Financial-Economic Operations of Institutions of Higher Education and Consolidation of Public Reports” conducted by the ministry in 2014. The study shows that the current financial statements of institutions of higher education do not facilitate an easy and timely data analysis, because the data are not submitted frequently enough and the format is not convenient. For improvement of the availability and quality of financial-economic data, it is necessary to ensure the following elements:

* **Data are easy to compile, in electronic format –**all institutions of higher education must submit data in a uniform electronic format, completely excluding situations where some documents are only available in printed form;
* **Broad involvement of all stakeholders** – data availability is ensured to all stakeholders;
* **Critical revision of accounting standards** – as close as possible comparison of financial-economic performance indicators of institutions of higher education is promoted. Institutions of higher education should apply similar systematisation of financial-economic data in order to facilitate and increase accuracy and efficiency of analysis;
* **Reduction of reporting period from once a year to once in six months or even once a quarter** – a higher level of control of indicators and timely evaluation and prevention of financial risks are ensured;
* **Platform for easy and convenient data visualisation** – a system of data storage and analysis.

Conclusions of the study on the analysis of financial statements of institutions of higher education and proposals for promotion of sustainability of financial activity of institutions of higher education are included in the final report of the study (Annex 6)[[20]](#footnote-20). In order to improve the financial reporting process and control of utilisation, to ensure uniformity in financial reporting, the framework for submission of financial statements will be improved by incorporating changes in Cabinet Regulation No. 348 of 2 May 2006, Procedures for Submitting Information Regarding Activity by an Institution of Higher Education and College to the Ministry of Education and Science, specifying the information to be submitted each year regarding performance and financial indicators, including with regard to employment of graduates. Availability of financial data of institutions of higher education will be ensured by publishing them on the website of the ministry.

### 2.2.4. Procedures for Financing the Second Pillar of Study and Research from the State Budget

In developing the second pillar performance criteria, institutional diversity of higher education and research sector of Latvia was taken into account, including operational specifics of niche institutions of higher education (academies), culture and art institutions of higher education, colleges. The ministry will launch the second pillar (performance-based) financing in 2015. Based on the decision of Cabinet meeting of 10 November 2014, the funds of the new budget sub-programme 03.03.00 *Development of Scientific Activity in Institutions of Higher Education and Colleges* in 2015 account for EUR 5,500,000, in 2016 – EUR 6,500,000, in 2017 – EUR 6,500,000. According to the Cabinet, the funds of the sub-programme 03.03.00 will be directed for implementation of the second pillar for performance indicators of implementation of research-based higher education. According to the policy objectives, performance funding will be directed to the institutions of higher education and colleges, which are funded from the State budget in accordance with Cabinet Regulation No. 994 and which have introduced a performance management and personnel remuneration system, certified by the Work Remuneration By-laws approved by the senate of the institution of higher education or approved by the council of the college, and submitted to the ministry until 1 September 2015.

**The objective of performance funding is to support research-based higher education which is rooted in research excellence of institutions of higher education and colleges and in collaboration with the industry and is focused on the increase in the number of persons employed in research and technological development and on reproduction thereof.** Funding will be granted, taking into account performance indicators of institutions of higher education according the following common objectives and criteria:

**Objective I:** Reproduction of human resources in higher education and research – employment of young scientists in research in institutions of higher education:

**Performance indicator 1:** Master and doctoral students employed as researchers in institutions of higher education, as well as researchers who during the past five years have acquired master or doctoral degree in terms of full-time equivalent (FTE);

**Objective II:** Internationalisation and international competitiveness of research implemented in institutions of higher education – integration in the global research area:

**Performance indicator 2:** Funding acquired within the framework of research and development projects implemented in the European Union programme “Horizon 2020” and in other international research project competitions;

**Objective III:** Linking of the research implemented in institutions of higher education with the needs of the industry/sector – solving of problems topical in the industry:

**Performance indicator 3:** Funding attracted in research and development projects implemented upon an order of the industry, including contract work with merchants.

**Conditions for granting of performance funding are clearly formulated objectives, precisely measurable and comparable performance indicators, as well as transparent and accumulated source data.** Based on recommendations of the World Bank in determining performance criteria, the ministry assessed the available performance indicators of research activities of institutions of higher education and established a set of criteria that meet the mandate of the policy implemented by the ministry – development of research-based higher education.

