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**PERFORMANCE-BASED FINANCING  
INTERNATIONAL PRACTICE**



**WORLD BANK GROUP**

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# Objectives of the first phase: 2013-2014

## Four financing topics

- state funding model (teaching and research)
- diversification of financial resources
- financial autonomy
- student financing

Status  
Quo in  
Latvia?

Strengths  
and  
Weak-  
nesses?

International  
Practice

Fit with  
National  
Strategies &  
Opportunities

How  
should a  
new model  
look like?

# Status Quo: strengths and weaknesses

## strengths

- Latvian HE sector highly adaptive
- Diverse system
- Steering based on national priorities and labor market needs
- Price/cost differentiation
- Stable budgets
- Tradition in tuition fees
- Use of EU Structural Funds
- Competitive research funding
- Support for young researchers
- High autonomy to acquire and use funds
- Quality assurance started
- Involvement of line ministries

## weaknesses

- Uncertainty about HE/research strategy
- Underfunding with many competing demands
- Lack of performance/profiling incentives
- Historic budgets with strong shifts
- Strong reliance on tuition fees
- Strong reliance on EU Structural Funds
- No incentives for links with industry
- Wide variety in salaries and PhD conditions
- Limited transparency regarding autonomy

# Financing trends in Europe

## financial autonomy

- Block grants
- Internal allocation freedom
- Ability to keep surplus
- Ability to borrow
- Owning property
- Limited ability to set salaries
- Limited ability to set tuition fees

## Resource diversification

- Private expenditure on HE increased (to 23%)
- Growth in third party funding (business, EU)

# Financing trends in Europe

## Funding models

- 3-pillar funding: basic, performance and innovation
- Basic funding mostly formula-based
- Innovation-/profile-oriented funding is increasing
- Linking temporary (innovation) funds to national priorities

