

# Private Higher Education In Latvia: Funding And Quality Assurance

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## Abstract

In today's globalizing world the importance of education as an important factor of the development of economy and society in general is increasingly growing. Investing in education now becomes essential for the creation of a long-term economic growth potential and an adequate respond to technological and demographic changes that have a transformative impact on labor markets and employment. The important component of the higher education systems of many countries is formed by private higher education institutions, although in each case they have national specifics. On the one hand, private education has been recognized as such, on the other hand it has not been fully determined yet what place it should occupy as a private actor. The answer to this question largely depends on the ideology and specific policy in the reforms of individual countries.

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**Keywords:** Private higher education, funding, quality assurance

## Introduction

In recent years, the issues of education have been actively discussed not only at national levels but also at the world level. Today, the problems in education are studied by such international organizations as UNESCO, Organization for Economic Cooperation and Development (OECD), the World Bank, WTO and others. It is perfectly obvious that investment in education and economic growth are inextricably linked.

Recently the problems of balance between individual and social meaning of education have also been actively discussed: whether higher education is a “public good” or it only serves the needs of upward social mobility and material well-being of an individual. Central to the debate remains the question of determining the optimum relationship of public and private funding of higher education. A significant proportion of private funding of education is provided by private educational institutions (Zaretskaya S., 2005).

Today private higher education institutions undergo difficulties inherent in the entire system of education. The development of the private higher education sector is heavily reliant on the financial stability of a private education institution which guarantees the opportunity to receive a quality education. It so happened that private higher education institutions (HEI) in the vast majority of cases operate at the expense of funds paid by students for tuition. In recent years, the demographic decline has occurred in many countries, which has played a significant role in reducing the demand for private education. Some programs have ceased to recruit the necessary number of students; some private HEI were closed or were subjected to a merge or integration with other private HEI.

The second problem facing private HEI today is related to the issues of quality assurance of education. If a HEI has been accredited by the state, it means it is responsible for the quality of provided education. However, practice shows that the introduction of strict licensing standards and mandatory accreditation often puts the public sector of higher education in more favorable conditions. Often external experts “take” public HEI as a standard and evaluate private HEI in terms of indicators obtained in state HEI and programs. And yet can private educational institutions ensure conditions for quality specialist education with available financial resources?

Today in order to hold positions and retain their place in the system of education private HEI need to exert more effort and search for a policy based on the development of those fundamental advantages that they possess. The external conditions in which they operate are also vitally important. The leading subject of the social policy in the sphere of education is the state. The processes taking place in the educational space of high school are largely determined by its actions. If the state is unable to provide funding of education in sufficient volumes, it should create conditions favorable to the development of higher educational institutions of all forms of ownership.

Unfortunately, private higher education sector continues to be relatively invisible within public debates of higher education, and within the higher education research literature. This article attempts to address the problems of financial security of private HEI in Latvia in terms of their impact on processes and quality assurance of education.

**The goal of research** - based on the analysis of the private higher education system in Latvia to determine measures which will ensure the financial sustainability of HEI which in turn will ensure the quality of education.

**The objectives of research** - to achieve the set goal of research the following objectives have been identified:

- to consider the specifics of private education and its distinction from public education;
- to conduct the analysis of the status of the private higher education system in Latvia;
- to identify the main financial strategies for the sustainable development of higher educational institutions in Latvia.

The **object of research** – the system of private higher education in Latvia.

### **Features of private education**

Private higher education is both an old and a new reality. Many of the earliest universities established were non-governmental initiatives. Even when founded by royal or papal decree, these were normally autonomous institutions from a material and organizational point of view. Many of the earliest universities were established by the Catholic Church and could be regarded in many ways as private institutions. However, those universities were not fully ‘private’ in the way the term is currently understood. They had a public orientation and were significantly controlled by religious and secular authorities.