Performance funding will be granted based on data, which are regularly collected and used for calculation of base funding of science in institutions of higher education in accordance with Cabinet Regulation No. 1316, namely the FTE of persons employed in science and the funding attracted to the principal activity. The data, which are provided by 1 April of the current year according to the procedures for calculating the base funding of science, will be used for the allocation of performance funding. The indicators, which are included in the set of criteria that are not provided in accordance with Cabinet Regulation No. 1316 (including with regard to college activities), will be additionally requested from institutions of higher education.

Performance funding in 2015 will be distributed equally among the allocation criteria, i.e., funding for each criterion will account for 1/3 of the total performance funding EUR 5,500,000 or approximately EUR 1.8 million. The approach is based on the following considerations:

1) all components of the indicators are given an equally important priority by giving equal weight to each objective to be achieved and criterion. This will contribute to a balanced research-based higher education performance development, and reduce the adverse effects of the policy instrument. Equal weight in all criteria is the “starting position” for launching of performance funding. Further weight ratio of the criteria will be created according to the policy priorities and the total increase in performance funding;

2) equal access to performance analysis of institutions is ensured, because performance in one criterion does not have an impact on (is not applied to) performance evaluation in other criteria;

3) the set objectives and criteria ensure a balanced approach to evaluation of research results and reflect the diversity of the sector.

Allocation for each institution of higher education will be calculated according to the contribution of the institution of higher education in promotion of value in each criterion. For example, if an institution of higher education has provided 15 % of the total number of the employed master and doctoral students and young scientists in 2014, the institution of higher education will receive 15 % of the total funding in this criterion.

Objectives and criteria are mutually supplementing – success of an institution in one of the criteria has a positive impact on its performance in other criteria. Thus, performance funding will promote balanced development, mutual competition, and striving for excellence of scientific activity of institutions of higher education. As a result a positive trend will be ensured in the overall research performance. Concurrently it is ensured that the funding planned in the budget sub-programme is completely used, because allocation is determined by the relative performance ratio, and the allocation does not have a ceiling.

During the time period 2015-2017 financing of the second pillar component **F2z** will be carried out, using the funds available in the budget sub-programme 03.03.00 *Development of Scientific Activity in Institutions of Higher Education and Colleges.* The funds to be allocated to each institution of higher education **Fatt** will be calculated according to the formula incorporated in Cabinet Regulation No. 994:

$$F\_{2^{z}}=F\_{att}\left(\frac{\left(\frac{P}{∑P}\right)+\left(\frac{S}{∑S}\right)+\left(\frac{L}{∑L}\right)}{3}\right)$$

where

F2z – amount of funds to be allocated to an institution of higher education;

Fatt– funding in sub-programme 03.03.00 *Development of Scientific Activity in Institutions of Higher Education and Colleges* in the respective calendar year

P – master and doctoral students employed as researchers in institutions of higher education, as well as researchers who during the past five years have acquired master or doctoral degree in terms of FTE;

∑P – total number of master and doctoral students employed as researchers, as well as researchers who during the past five years have acquired master or doctoral degree in terms of FTE;

S – funding acquired within the framework of research and development projects implemented by the institution of higher education in the European Union Framework Programme and in other international research project competitions;

∑S – total funding acquired by institutions of higher education within the framework of research and development projects in the European Union Framework Programme and in other international research project competitions;

L – funding attracted within the scope of research and development projects implemented in the institution of higher education upon an order of the industry, including contract work with merchants;

∑L – total funding attracted by institutions of higher education in research and development projects implemented upon an order of the industry, including contract work with merchants.

As shown by the abovementioned principle, the ministry will determine the funding depending on the relative performance indicators of institutions of higher education, comparing the overall contribution of institutions of higher education in achieving the objectives laid down in the policy. The sum of relative indicators is the development indicator of research-based higher education in institutions of higher education.

