Ministry of
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Republic of Latvia

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

"Conference on Raising Performance in Higher Education"

October 16, 2017

Vilnius, Lithuania

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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

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Key statistics: HE in Latvia

Statistics (2016/2017 academic year)	
Funding of HE (2016): • State funding: 138,7 mil. EUR (0,6% of GDP) • Private funding: 76,1 mil. EUR (0,3% of GDP) • Other funding, incl. EU: 69,6 mil. EUR (0,3% of GDP) • Total: 284,5 mil. EUR (1,1 % of GDP)	**Staff of HEIs:** • All staff: 9528 • Academic staff: 4770 • On average 20 students per faculty member • Main age group: 30 - 50
HEIs: • State-established HEIs: 17 • State-established colleges: 12 • State university-established colleges: 5 • Private HEIs: 12 • Private colleges: 9 • Branches of foreign HEIs: 2	**Students:** • All students: 82914 • Newly enrolled: 28588 • Foreign students: 8137 (10%) • Obtained degree: 15796

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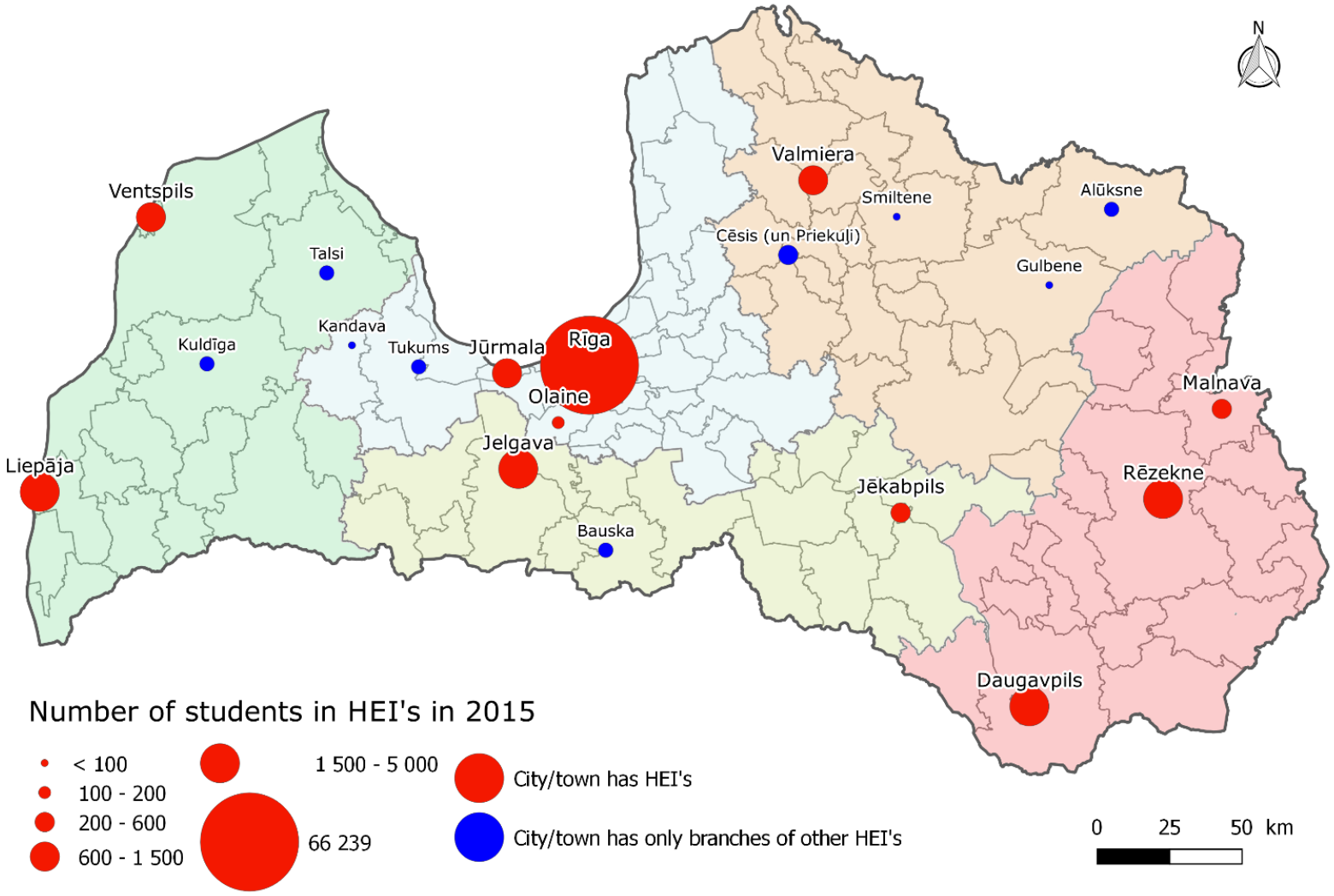
Regional distribution of HEI's in Latvia