In the last decades higher education has been experiencing a notable growth of the private sector worldwide. There are several important reasons explaining this global expansion of private higher education. 1. One of the major reasons has been the growing role of market forces due to the crisis of the welfare state in the 70’s and 80’s, which severely reduced the capabilities of governments to finance higher education. 2. Higher education has been increasingly placed under pressure to become more adaptable and responsive to social and economic needs. Private institutions are expected to demonstrate greater adaptability and competitiveness that may enhance the external efficiency of the higher education system. 3. The pressure for greater responsiveness has become even more significant due to the global trends towards mass higher education. Even in countries with low per capita income, the aim to enrol higher and higher proportions of the younger cohorts has claimed a higher priority in national policy agendas.

Thus, from the mid-1980s the majority of national systems of higher education encountered two contradictory trends: the growing demand for educational services from the society on the one hand, and the reduction of budget funds allocated by the society for the development of these systems on the other hand. Initially private HEI reclaimed the niches not occupied by public HEI, exhibiting a high innovation activity at that. It is not without reason that most private HEI are of humanitarian and economic specialization. Today all these niches have been reclaimed as the system of

public education also refocused on training of economists, lawyers, psychologists and other specialists in demand.

So what do we mean today by private higher education and how it differs from the public one? The research conducted under the auspices of UNESCO marks the following four dimensions clarifying the notion of “private” in higher education (Gilani et al., 2007):

(1) Source of funding. How are the expenditures of the higher education institution funded?

(2) Ownership. Who owns the institutions? That is, who has the right to the residual profit?

(3) Autonomy. The quantum of academic and administrative autonomy granted to the institution.

(4) For-profit or not. To what extent is the institution seeking profits (regardless of its formal legal definition)?

### **Private higher education institutions in Latvia**

The system of higher education in Latvia consists of two subsystems: public and private education. Regardless of the legal status their activities are regulated on the basis of the Constitution of the Republic of Latvia, the Law on education, the Law on scientific activity, the Law on institutions of higher education and other normative acts and constitutions of corresponding higher education institutions.

According to Article 3 of the Law “On Institutions of Higher Education” higher education institutions are institutions of higher education and science, which carry out academic and professional training programs, and are engaged in science, research and artistic creation (Latvian Law on Institutions of Higher Education; stay in force 1995, December 1.). Higher education institutions may be established by the State as well as by other legal and natural persons. Established by private individuals higher education institutions and colleges are commercial enterprises or establishments, which operate according to the Commercial Law and the Law on Associations and Foundation.

Higher education institutions are financed by their founders. The financial resources of public higher education institutions (HEI) are formed by the state budget funds and by other income earned by HEI in the implementation of activities laid down in their constitutions as objectives. The founder of a HEI provides financial means necessary for the continuous activity of the HEI, including implementation of certain set goals, and exercises control over the spending. A HEI is entitled to obtain and use donations and gifts from banks and other credit institutions as well as organizations and individuals. A HEI is entitled to obtain and use loans from

banks and other credit institutions. The structure of the financial resources of a HEI is determined by its Senate.

Legislation regulates the cooperation of HEI with public agencies with a view to harmonize the autonomy of HEI with the interests of the society and the state.

In the academic year 2015/2016, 17 public and 14 private HEIs functioned in Latvia, where they enrolled 57,027 and 16,477 students respectively (private HEI enrolled 22.42% of all students).

Table 1. The number of students enrolled in Latvian HEI and colleges  
Source: Ministry of Education and Science, Republic of Latvia (2009-2014)

	2009/10 ac.year	2010/11 ac.year	2011/12 ac.year	2012/13 ac.year	2013/14 ac.year	2014/15a.c.year	2015/16 ac.year
<i>Public higher educational institutions and colleges</i>							
<i>Public HEI</i>	70688	66332	62084	61624	58462	56723	57027
<i>Including fee-paying education</i>	41558	35971	32009	31557	28619	26824	26920
<i>Public colleges</i>	7005	6957	7080	7088	6948	6733	6599
<i>Including fee-paying education</i>	1957	2273	2409	2361	2300	1968	1882
<i>Private HEI and colleges</i>							
<i>Private HEI</i>	29372	25575	22634	20120	18502	17223	16477
<i>Including state-funded places</i>	25	287	122	60	55	58	49
<i>Private colleges</i>	5490	4918	5237	5642	5751	5202	4179
<i>Total numbers</i>							
<i>Total number of students</i>	112555	103782	97035	94474	89663	85881	84282
<i>Including fee-paying education</i>	78352	68450	62167	59620	55117	51159	49401
<i>Including the proportion of fee-paying education in %</i>	70	66	64	63	61	60	59