Taking into account the provisions of Informative Report of the ministry “On Implementation of the Latvian Structural Reforms of Science until 1 July 2015” prescribing that in 2015 the ministry will prepare amendments to Cabinet Regulation No. 1316 and the Law On Scientific Activities, as of 2016 determining the minimum amount of scientific personnel in scientific institutions, which is necessary to receive the base funding in academies of culture and art sector and the National Library of Latvia in the amount of 5 FTE, provided that the load for each member of scientific personnel is at least 10 hours per week (0.25 FTE); specific performance indicators characterising the activity of institutions of higher education of culture and arts sector according to the strategic specialisation of institutions of higher education, their research profile, and quality indicators will be determined for commencing performance funding in development of normative framework.

Performance funding calculation algorithm will be incorporated in Cabinet Regulation No. 994 by 1 July 2015, ensuring the necessary regulatory framework for launching the financing of research-based higher education in 2015. Funding for research-based higher education support will be granted after adoption of amendments to Cabinet Regulation No. 994 by the Cabinet, and no later than by 1 October 2015. In its calculation performance indicators for 2014 submitted by institutions of higher education and colleges will be taken into account.

**A pre-condition for allocation of performance funding is improvement of remuneration policy of academic personnel implemented by institutions of higher education, and introduction of performance management.**

According to the results of the remuneration policy study carried out by the ministry, strategies of institutions of higher education are visibly linked to the objectives (performance indicators) brought forward for academic personnel. In order to improve performance of institutions of higher education, it is necessary to introduce such work performance evaluation system in institutions of higher education, which would enable evaluation of the academic personnel, providing an objective performance measurement, taking into account the performance indicators brought forward. Remuneration and its constituent components (rate, load) in the work performance evaluation system should be linked with the work performance indicators, and should be included in the work performance evaluation as one of the components of the internal laws and regulations with regard to formation of work remuneration (Annex 7). In order to ensure improvement of the academic personnel recruitment and remuneration policy, the ministry will encourage institutions of higher education to update and improve their remuneration policy and ensure its implementation in the academic year 2015/2016.

**Performance funding will be allocated only to those institutions of higher education and colleges, which by 1 September 2015 will have submitted updated Work Remuneration By-laws to the ministry, approved by the senate of the institution of higher education or council of the college, setting out common principles and criteria for the calculation of remuneration of the elected academic personnel of institutions of higher education and colleges**, determining the duties that should be included in the work load of academic personnel and principles for determining remuneration for results both in teaching and research activities, including linking the results of the academic personnel with the performance criteria of research-based higher education determined by the ministry, ensuring mechanisms for promotion of reproduction of academic personnel, for strengthening the international competitiveness of research and linking with the needs of the industry.

The necessary additional funding for implementation of knowledge society model in 2016 is EUR 11.7 million, in 2017 – EUR 15.2 million, and in 2018 – EUR 18.9 million . Summary of the State budget funds necessary for implementation of the new financing model in conjunction with the scenarios for implementation of the financing model put forward by the World Bank is included in Annex 9. It reflects the existing and additionally required State budget funding, which applies to the first and second pillars of the new financing model. It is assumed that the funding allocated to the second pillar in sub-programme 03.03.00 *Development of Scientific Activity in Institutions of Higher Education and Colleges* will remain at the same level as in 2016 and 2017, affecting the amount of additional funding that should be requested within the framework of the New Policy Initiatives. Since for achievement of the objectives set for higher education, it is necessary to ensure an increase of funding also in the first pillar; the ministry will include additional funding requests for subsidised study places and thus – for full implementation of the three pillar model in the budget request in the New Policy Initiatives for 2016.

The budget summary included in Annex 9 reflects implementation of the financing model in breakdown by budget sub-programme. In turn, to demonstrate the dynamics of funding growth, taking into account the funding planned in the budget of sectoral ministries, Annex 10 includes a layout of the new necessary funding in division by sub-programme of the State budget, needed for each scenario. Upon making calculations, it is assumed that implementation of the new financing model is not fixed-term, because the Law On Institutions of Higher Education and the Law On Scientific Activity determine an annual increase in funding for the industry, until the minimum volume of investments against the GDP is reached. In the Conceptual Report evaluation of the impact on the State budget is provided until 2025 according to the estimates of the World Bank study. In the longer term it is expected that a gradual increase in funding will be provided also after 2025 to reach the amount of funding laid down in the Law On Institutions of Higher Education and the Law On Scientific Activity. However, these estimates are less accurate due to unavailability of sufficiently precise information. The distribution of the model of the World Bank cannot be unequivocally extrapolated to further future, because the nature of the funding changes is not linear from year to year.

