Implementation of the New Higher Education Performance-based Funding Model in Latvia

“Conference on Raising Performance in Higher Education”
October 16, 2017
Vilnius, Lithuania
Outline

- HE statistics, financing model – need for a reform
- MoES Engagement with the World Bank – identifying the challenges and developing the proposal
- New HE funding model – changing the system architecture
- Implementation process and results – comparing institutional performance
### Key statistics: HE in Latvia

#### Statistics (2016/2017 academic year)

<table>
<thead>
<tr>
<th>Funding of HE (2016):</th>
<th>Staff of HEIs:</th>
</tr>
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<tbody>
<tr>
<td>- State funding: 138,7 mil. EUR (0,6% of GDP)</td>
<td>- All staff: 9528</td>
</tr>
<tr>
<td>- Private funding: 76,1 mil. EUR (0,3% of GDP)</td>
<td>- Academic staff: 4770</td>
</tr>
<tr>
<td>- Other funding, incl. EU: 69,6 mil. EUR (0,3% of GDP)</td>
<td>- On average 20 students per faculty member</td>
</tr>
<tr>
<td>- Total: 284,5 mil. EUR (1,1 % of GDP)</td>
<td>- Main age group: 30 - 50</td>
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<table>
<thead>
<tr>
<th>HEIs:</th>
<th>Students:</th>
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<tbody>
<tr>
<td>- State-established HEIs: 17</td>
<td>- All students: 82914</td>
</tr>
<tr>
<td>- State-established colleges: 12</td>
<td>- Newly enrolled: 28588</td>
</tr>
<tr>
<td>- State university-established colleges: 5</td>
<td>- Foreign students: 8137 (10%)</td>
</tr>
<tr>
<td>- Private HEIs: 12</td>
<td>- Obtained degree: 15796</td>
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<tr>
<td>- Private colleges: 9</td>
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<tr>
<td>- Branches of foreign HEIs: 2</td>
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</table>
79% of students are studying in the capital city Riga.
Pre-reform model of HE financing in Latvia: 1-pillar “study place” model

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

**Input-based formula components:**
- Number of state-funded study places
- Basic costs of a study place
- Social security and welfare costs
- Cost coefficient by subject area

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

HE Council proposal for the number of state funded study places

MoES decision and allocation of funding

Funding for study places allocated to HEIs at the beginning of calendar year
Context for a HE financing reform

In 2013 – MoES engagement with World Bank:
- Independent, unbiased expertise
- International perspective and comparison
- Hands-on approach, implementation experience

2012 EU Council:
New HE funding model that rewards quality, strengthens links with market needs and research institutions, avoids fragmentation of budget resources.
Timeline of the reforms for HE funding assessment (2013–2014)

Phase I: SWOT/European trends’ analysis

Jan-Feb 2014
Data compilation
Focus group interviews

March 2014
Report SWOT/
European trends analysis
Dissemination

Project components: 3 phases
Total length: 10 months
Involvement of stakeholders: Rectors Council, HE Council, Students Association, Employers’ Associations

Information Note to the Government
Data input
Publicity activities
Evaluation and feedback
Conceptual Note to the Government

Phase II: Assessment of strategic alignment

Strategic fit analysis
Discussion with HEIs
April 2014

Phase III: Funding proposal

Interim-report
- Funding proposal
Dissemination
Jun-Jul 2014

Final report
Conference
Sep 2014
Main findings (2013–2014): challenges of Latvia’s HE financing system

Some of the findings:

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

World Bank project resulted in 3 main reports:

- SWOT analysis in light of European trends
- Strategic fit analysis
- Proposal for HE financing and scenarios of development depending on available funds
Changing the system architecture: stability and change

- **Continuation:**
  - “Study places” as a form of state budget allocation
  - Basic research funding, state funded R&D projects etc.

- **Performance:**
  - Performance-based financing for output indicators
  - Integrated state allocation for study places and research (basic funding, state funded R&D projects etc.)