79 % of students are studying in the capital city Riga



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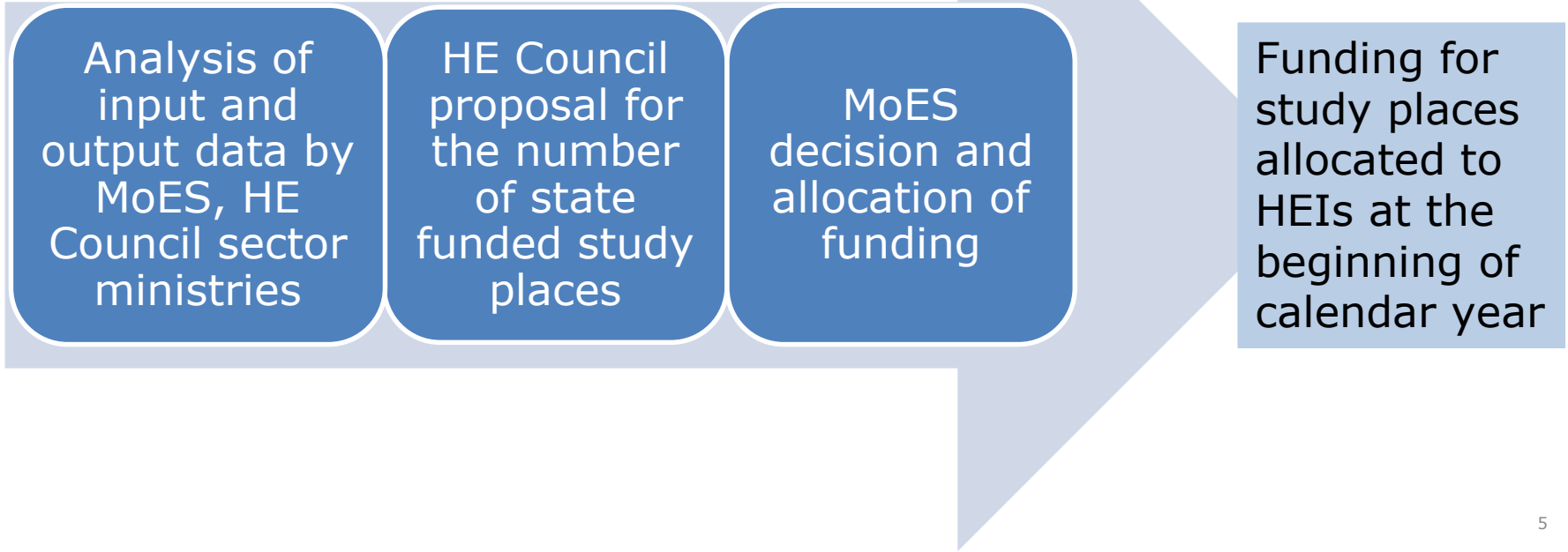
Pre-reform model of HE financing in Latvia: 1-pillar "study place" model

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

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



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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

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Timeline of the reforms for HE funding assessment (2013–2014)

Phase I: SWOT/European trends' analysis

Dec 2013

Contract signed

Opening workshop

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**

Strategic fit analysis
Discussion with HEIs

April 2014

Interim-report - Funding proposal
Dissemination

Jun-Jul 2014

Final report
Conference

Sep 2014

Phase II: Assessment of strategic alignment

Phase III: Funding proposal

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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

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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.

STABILITY

- **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

CHANGE

Scarcity Model | **Limited Expansion Model** | **Develop the Knowledge Society Model**