The objective of the calculations included in Annex 10 is to reflect the distribution of funding between State budget programmes and sub-programmes of the Ministry of Education and Science, the Ministry of Health, the Ministry of Agriculture, and the Ministry of Culture in case of different future financing scenarios. For example, the knowledge society model (scenario A) foresees an increase in funding for the first pillar. The objective of the calculations is to show how this necessary increase in funding will be distributed among all State budget programmes and sub-programmes which finance study places of institutions of higher education financed by the State.

In the first pillar, which is implemented by five State budget programmes and sub-programmes, in scenario A (which is the only scenario with the planned increase in funding) the funding additionally necessary for all budget programmes and sub-programmes included has been determined based on the mutual ratio between the funding allocated for these programmes in 2015. Thus, the necessary additional funding determined in the calculations is evenly distributed between these State budget programmes and sub-programmes.

In turn, in the second pillar, the additionally necessary funding should be attributed only to the State budget sub-programme 03.03.00 *Development of Scientific Activity in Institutions of Higher Education and Colleges*, where the funding will be distributed between institutions of higher education under supervision of the Ministry of Education and Science, the Ministry of Health, the Ministry of Agriculture, and the Ministry of Culture. Taking into account that this funding is based on annual performance indicators, changes in its distribution among institutions of higher education under supervision of these ministries cannot be predicted precisely.

According to the proposal for revision of the conditions for base funding for science, which was put forward by the working group established upon proposal of the Latvian Research and Innovation Strategic Council, to fully integrate research with the study process by 2017, consideration will be given to the option that the base funding of science is allocated based on the number of research and academic personnel employed in the institution of higher education. In co-operation with institutions of higher education the study and scientific activity indicators of institutions of higher education and colleges will be evaluated in detail. Conditions for the financing of the first pillar (**F1** – base funding of study and scientific activity), which is based on investment indicators – the number of study places, the number of academic and scientific personnel, and the updated cost coefficients of sectors – will be developed in more detail. The conditions for receipt of the second pillar funding (**F2** – funding for performance in studies and research) will be crystallised and focused. In order to ensure efficiency of implementation of performance funding, new performance criteria will be introduced, with the allocated performance funding in the second pillar reaching at least 20 % of the total State budget funding for the institutions of higher education and colleges. According to the policy priorities, additional performance criteria will be directed to the performance indicators of basic studies, including drop-out prevention, student and teacher mobility, international publicity of research results, employment in research projects, and other performance indicators. Funding for implementation of the additional performance criteria in the second pillar of the financing model will be required in preparation of the medium-term draft budget and the draft State budget for the current year within the framework of the New Policy Initiatives.

In 2015 the ministry will continue work on improving student support systems in order to promote social justice and accessibility of higher education. In co-operation with the Ministry of Finance, the Treasury and the Study and Science Administration, the ministry will assess the regulatory framework for granting of study and student loans to encourage accessibility to State-guaranteed loans. The conditions for cancellation of study and student loans determined in Cabinet Regulation No. 220 of 29 May 2001, Procedures for the Allocation, Repayment and Cancellation of a Study Loan and Student Loan from the Resources of Credit Institutions with the Government Guarantee, and Cabinet Regulation No. 219 of 29 May 2001, Procedures for the Allocation, Repayment and Cancellation of a Study Loan from the Resources of the State Budget, will be revised, as well as proposals for the specifications with regard to professions, for which study and student loans are cancelled, will be assessed and prepared in collaboration with the responsible sectoral ministries.