The analysis of statistics allows drawing a conclusion that the market of higher education in Latvia developed steadily in its both sectors - public and private. However, its development was influenced by global as well as local factors, which led to a decrease in the number of students enrolled. In particular, a sharp decline in the birth rate in the early 1990s produced “a demographic depression” when 20 years passed, which led to a decrease in the number of prospective students. The aging of the population, migration of potential students to other countries and Latvia’s accession to the Bologna Declaration also negatively affected the development of the higher education market in Latvia as it opened the borders and made it possible to study abroad.

Table 2. Private higher education institutions in Latvia

	HEI	Legal status	Degrees of education				Number of students	
			Bachelor’s program		Master’s program			Doctoral program
			academic	vocational	academic	vocational		
<u>1</u>	<u>BSA</u>	<u>Ltd.</u>					<u>2670</u>	
<u>2</u>	<u>BAT</u>	<u>Ltd.</u>					<u>4181</u>	
<u>3</u>	<u>EKA</u>	<u>Ltd.</u>					<u>1001</u>	
<u>4</u>	<u>ISMA</u>	<u>Ltd.</u>					<u>1341</u>	
<u>5</u>	<u>RSEBAA</u>	<u>Ltd.</u>					<u>2766</u>	
<u>6</u>	<u>TSI</u>	<u>Stock company</u>					<u>2595</u>	
<u>7</u>	<u>REA</u>	<u>Foundation</u>					<u>501</u>	
<u>8</u>	<u>RAI</u>	<u>Stock company</u>					<u>425</u>	
<u>9</u>	<u>RJA</u>	<u>Ltd.</u>					<u>448</u>	
<u>10</u>	<u>ETA*</u>	<u>Ltd.</u>					<u>197</u>	
<u>11</u>	<u>SPPA</u>	<u>Ltd.</u>					<u>58</u>	
<u>12</u>	<u>LKrA</u>	<u>Ltd</u>					<u>141</u>	
<u>13</u>	<u>RARZI</u>	<u>Foundation</u>					<u>89</u>	
<u>14</u>	<u>LA</u>	<u>Foundation</u>					<u>52</u>	

\* - state accredited up to 17.12.2015. Source: developed by the authors

Among the 14 private HEI in Latvia, 11 HEI are commercial companies with the right to make and distribute profit, 10 HEI have the status of limited liability companies and 1 is a joint stock company. 3 HEI are registered as non-profit institutions, without the right to earn a profit.

### **Funding of higher education in Latvia**

In modern conditions the funding of education is provided according to several models. The choice of a model depends on the level of the economic development of state, social parities in access to quality education,

the public attitude to education, existing historical traditions, and the importance of segments of education for the state.

In practice the following several models of the funding of education have developed:

- the model based on public funding;
- the model based on crediting the education of a borrower;
- the model based on the provision of educational loans within the frames of target state programs;
- the model based on private funding;
- the mixed model (e.g., public-private partnership).

In Latvia currently the mixed model predominates, which combines public and private funding. In both cases, additional sources of finance are the EU funds and other income (e.g., from the lease of property, publishing activity, etc.).

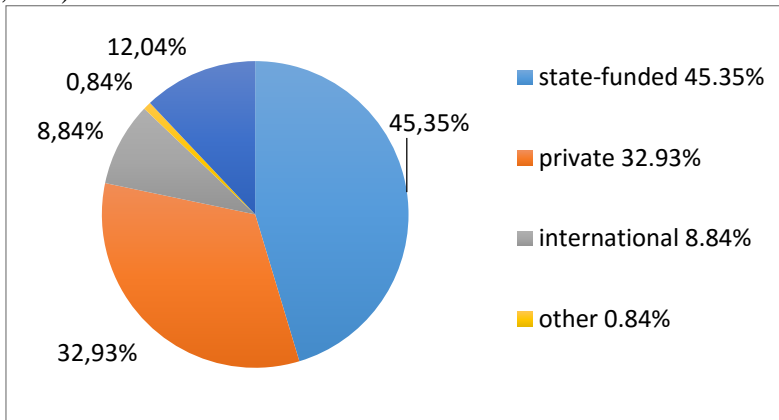


Figure 1 Funding of higher education in Latvia according to the sources of 2009 (in %).  
Source: Ministry of Education and Science, Republic of Latvia (2009-2014)