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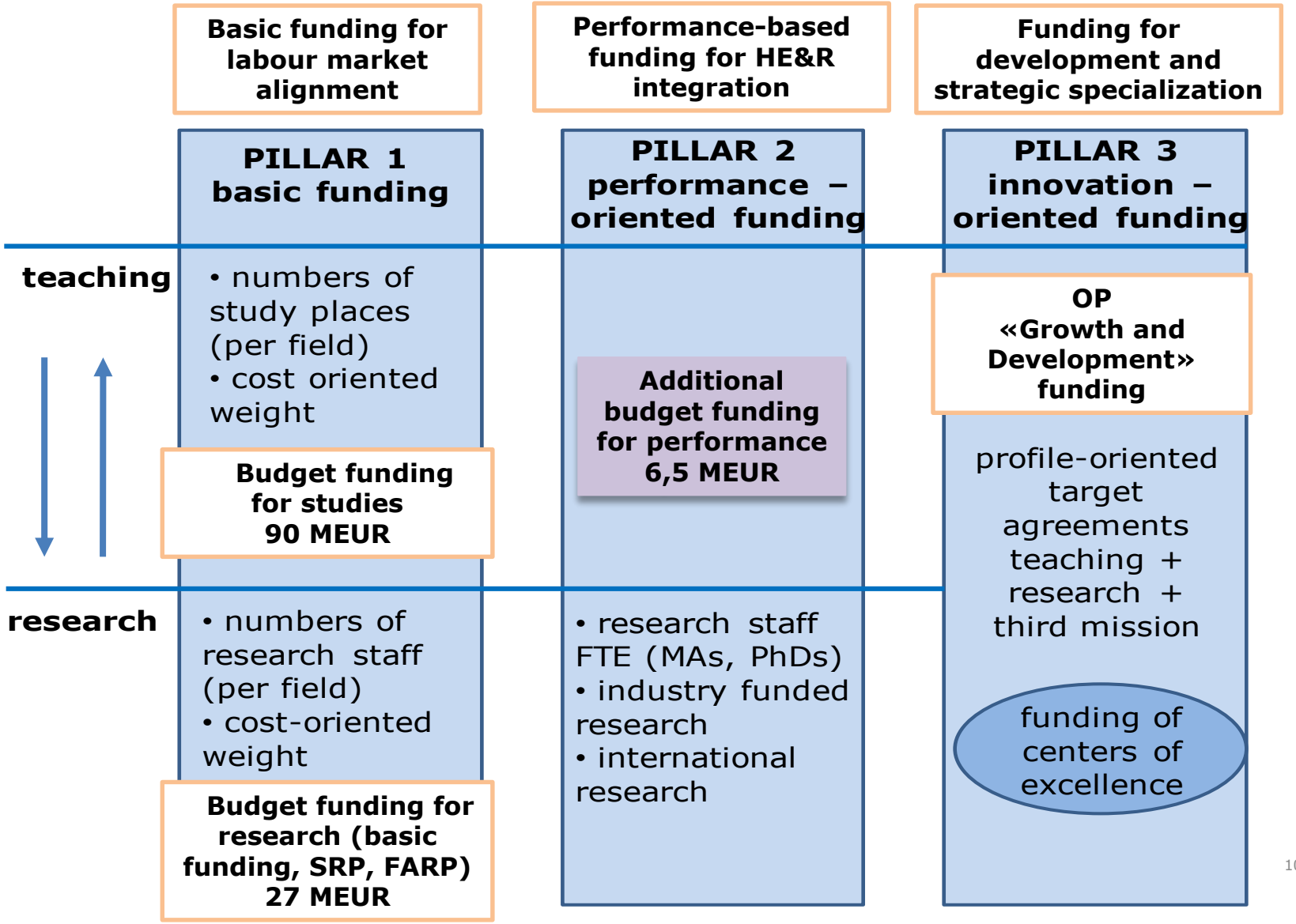
New HE funding model

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



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2nd pillar: incentives for higher education and research integration

Performance criteria according to policy priorities:

2nd pillar funding FORMULA:

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

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)**

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2nd pillar: total allocation of performance funding to HEIs in 2015

Performance criteria according to policy priorities:

Distribution of perfomance-based funding in 2015

Distribution of perfomance-based funding in 2017

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

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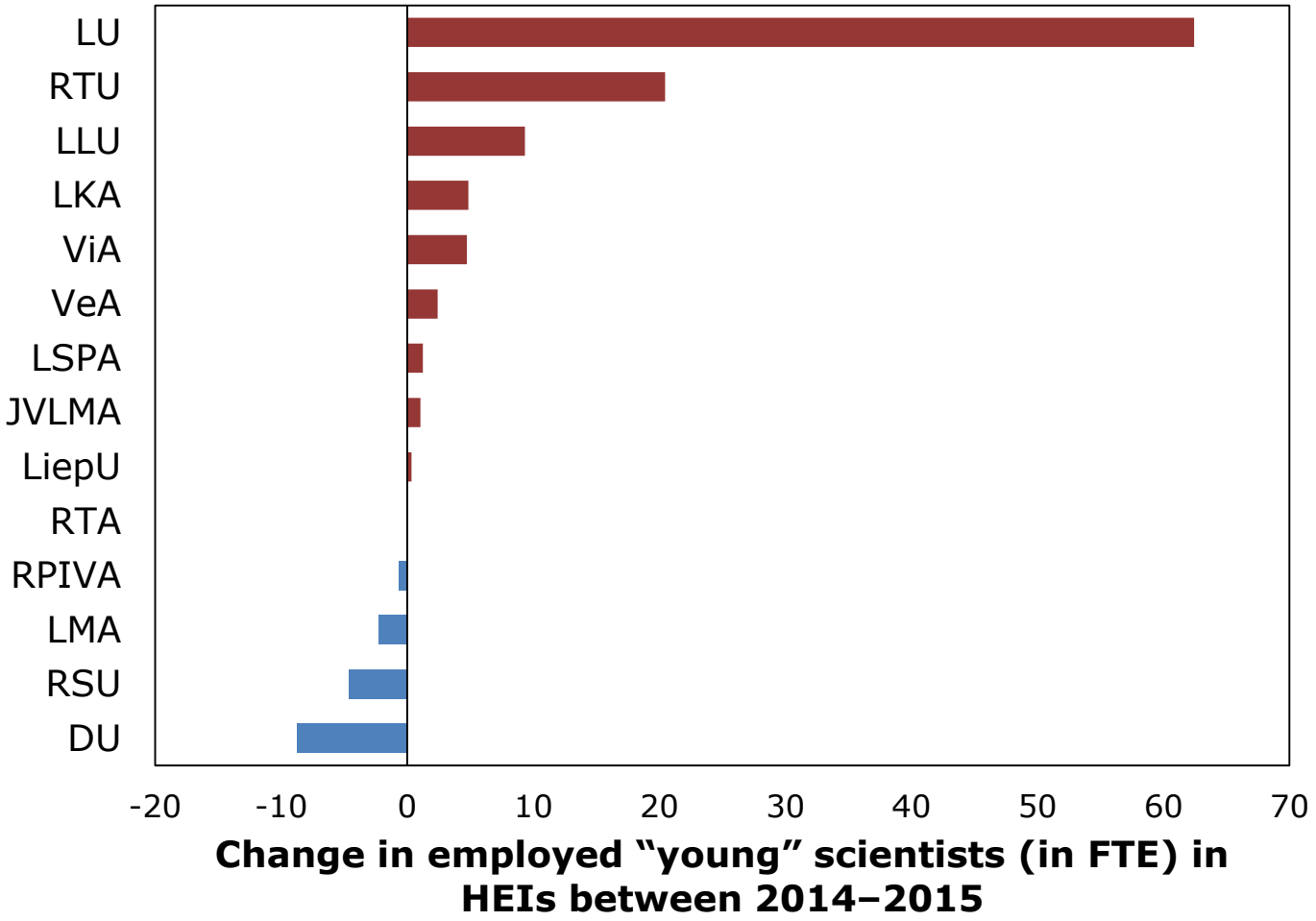
Employed "young" scientists in HEIs in full time equivalent (FTE)