### 2.2.5. Funding of the Third Pillar – Support of the European Union Structural Funds to the Development of Higher Education and Research

In 2015, planning has been started for the funding of **F3** component from the European Union Structural Funds with co-funding from the State budget. Support tools for development, innovation and strategic specialisation are laid down in the Operational Programme. The ministry plans to implement funding of the third pillar in the following activities of the Operational Programme:

* SSO 8.1.1 **To increase the number of modernised STEM, including medical and creative industries, study programmes.** Support for development of territorially concentrated study and research infrastructure, strengthening of strategic specialisation of institutions of higher education, including reconstruction or renovation of buildings or premises, if necessary, construction of new buildings, purchase of machinery and equipment (including means for distance learning, ICT solutions, software, library resources) in STEM, including medical and creative industries, study directions. Total funding: EUR 44.64 million, including EUR 37.94 million ERDF
* SSO 8.2.1 **To reduce fragmentation of study programmes and to strengthen sharing of resources.** Development of joint doctoral programmes and study programmes in the European Union languages, approbation and international accreditation, including accreditation costs of international professional organisations; international publicity of study programmes. Total funding: EUR 10.81 million, including EUR 9.19 million ESF;
* SSO 8.2.3 **To ensure better management in institutions of higher education.** Support for institutions of higher education in the development, improvement of development strategies and implementation of recommendations of external evaluation; support for operation of councils of study directions, including support for restructuring of studies and updating of the learning content; support for improvement of efficiency of internal quality assurance systems of institutions of higher education according to the quality assurance standards and guidelines of the European Higher Education Area, support for development of e-solutions, including inter-institutional co-operation solutions. Total funding: EUR 20 million, including EUR 17 million ESF.
* SSO 1.1.1. **To increase research and innovation capacity of Latvian scientific institutions and their ability to attract external funding by investing in human resources and infrastructure**, including
	+ - 1. **Post-doctoral research support** for young scientists for implementation of post-doctoral research. Total funding: EUR 64.03 million, including ERDF funding EUR 54.42 million.
			2. **Innovation grants for students** (especially in STEM, including in medicine and creative areas) for development of new products and technologies, co-operation projects with merchants to develop innovative solutions, to address practical problems in the industry. Total funding: EUR 34 million, including ERDF funding EUR 28.90 million.

Also other activities of the Operational Programme will be used for support of study and research capacity of institutions of higher education, as well as from 2020 it is planned to gradually increase the share of State budget funding for financing of the third pillar. The indicative start-up time of support measures of the European Union Structural Funds and the total funding are indicated in Annex 11.

### 2.2.6. New Policy Initiatives of the Ministry of Education and Science for 2016 – 2018

In accordance with Cabinet Regulation No. 867 of 11 December 2012, Procedures for Determining the Maximum Permitted Total State Budget Expenditure and the Maximum Permitted Total State Budget Expenditure for Each Ministry and Other Central Government Institutions for Medium Term, and based on Cabinet Order No. 124 of 16 March 2015, On the Schedule for Preparation of Draft Law On Medium-Term Budget Framework for 2016, 2017, and 2018 and Draft Law On State Budget for 2016, as well as in accordance with Paragraph 1, Clause 6 of Minutes No. 19 of extraordinary meeting of the Cabinet of 13 April 2015, Draft Programme “Latvia's Stability Programme 2016 – 2019”, which determines that “in accordance with Section 16.1, Paragraph two of the Law On Budget and Financial Management, and taking into account the most current macroeconomic development forecasts, ministries and other central government institutions should not draw up and submit proposals for the new policy initiatives for 2016, 2017, and 2018, with the exception of health and education sectors, with regard to structural reforms, as well as internal and external security sector”, the Ministry of Education and Science has submitted the new policy initiatives for implementation of the new higher education financing model. **New Policy Initiatives of the Ministry of Education and Science for 2016 – 2018 provide for additional funding for implementation of the new higher education financing model, namely, additional base funding for science in the 1st pillar in the amount of EUR 3,279,087 annually in institutions of higher education for ensuring research work of academic personnel (professors, associate professors, and assistant professors), and funding in the 3rd pillar in the amount of EUR 2,900,000 annually, for the development of new, innovative study programmes in institutions of higher education and colleges, primarily in the regions of Latvia.**

# 3. Need for Introduction of the New Financing Model and the Possible Risks if the Situation does not Change

According to the conclusions of the World Bank study, the current level of funding and the incomplete financing model significantly hinder achievement of the objectives of higher education and limit the development of the sector as a competitive sector of national economy. With institutions of higher education working in the mode of insufficient funding and wrong incentive for an extended period of time, there is no opportunity or motivation to invest in development, to restore the academic personnel, raise work quality and to focus on results, to take measures to prevent structural fragmentation and ensure efficient utilisation of the State budget funds.

