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PERFORMANCE-BASED FINANCING INTERNATIONAL PRACTICE



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

Internationalisation **Impact** Quality Master's degrees 15% Master's degrees awarded to foreign Bachelor's degrees 9% nationals 1% Education Study credits in open Number of students who Student mobility to and university and in nonhave gained more than 55 from Finland 2% degree programmes study credits 11% (2015 student feedback 3%) 2% Number of employed graduates 1% PhD degrees 9% PhD degrees awarded to foreign nationals 1% Scientific publications 13% - Number of refereed international publications 9% Research International teaching and (2015 quality based publication forum classes 2 and 3) research personnel 2% - Number of other scientific Competed research funding 9% publications 4% - Internationally competed research funding 3% (2015 quality based - Nationally competed publication forum class 1) research funding and corporate funding 6% Other education and considerations 25% Strategic development 10% (Strategy of the university, implementation of the strategy, science policy national education and science policy aims) Field-spesific funding 8% (All fields of art, engineering, natural sciences, medicine, dentistry, vetenary medicine) National duties 7%

(Special national duties, teacher training schools, National Library of Finland)



Extent of activities

Criteria for "good" funding models

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



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 | numbers of study places (per field) cost oriented weights | number of graduates number of incoming and outgoing students + institutional in | ndicat | profile-oriented target agreements teaching + research + third mission funding of centers of excellence |
| research | numbers of professors or academic staff (per field) cost-oriented weights | bibliometric indicator third party funds number of PhDs institutional in | ndicat | |

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Implication: funds differ according to performance

from pillar 2/3 funding high performance funding low performance from pillar 1 funding per funding per study place study place available funds per study place