Change in employed "young" scientists (in FTE) in HEIs between 2014–2015

Number of employed "young" scientists (FTE) increased significantly:

2014	2015
306,6	397,2

Causes:

- ✓ Consolidation of research sector (for the largest universities)
- ✓ Implementation of the performance based funding model at institutional level

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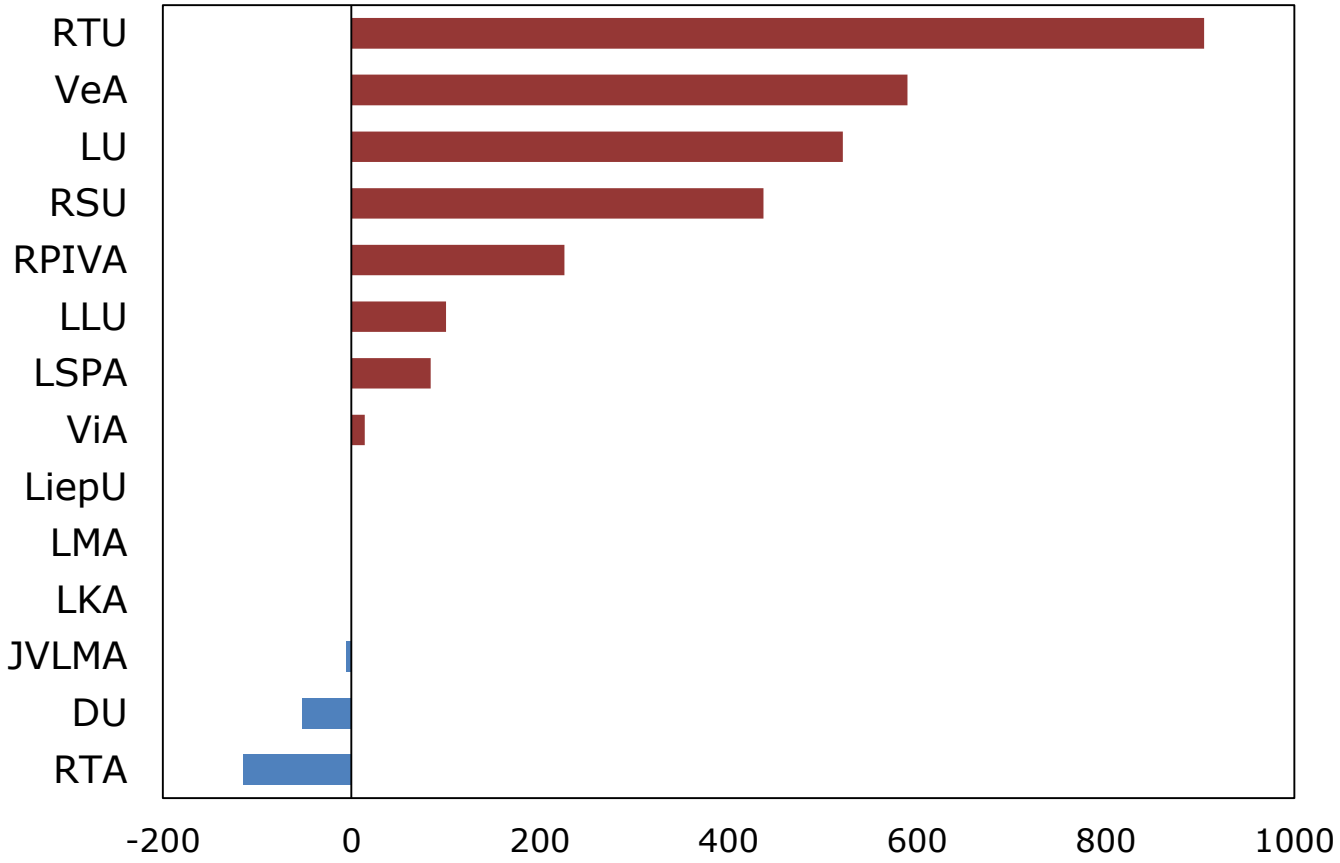
Amount of international R&D funding in HEIs



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

Amount of international R&D funding also increased significantly:

2014	2015
5,9 MEUR	**8,6 MEUR**

- 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.