By introducing the new three-pillar model in which the State budget funds are allocated both for ensuring stability and achieving strategic objectives, and the European Union Structural Funds are directed to capacity-building of institutions of higher education, the higher education sector will be given an opportunity to provide modern, research-based higher education that meets the needs of the Latvian society and development of national economy.

Without introducing the new financing procedures and without developing stricter requirements for receipt of State funding, without determining clear, measurable results to be achieved both in studies and research, it will not be possible to ensure increase in the quality and competitiveness of the sector. Depletion of academic and research human capital and historical traditions of higher education and research funding will continue, contributing to the stagnation of the system. Funds of taxpayers will be wasted, because the State will not receive the necessary specialists and products of scientific activity. Such financing of the higher education sector will be a negative signal to entrepreneurs who will not be interested in co-operation and investment in higher education. From the European point of view, the State will have failed to fulfil its commitment, and thus the higher education and research sector of Latvia will not be considered as a sector worth investments in the next planning period of the Structural Funds. Latvia will lose the opportunity to attract international funding and participate in European higher education and research area as a competitive player.

# 4. Action Plan for Implementation of a New Financing Model

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| --- | --- | --- | --- |
| **No.** | **Action** | **Executor** | **Time period, deadline** |
| 1. | Amendments to Cabinet Regulation No. 994, Procedures for the Financing of Institutions of Higher Education and Colleges from the Funds of the State Budget, have been prepared and submitted to the Cabinet for revision, determining the procedures for the allocation of funds to sub-programme 03.03.00 “Development of Scientific Activity in Institutions of Higher Education and Colleges”, for performance in the provision of research-based higher education in institutions of higher education, which have introduced performance management. | MoES | 1 July 2015 |
| 2. | Amendments to Cabinet Regulation No. 1316 of 12 November 2013, Procedures for the Calculation and Allocation of Financial Reference Amount to Scientific Institutions, have been prepared and submitted to the Cabinet for revision, determining that in 2016 upon allocating the base funding of science, the number of academic personnel in full time equivalent is taken into account. | MoES | 1 August 2015 |
| 3. | Amendments to Cabinet Regulation No. 994 of 12 December 2006, Procedures for the Financing of Institutions of Higher Education and Colleges from the Funds of the State Budget, have been prepared and submitted to the Cabinet for revision, determining the procedures by which the methodology for the calculation of base costs of a study place is updated and study cost coefficients are consolidated, by incorporating as a criterion a coefficient which supports accessibility of higher education in the regions and drawing up of programmes that meet the needs of the labour market, as well as by updating the legal framework for performance agreements. | MoES | 1 August 2015 |
| 4. | Updated Work Remuneration By-laws, approved by the decision-making bodies of institutions of higher education and colleges, laying down the common principles and criteria for the calculation of remuneration of the elected academic personnel of institutions of higher education and colleges, introducing performance management in the remuneration policy, have been submitted to the ministry. | IHE | 1 September 2015 |
| 5. | Drawing up of performance agreements for a 3 – 5 year period, in co-operation and consultation with the sectoral ministries and institutions of higher education under their supervision, determining the criteria for the allocation of funding for study and research results, including through consultations with institutions of higher education of art sector and the responsible ministry on the criteria for the formation of the funding necessary for artistic activity of institutions of higher education of art sector. | MoES, MoC, MoH, MoA, institutions of higher education, colleges | 1 November 2015 |
| 6. | Projects have been drawn up for the promotion of development, excellence and innovation of institutions of higher education. | Institutions of higher education, colleges | 1 November 2015 |
| 7. | Regulation of the submission of financial statements has been improved by introducing changes in Cabinet Regulation No. 348 of 2 May 2006, Procedures for the Submission of Information Regarding Activity by Institutions of Higher Education and Colleges to the Ministry of Education and Science, specifying the information to be submitted annually on the performance and financial indicators, including with regard to the employment of graduates. | MoES, MoF | 1 June 2016 |
| 8. | Updated development strategies of institutions of higher education for 2015 – 2020 have been submitted to the Ministry of Education and Science, which provide for the development of research-based higher education offer that is related to the research programmes implemented in an institution of higher education and conforms to the strategic specialisation, as well as implementation of innovation and development projects.  | MoES, institutions of higher education, colleges | 1 September 2016 |
| 9. | Evaluation of the student support system has been carried out and proposals for implementation of a system that is more socially fair have been developed, including options to promote accessibility of State guaranteed study and student loans have been evaluated, conditions for cancellation of loans have been revised. | MoES, MoF, Treasury, Administration of Studies and Research, institutions of higher education, colleges, Latvian Student Association | 1 December 2016 |