- **Development:**
  - Strategic specialization
  - Institutional profile enhancement
  - Agreements for medium – term development

STABILITY

CHANGE

Scarcity Model

Limited Expansion Model

Develop the Knowledge Society Model
## New HE funding model

### Milestones of implementation process:

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

<table>
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<tr>
<th>PILLAR 1</th>
<th>PILLAR 2</th>
<th>PILLAR 3</th>
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<tbody>
<tr>
<td><strong>teaching</strong></td>
<td><strong>performance – oriented funding</strong></td>
<td><strong>innovation – oriented funding</strong></td>
</tr>
<tr>
<td>Basic funding for labour market alignment</td>
<td>Additional budget funding for performance 6,5 MEUR</td>
<td>OP «Growth and Development» funding</td>
</tr>
<tr>
<td>• numbers of study places (per field) • cost oriented weight</td>
<td>• research staff FTE (MAs, PhDs) • industry funded research • international research</td>
<td>profile-oriented target agreements teaching + research + third mission</td>
</tr>
<tr>
<td>• numbers of research staff (per field) • cost-oriented weight</td>
<td>• industry funded research • international research</td>
<td>funding of centers of excellence</td>
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<td>Budget funding for studies 90 MEUR</td>
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**Budget funding for research (basic funding, SRP, FARP) 27 MEUR**
2nd pillar: incentives for higher education and research integration

Performance criteria according to policy priorities:

2nd pillar funding FORMULA:

\[ F_{2z} = F_{zda} \times \left( 0.3 \times \left( \frac{P_z}{\sum P_z} \right) + 0.25 \times \left( \frac{S_z}{\sum S_z} \right) + 0.25 \right) \]

Building HR in research and technology development

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

International competitiveness of research

- International funding for research and development projects (Horizon 2020 etc.) (S–0.25)

Industry relevance of research

- R&D contract funding by public and commercial entities (L–0.25)
- Funding by local governments for regional research projects (R–0.1)
- Funding for creative and artistic projects (M–0.1)
2nd pillar: total allocation of performance funding to HEIs in 2015

Performance criteria according to policy priorities:

- **Total funds available**
  - 2015: 5.5 MEUR
  - 2016: 6.5 MEUR

- **Launching of 2nd pillar funding**
  - **September – October 2015**: data analysis and modelling of allocation
  - **Nov. 2015**: allocation to HEIs
  - **June 2016**: reworking HEIs staff salary systems

**Distribution of performance-based funding in 2015**
- 39% University of Latvia, Riga Technical University
- 61% other state HEI's

**Distribution of performance-based funding in 2017**
- 37% University of Latvia, Riga Technical University
- 63% other state HEI's
Employed “young” scientists in HEIs in full time equivalent (FTE)

Number of employed “young” scientists (FTE) increased significantly:

<table>
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<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
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<td></td>
<td>306.6</td>
<td>397.2</td>
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Causes:
- Consolidation of research sector (for the largest universities)
- Implementation of the performance based funding model at institutional level

Change in employed “young” scientists (in FTE) in HEIs between 2014–2015
Amount of international R&D funding in HEIs

Changes in international R&D funding (thousand euros) in HEIs between 2014–2015

- Amount of international R&D funding also increased significantly:
  - Consolidation of research sector played a part in this increase.

- The overall impact that the new funding model has on this criteria is too early to tell.

<table>
<thead>
<tr>
<th>2014</th>
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<tr>
<td>5,9 MEUR</td>
<td>8,6 MEUR</td>
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Amount of attracted R&D contract funding in HEIs

Consolidation of research sector is directly responsible for this increase.

The overall impact that the new funding model has on this criteria is too early to tell.
Amount of attracted R&D funding or subsidies from local municipalities in HEIs

Amount of attracted R&D funding from local municipalities in 2014

- Ventspils University College: 2%
- Vidzeme University of Applied Sciences: 10%
- Other HEI's: 88%

Amount of attracted R&D funding from local municipalities in 2015

- Ventspils University College: 11%
- Vidzeme University of Applied Sciences: 8%
- Other HEI's: 81%

Amount of attracted R&D funding or subsidies from local municipalities slightly increased:

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<tr>
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<td>1,1 MEUR</td>
<td>1,2 MEUR</td>
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- Previously only one local municipality was meaningfully investing in R&D.
- The impact of the new funding model can be seen by a large increase in local municipality R&D funding in Vidzeme University of Applied Sciences.
Amount of attracted funding for creative and artistic projects in HEIs

Amount of attracted funding for creative and artistic projects in 2015

- 3 HEI's with specialization in arts, music, culture (36%)
- Other HEI's (64%)