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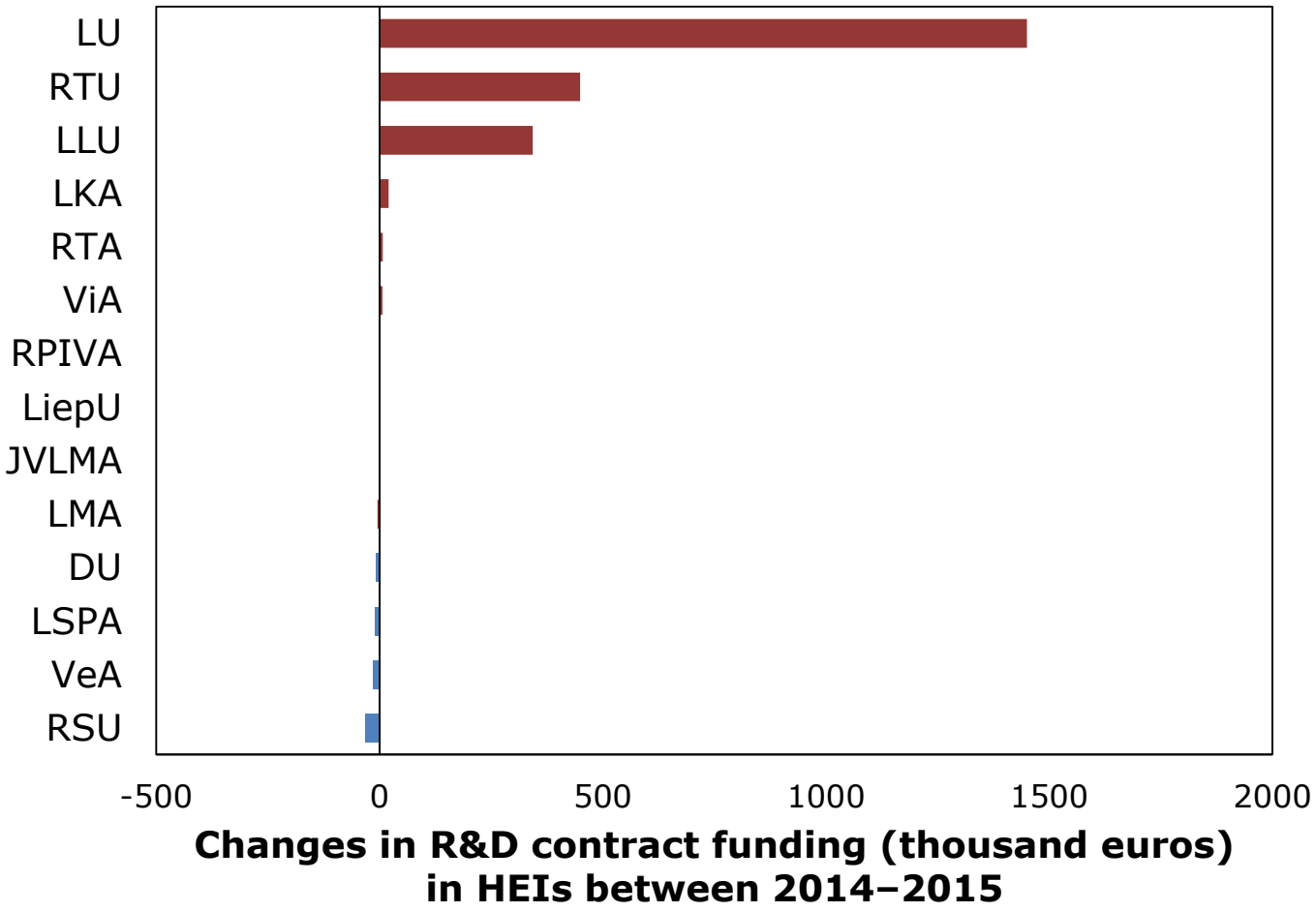
Amount of attracted R&D contract funding in HEIs



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

Amount of R&D contract funding increased significantly:

2014	2015
2,9 MEUR	**5,1 MEUR**

- 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.