Annexed:

1) Study of the World Bank, Report 1 “Higher Education Financing in Latvia: Analysis of Strengths and Weaknesses”;

2) Study of the World Bank, Report 2 “Evaluation of Current Funding Model’s Strategic Fit with Higher Education Policy Objectives”;

3) Study of the World Bank, Interim Report “Conceptual Proposal for Financing of Higher Education”;

4) Study of the World Bank, Final Report “Proposal for Financing of Higher Education in the Medium-term”;

5) Final Report on the study carried out by Riga Technical University and the University of Latvia upon an order of the Ministry of Education and Science on updating of study cost coefficients and preparing proposals for the consolidation thereof;

6) CIVITTA study carried out upon an order of the Ministry of Education and Science “Evaluation of Financial – Economic Operations of Institutions of Higher Education and the Consolidation of Public Reports”, final deliverable;

7) executive summary of the study “Study on the Academic Personnel Recruitment and Remuneration Policy System in Institutions of Higher Education” carried out KPMG Baltics Ltd. upon an order of the Ministry of Education and Science;

8) the new higher education financing model, and the planned funding of the State budget and European Union Structural Funds for its implementation as of 2015;

9) summary regarding the State and local government funding necessary for the implementation of solutions (solution options) included in the Conceptual Report;

10) the required funding layout broken down by sub-programme of the State budget, needed for each scenario;

11) support of the European Union Structural Funds to the development of higher education and research for the planning period 2014 – 2020;

12) new policy initiatives of the Ministry of Education and Science for 2016 – 2018 for implementation of the new higher education financing model.

Submitter:

Minister for Education and Science M. Seile

Approved by:

Acting Secretary of State –

Deputy State Secretary –

Director of Education Department E. Papule

Agrita Kiopa

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| (given name and surname of the official responsible for the project) |
| Director of the Department of Higher Education, Science and Innovation of the Ministry of Education and Science |
| (position) |
| 67047996; fax: 67047996 |
| (telephone and fax number) |
| Agrita.Kiopa@izm.gov.lv |
| (e-mail address) |