Amount of attracted funding for creative and artistic projects in 2014

- 3 HEI's with specialization in arts, music, culture (30%)
- Other HEI's (70%)

Amount of attracted R&D funding or subsidies from local municipalities slightly increased:

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- The impact of the new funding model can be seen by a large increase in local municipality R&D funding in Vidzeme University of Applied Sciences.
Revision of the 1st and 2nd pillar

In 2009 MoES reduced:
1) Basic cost of a study place from 1800 EUR to 1333 EUR, the number of study places remained the same;
2) Total funding from 116 MEUR to 54 MEUR (in 2011)

Changes in progress:
- New regulation to introduce the estimated basic study cost – 2000 euros.
- The proposed changes will gradually return basic funding to pre-2009 levels.
- In order to fully implement these changes additional funding is needed.
- Additional 2nd pillar component (that supports teacher preparation)

MoES funding for 1st and 2nd pillar
Recent developments in higher education

Government activities:
✓ New 3-pillar financing model of higher education
✓ STEM priority in HE funding
✓ Modernization of higher education infrastructure
✓ Accreditation and licensing system
✓ Improvement of HE governance
✓ Consolidation of R&D resources
✓ Internationalization

Tasks of HE institutions in RIS3:
✓ to develop sufficiently diverse knowledge base
✓ to boost innovation capacity of firms through provision of human capital and access to knowledge
✓ to generate S&T human capital that is sufficiently embedded and connected
✓ to pool resources across sectors and regions
Main principles of 1st pillar funding allocation for HE

- **Alignment with the needs of the economy**
  STEM priority in study place allocation based on the labor market forecasts

- **Strategic specialization of HEI’s**
  Study and R&D profile taken into account

- **Effective investment of state funds in HE**
  State funding allocation to study programs that have sufficient number of students to be financially effective

- **Length of accreditation of study programs**
  Priority to those study programs that have been accredited for the maximum possible length (6 years)

- **Additional rules for funding allocation in teacher training**
  Teacher training in HEI’s is aligned with the needs of the newly developed primary and secondary education model

- **Stronger alignment between PhD studies and research**
  PhD state funded study places can only go to those HEI’s that are achieving necessary research results in
HE policy initiatives: development of human capital

Medium-term labour market forecasts: increased demand for STEM occupations by 2020 (and shortage of 13,500 specialists in STEM fields, if no measures taken)

- Priority to STEM fields for gov. study funding
- New government programs to support innovation and entrepreneurship local and global linkages (networks)

Number of students by study area

Foreign students 2006/07 - 2015/16

Number of students by study area:
- Social Sciences
- Natural Sciences and Engineering


0 10,000 20,000 30,000 40,000 50,000 60,000 70,000 80,000

0 2000 4000 6000 8000 10,000

1425 1492 1583 1715 1949 2717 3493 4475 5293 6465 8137
Role of HEI’s in the transformation process of the economy

HEI’s have a major role as knowledge hubs

Main 4 tasks to do until 2020:

1. To create a diversified knowledge base in all science areas by focusing R & D in those areas that have the largest potential of growth

2. To increase the innovation capacity of enterprises

3. To create human resources in R & D that are both locally embedded and globally connected

4. To merge resources from different sources and to collaborate with different universities in the region in order to achieve this goal
New undertaking for 2016–2018

EU Council’s Recommendations for Latvia 2015:
• Ensure that the new financing model of the higher education system rewards quality.
• Better target research financing and incentivise private investment in innovation on the basis of the Smart Specialisation Framework.

World Bank project to strengthen the governance, internal funding and academic careers in Latvian HEIs (2016–2018)

- The implementation is supported by the ESF Operational Programme «Growth and Employment» 8.3.6. Specific Objective «To introduce education quality monitoring system» 8.3.6.1. Activity «Participation in international research».
- The aim: the governance of HEIs corresponding to the policy priorities of Latvian HE modernization.
- The process: the research consists of II phases, which include assessment of internal governance (including governance of promotion councils) and financing in the 7 selected Latvian state HEIs. The planned outcome is 7 reports on related strengths and weaknesses. Phase II (2017/18) will focus on academic careers.
- The results will be used to shape the programmes for the financing of the HE development (SO No. 8.2.2. and SO No. 8.2.3.), as well as the amendments of legislative acts.
Thank you for your attention!

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