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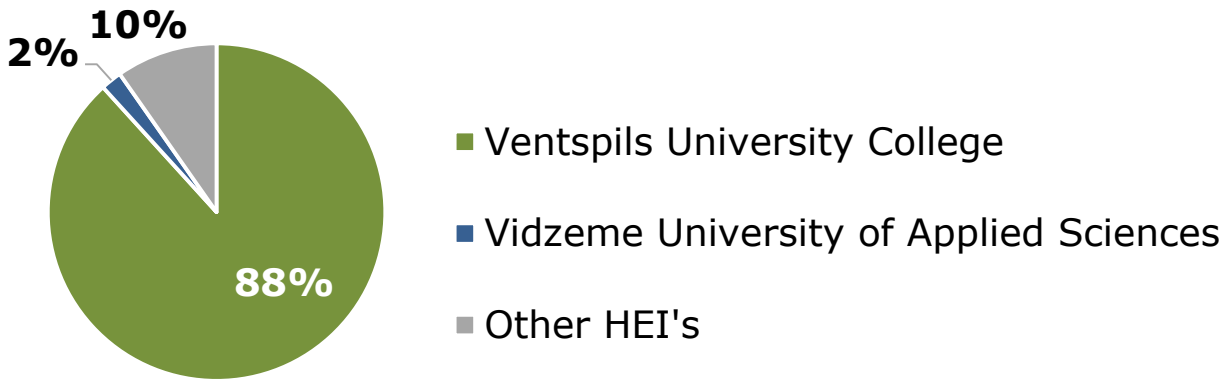
Amount of attracted R&D funding or subsidies from local municipalities in HEIs

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



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

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

2014	2015
1,1 MEUR	**1,2 MEUR**

- 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.**

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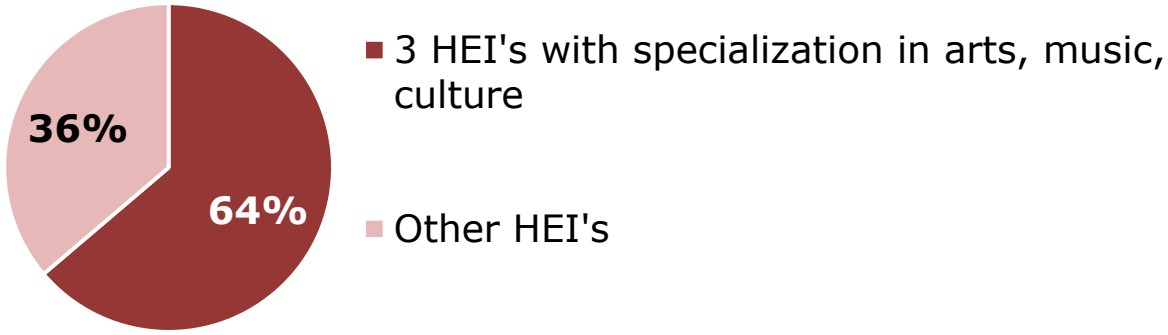
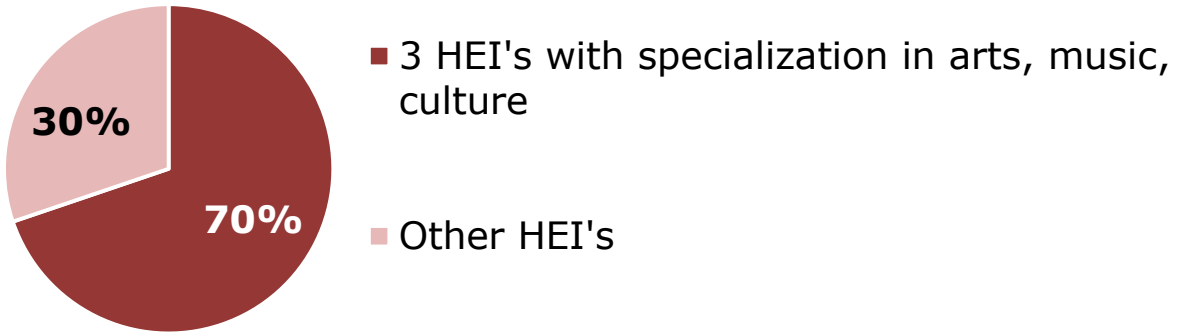
Amount of attracted funding for creative and artistic projects in HEIs