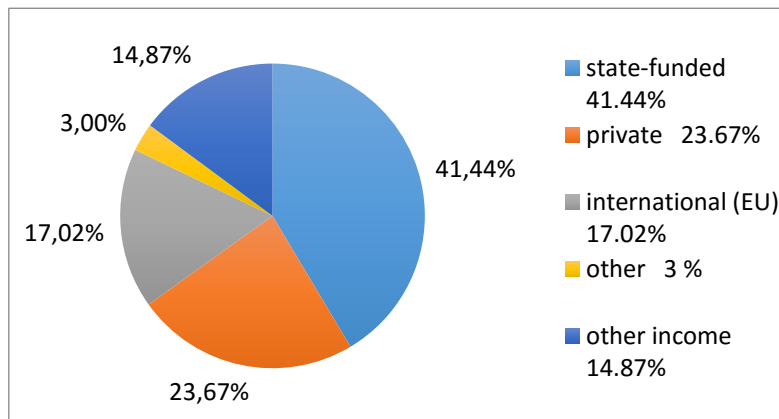


Figure 2 Funding of higher education in Latvia according to the sources of 2014 (in %).  
Source: Ministry of Education and Science, Republic of Latvia (2009-2014)

The largest share of education funding is provided by the state, but its specific weight in the system of education is decreasing. The same trend is characteristic of private funding. This is due to two main reasons: the demographic decline and the decrease in the solvency of general public. The upward trend is characteristic of two items of income: international funding and other income. These trends can be explained by the improvement of the efficiency of educational institutions and increasing possibilities of using the European funds.

However, the comparative analysis of funding in the public and private sectors shows a steady downward trend in the income of the private sector. This leads to a decrease in private HEI financial stability, which negatively affects the conditions necessary for provision of quality specialist education and training. The amount of funds allocated per student in public HEI is much higher than that in private HEI.

Table 3. Higher education funding in Latvia (million EUR)

	2009	2010	2011	2012	2013	2014
<i>Public HEI and colleges</i>	227.66	266.22	267.22	273.2	*	260.1
<i>Private HEI and colleges</i>	42.83	39.98	37.42	38.0	*	33.1
<i>Funding of higher education, in total</i>	270.49	306.20	304.64	311.2	*	293.2
<i>% of GDP</i>	1.4 %	1.5 %	1.5 %	1.4 %	*	1.2%

\*no information published. Source: Ministry of Education and Science, Republic of Latvia (2009-2014)

In this connection the need to establish a mechanism and conditions ensuring the financial sustainability of private HEI for provision of quality education is urgent.

### **Financial aspects of the quality education**

At the present stage of development of the higher education system in Latvia one of the main priorities is the assurance of the quality of education. On the one hand, this tendency is explained by the increase of the degree of HEI autonomy in European countries. On the other hand, the government requires a larger extent of accountability of HEI because of the need to achieve national goals. This feature of public administration is often seen as the development of “valuation” role of the state.

One of the important aspects of quality assurance in higher education is its financial component. “Standards and Guidelines for Quality Assurance in the European Higher Education Area”, developed by the European Association for Quality Assurance in Higher Education ENQA, specify that



educational institutions should ensure the availability of adequate and affordable learning resources and student support services relevant to educational goals.

Among the criteria for assessment of the quality of education the regulations of the Cabinet of Ministers of the Republic of Latvia № 668 “Regulations of accreditation of higher educational institutions, colleges and study directions” determine the continuum of sustainable development, including information on the size, justification and sources of funding (public budget funding, revenues from tuition fees, scientific research financing, other financing); Other important aspects are whether the development plans of a HEI or college include a financial perspective program, whether the annual internal self-evaluation of further development of a HEI is conducted including academic resources, material and technical resources and financial security.