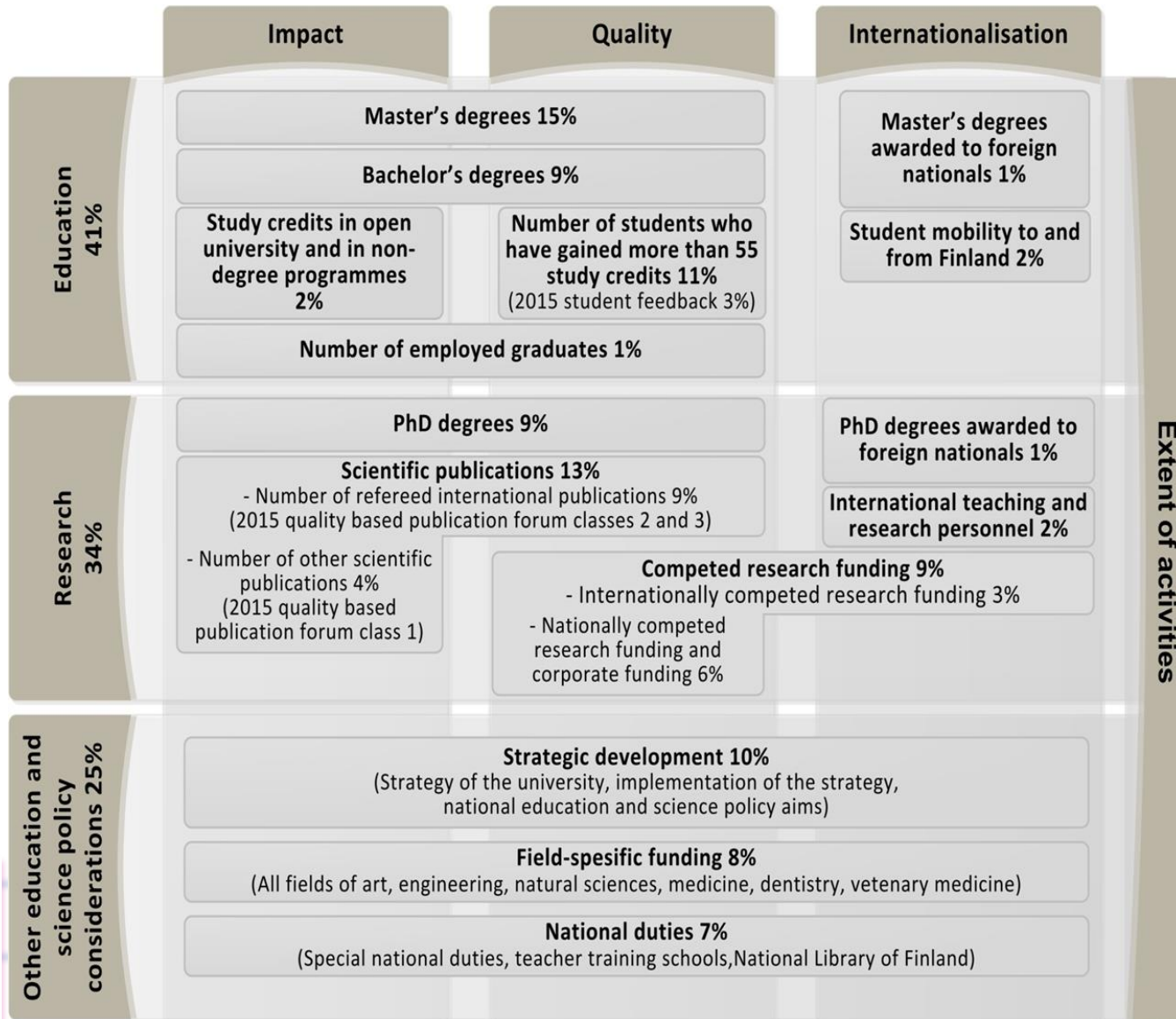
## Student financing

- Diverse tuition regimes and changes
- Need-based grants most frequently used
- Many offer subsidised loans

# International Practice we learned from

- study place allocation models: UK, Estonia, Sweden
- formula funding: Finland, Germany, Netherlands, Sweden, Norway
- performance agreements: Germany, Netherlands, Croatia
- cost-sharing approaches: Netherlands, Australia, New Zealand
- student grants and loans: Estonia, Germany, Netherlands
- excellence-oriented funding: Germany, France, Denmark
- sector consolidation program: Denmark, Scotland
- innovation vouchers: Netherlands

# International Practice: Finland



# Criteria for “good” funding models

<b>Strategic Orientation</b>	<b>Promote national strategies and institutional profiles</b>
<b>Incentive Orientation</b>	<b>Provide clear, non-fragmented performance incentives; Avoid undesired effects; Create a competitive environment</b>
<b>Sustainability</b>	<b>Guarantee continuity in funding mechanisms; Allow long-term planning; Take into account cost differences</b>
<b>Legitimization</b>	<b>Make funding transparent; Support fairness &amp; academic freedom; Allocate lump sums</b>
<b>Autonomy and freedom</b>	<b>Implement adequate regulation; Guarantee autonomy of internal resource allocation; Promote acquisition and use of diverse revenues</b>
<b>Practical feasibility</b>	<b>Ensure administrative efficiency; Use transparent data; Ensure coherence with funding levels and steering approaches</b>



# Fit with strategic objectives

1. Increase education quality (relevance for labour market)
2. Increase research quality and (international) competitiveness
3. Increase sector efficiency
4. Enhance technology, innovation, creativity and entrepreneurship
5. Renew and develop the human resources in HEIs
6. Stimulate access to HE
7. Stimulate internationalization in HE
8. Enhance the funding base of HE
9. Establish a new and transparent approach to quality assurance

# Proposed funding model

- increase public funding
- keep and optimize the study place system
- introduce basic funding for research (again) – only universities
- introduce rewards for good performance
- introduce rewards for good plans to develop institutional profiles and performance
- support (few) centers of excellence in research – only at universities

# Proposed funding model

	pillar 1: basic funding	pillar 2: performance – oriented funding	pillar 3: innovation – oriented funding
teaching	<ul style="list-style-type: none"> <li>• numbers of study places (per field)</li> <li>• cost oriented weights</li> </ul>	<ul style="list-style-type: none"> <li>• number of graduates</li> <li>• number of incoming and outgoing students</li> </ul> <p>+ institutional indicators</p>	<p>profile-oriented target agreements teaching + research + third mission</p> <p>funding of centers of excellence</p>
research	<ul style="list-style-type: none"> <li>• numbers of professors or academic staff (per field)</li> <li>• cost-oriented weights</li> </ul>	<ul style="list-style-type: none"> <li>• bibliometric indicator</li> <li>• third party funds</li> <li>• number of PhDs</li> </ul> <p>+ institutional indicators</p>	



# Implication: funds differ according to performance