08.06.2015

15,055

L. Treimane, 67047879

Laura.Treimane@izm.gov.lv

J. Paiders, 67047936

Janis.Paiders@izm.gov.lv

1. Information on the progress of the study implementation, discussion materials, and reports, and translations thereof are available on the Ministry's website: http://www.izm.gov.lv/lv/izglitiba/augstaka-izglitiba/finansesanas-modelis; [↑](#footnote-ref-1)
2. Institutions of higher education – educational institutions, which according to the Classification of Education in Latvia (Cabinet Regulation No. 990 of 2 December 2008) implement academic and vocational education programmes of the highest level, i.e., institutions of higher education and colleges. [↑](#footnote-ref-2)
3. Ziegele, F. (2013). European Trends in Performance Oriented Funding. In Bergan, S., Egron, Polak, E., Kohler, J. & Purser, L. (Eds.): *Leadership and Governance in Higher Education Handbook for Decision-makers and Administrators,* 1/2013. Berlin: Raabe, pp. 71-88; [↑](#footnote-ref-3)
4. Estermann, T., Bennetot Pruvot, E. & Claeys-Kulik, A-L. (2013). *Designing Strategies for Efficient Funding of Higher Education in Europe.* DEFINE Interim Report 2013. Brussels: European University Association. [↑](#footnote-ref-4)
5. Jongbloed, B., de Boer, H., Enders, J. & File, J. (2010). *Progress in higher education reform across Europe. Funding Reform*. Volume 1: Executive Summary and main report. Enschede: CHEPS. [↑](#footnote-ref-5)
6. The Law On Institutions of Higher Education, the Law On Scientific Activity, Cabinet Regulation No. 994 of 12 December 2006, Procedures for the Financing of Institutions of Higher Education and Colleges from the Funds of the State Budget, Cabinet Regulation No. 1316 of 12 November 2013, Procedures for the Allocation of Financial Reference Amount to State Scientific Institutions, State Institutions of Higher Education and the Scientific Institutes of State Institutions of Higher Education, Cabinet Regulation No. 740 of 24 August 2004, Regulations Regarding Stipends, and other legal acts governing the financing of the sector. [↑](#footnote-ref-6)
7. *U-Multirank International Ranking of Higher Education Institutions*. Available at: http://www.umultirank.org/#!/home?trackType=home&section=entrance [↑](#footnote-ref-7)
8. The new financing model does not apply to the National Academy of Defence, which is financed from the State budget funds allocated to the Ministry of Defence, hence its funding is not included in the proposed three-pillar model. The model does not apply to the educational institutions (colleges) of the system of the Ministry of the Interior. [↑](#footnote-ref-8)
9. Final report of the World Bank *Higher Education Financing in Latvia: Final Report*, table 13 *Overview of how new model addresses current challenges and meets criteria*, pp 44-47 Annex 4 to the Conceptual Report. [↑](#footnote-ref-9)
10. In 2010, public expenditure on higher education accounted only for 0.8 percent of the GDP of Latvia, compared with the average of 1.26 per cent in the EU27 countries, and of 1.23 and 1.27 percent respectively in Estonia and Lithuania. [↑](#footnote-ref-10)
11. The estimates for the required additional funding have been made based on the GDP estimates for 2015. [↑](#footnote-ref-11)
12. Statistics on higher education of the Ministry of Education and Science. Available at: http://izm.izm.gov.lv/registri-statistika/statistika-augstaka.html [↑](#footnote-ref-12)
13. The Ministry of Economics (2014) *Informative Report on the Medium and Long–term Labour Market Forecasts.* https://www.em.gov.lv/lv/nozares\_politika/tautsaimniecibas\_attistiba/informativais\_zinojums\_par\_darba\_tirgus\_videja\_un\_ilgtermina\_prognozem/ [↑](#footnote-ref-13)
14. Of the total number of students in State-founded institutions of higher education and colleges in the academic year 2013/2014 (65,410), 34,491 or 53 % of the students were studying for the budget funds, and 30,919 or 47 % – paid the tuition fee themselves (source: Report on Higher Education in 2013, MoES) [↑](#footnote-ref-14)
15. Order No. 120 of 12 February 2015 of the Ministry of Education and Science, *On the Number of Places in Institutions of Higher Education in 2015,* and Order No. 8 of 7 January 2015, *On the Number of Study Places in Colleges in 2015*. [↑](#footnote-ref-15)
16. The Ministry of Economics (2014) *Informative Report on the Medium and Long–term Labour Market Forecasts.* Available at: https://www.em.gov.lv/lv/nozares\_politika/tautsaimniecibas\_attistiba/informativais\_zinojums\_par\_darba\_tirgus\_videja\_un\_ilgtermina\_prognozem/ [↑](#footnote-ref-16)
17. Sustainable Development Strategy of Latvia “Latvia 2030”, National Development Plan of Latvia for 2014 – 2020, National Reform Programme of Latvia for Implementation of the Strategy “Europe 2020”, Guidelines for the National Industrial Policy for 2013 – 2020. [↑](#footnote-ref-17)
18. The guidelines approved with Order No. 148 of 4 March 2015 of the Ministry of Education and Science ensure compliance of the information submitted by scientific institutions with the requirements for scientific organisations within the meaning of Commission Regulation (EU) No 651/2014 of 17 June 2014. [↑](#footnote-ref-18)
19. European Indicators and Ranking Methodology for University Third Mission. Available at: http://www.e3mproject.eu/final-conference.html [↑](#footnote-ref-19)
20. Materials of the studies implemented by the ministry are available on the ministry's website section *Nozaru politika/Augstākā izglītība/Pētījumi –* http://izm.izm.gov.lv/nozares-politika/izglitiba.html [↑](#footnote-ref-20)