Amount of attracted funding for creative and artistic projects in 2015



Amount of attracted funding for creative and artistic projects in 2014



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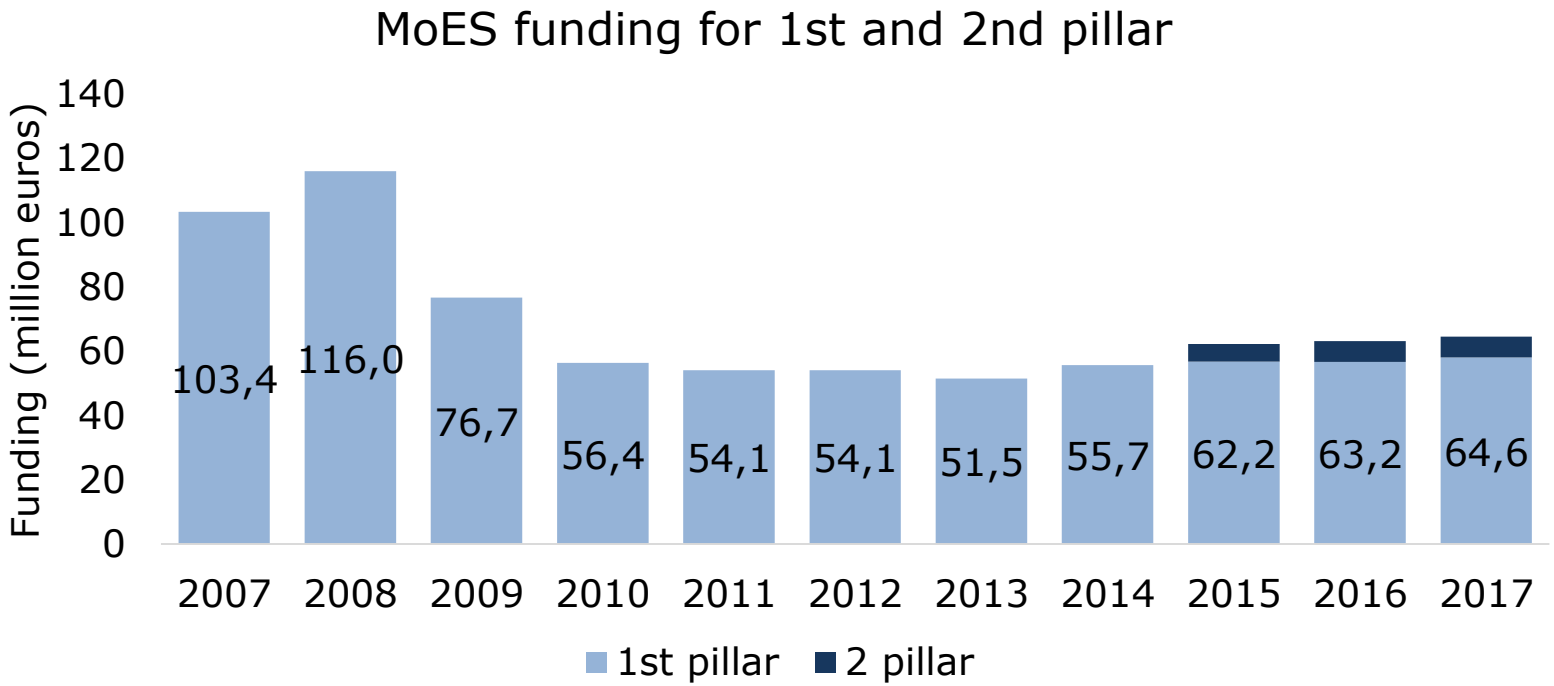
Revision of the 1st and 2nd pillar

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.**
- **Aditional 2nd pillar component** (that supports teacher preparation)



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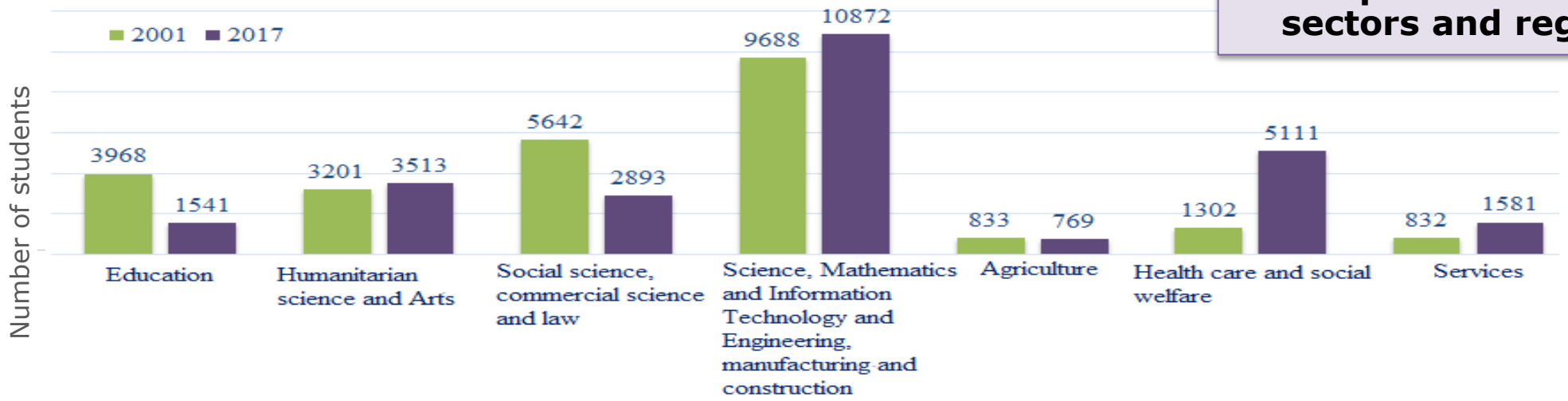
Recent developments in higher education

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**



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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 lenght (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