The required quality of education can be provided by a proper amount of financial resources. The adequacy of funding is characterized by several criteria: its amount should allow providing favorable conditions for the implementation of educational standards, and maintaining a stable and efficient financial and economic activity of a HEI in the competitive business environment. The achievement of these criteria will make it possible to solve several problems: on the one hand, to fulfill the demand of the society for education and training of highly skilled professionals, on the other hand, to recover the costs of their training, but this is a market challenge.

In 2010 the European Consortium for Accreditation published a debatable article in which ECA member expert group raised the issue about the current biased attitude to private HEI during accreditation and quality assurance procedures (Dittrich & Weck-Hannemann, 2010). In the result of the conducted investigation recommendations were developed for national accreditation and quality assurance agencies. The conclusions made by ECA, were as follows:

In almost all European countries private higher education institutions form a considerable part of the Higher Education sector. But despite this in almost all countries the ECA members are confronted with the existence of (a considerable number of) private higher education institutions. The rules for evaluating or accrediting them or their programmes in general are not different from those for public higher education institutions, and there doesn't seem to be a legal need to do so. But due to the special situation of the private ones, some specific risks can be identified. One of them, serious risk is caused by the necessity of the private higher education institutions in spending their money. This problem exists and might be more risky in those circumstances where owners want a short term return on their investments. For example, the quantity and quality of the staff, especially in those

circumstances where staff consists of “flying faculty”: the flexibility due to the changing number of students often leads to very small contracts, which gives a problem for the coherence in courses and programmes. Other specific category of risk is the possible lack of financial possibilities to achieve the level of education and research that is needed.

Thus, summarizing the above, we can conclude that financial aspects of quality assurance stand for providing the necessary amount of financial resources for achievement of strategic objectives on the one hand and for the target expenditure of funds in the amount necessary for achievement of the key performance indicators characteristic of quality education on the other hand.

Currently, there is no uniform method of budgeting income and expenses of an educational institution, which may be applied to both public and private educational institutions. This is due to the differences in legislation governing the financial activities of public and private HEI. A uniform policy would allow achieving transparency and comparability of the information on funding and spending on educational goals of HEI with any form of ownership. Thus, private HEI would be motivated to invest not only in the events ensuring the profitability, but also in increasing the quality component of the educational process.

## **Conclusion**

Private education occupies a stable place in the system of higher education. Nowadays there are serious prospects for raising the prestige of private higher educational institutions that would meet the most stringent requirements and provide conditions for quality education. The content of educational activities in both public and private institutions of higher education is governed by the state standard and controlled through licensing procedures, certification and accreditation. HEI can and must decide independently many issues for improving the quality of education. However, there are problems, which can be solved solely by the state and its policies, since the state is a leading subject of social policy in the education system.

The function of the state is to create flexible conditions and incentives for higher educational institutions of all forms of ownership, but not to be a tool in the competition between HEI. The factors of such flexible incentives should include the development of public regulations for the system of education which would define their educational processes and funding.

The economic decline in Latvia does not allow to significantly increase the public funding of higher education, but allows creating the conditions that would encourage private business to actively participate in this process. In recent years, the idea of the need for cooperation and

participation in the development of higher education of all interested parties is gaining momentum. If education is necessary not only to the individual but also to both public and private sector, then the costs should be divided not only between the government, students and their families. These costs should be shared also by local authorities, business community and non-governmental organizations. Higher educational institutions have more chances to survive by drawing funds from all these sources, not focusing on only one. Among the additional funding sources may be the increase of income from rendered services, contracting with private companies, and involving employers and graduates in funding higher education.

The enabling environment can also be created by a flexible application of taxation system. The funding of education is the investment in the intellectual capital of the state and it would be only proper to release it from taxation. Education could be substantially assisted in the cases when, for instance, a company finances the student internship and this financing is exempt from tax. The proposed measures would expand the funding base of education, allow students to quickly enter the professional environment and contribute to reducing the youth unemployment.

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