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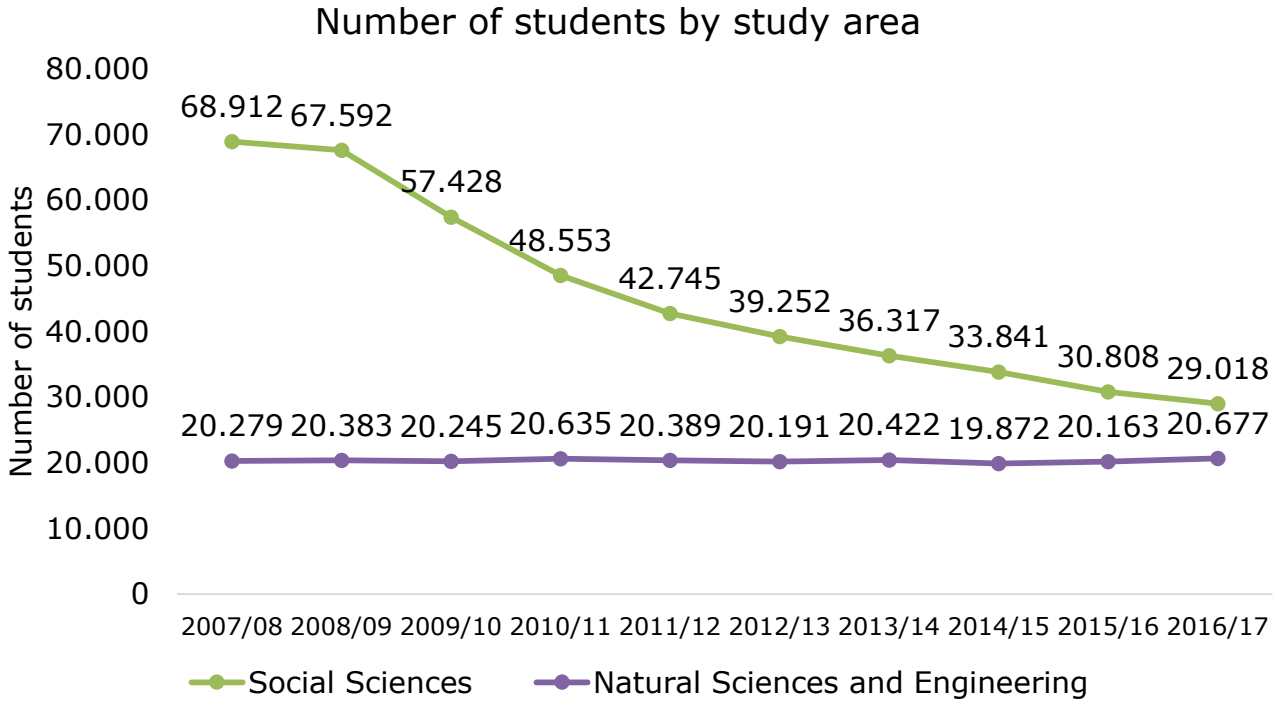
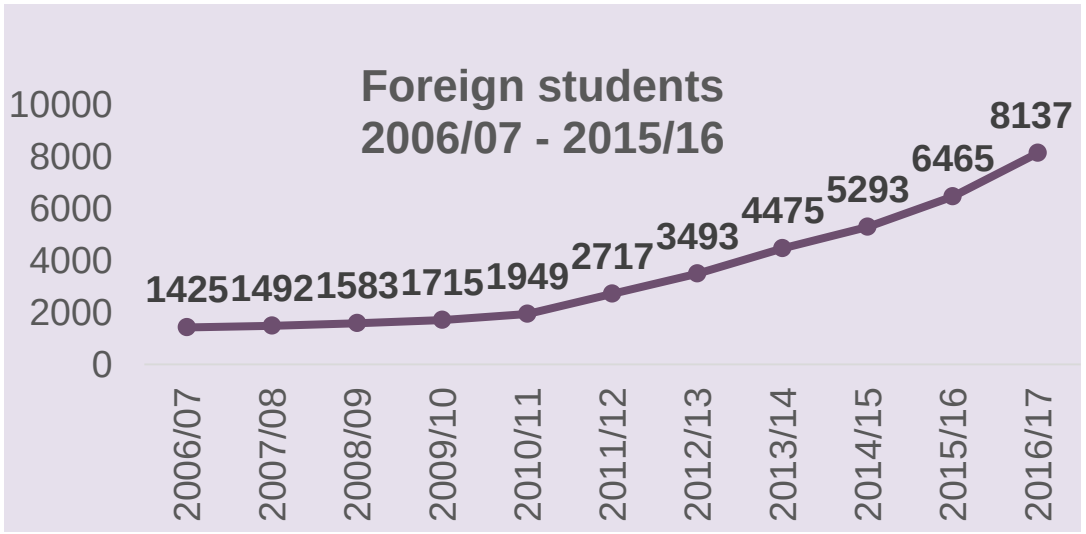
HE policy initiatives: development of human capital

Medium-term labour market forecasts: increased demand for STEM occupations by 2020

(and shortage of 13 5000 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)**





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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

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New undertaking for 2016–2018

EU Council's Recommendations for Latvia 2015:

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

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.

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Thank you for your attention!

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