

World Bank Reimbursable Advisory Service on Higher Education
Internal Funding and Governance in Latvia

**Internal Funding and Governance in Latvian Higher Education Institutions:
Recommendations**

April 2017

Table of Contents

ABBREVIATIONS	3
EXECUTIVE SUMMARY	4
<hr/>	
INTRODUCTION	6
<hr/>	
1 INTERNAL FUNDING AND GOVERNANCE MODELS IN LATVIAN HIGHER EDUCATION INSTITUTIONS – KEY FINDINGS	7
<hr/>	
1.1 KEY FINDINGS ON INTERNAL FUNDING	7
1.2 KEY FINDINGS ON INTERNAL GOVERNANCE	9
2 RECOMMENDATIONS FOR HIGHER EDUCATION INSTITUTIONS	11
<hr/>	
2.1 RECOMMENDATIONS ON INTERNAL FUNDING	12
2.2 RECOMMENDATIONS ON INTERNAL GOVERNANCE	19
2.3 CONSIDERATIONS ON SHARED CHALLENGES IN THE NEAR FUTURE	24
3 RECOMMENDATIONS FOR THE GOVERNMENT	25
<hr/>	
3.1 RECOMMENDATIONS FOR GOVERNMENT POLICIES ON INTERNAL FUNDING	25
3.2 RECOMMENDATIONS FOR GOVERNMENT POLICIES ON INTERNAL GOVERNANCE	27
3.3 OPTIONS FOR THE USE OF EUROPEAN STRUCTURAL FUNDS	30
3.4 CONSIDERATIONS ON PRIORITIES FOR THE NEAR FUTURE	33
REFERENCES	34
ANNEX 1 – OVERVIEW ON RECOMMENDATIONS ON INTERNAL FUNDING FOR HIGHER EDUCATION INSTITUTIONS, RELATED SELECTED RECOMMENDATIONS FOR THE GOVERNMENT, AND RELATED OPTIONS FOR THE USE OF EUROPEAN STRUCTURAL FUNDS	35
ANNEX 2 – OVERVIEW ON RECOMMENDATIONS ON INTERNAL GOVERNANCE FOR HIGHER EDUCATION INSTITUTIONS, RELATED SELECTED RECOMMENDATIONS FOR THE GOVERNMENT, AND RELATED OPTIONS FOR THE USE OF EUROPEAN STRUCTURAL FUNDS	42
LIST OF TABLES	
TABLE 1 STATUS QUO OF INTERNAL FUNDING MODELS IN LATVIAN HIGHER EDUCATION INSTITUTIONS (RIGHT COLUMN) AS ASSESSED AGAINST REQUIREMENTS FOR GOOD INTERNAL FUNDING MODELS (LEFT COLUMN)	7
TABLE 2 STATUS QUO OF INTERNAL GOVERNANCE ARRANGEMENTS IN LATVIAN HIGHER EDUCATION INSTITUTIONS (RIGHT COLUMN) AS ASSESSED AGAINST REQUIREMENTS FOR GOOD INTERNAL GOVERNANCE ARRANGEMENTS (LEFT COLUMN)	10

Abbreviations

ENQA	European Association for Quality Assurance in Higher Education
ESF	European Structural Funds
ESG	Standards and Guidelines for Quality Assurance in the European Higher Education Area
EU	European Union
HEI	higher education institution
LIHE	Law on Institutions of Higher Education
MIS	management information system
MoES	Ministry of Education and Science
SMART	specific, measurable, acceptable, realistic, and time-limited
SO	specific objective
SWOT	strengths, weaknesses, opportunities, and threats

Executive Summary

Addressing the further development of the internal funding models and internal governance arrangements of Latvian higher education institutions (HEIs) in the light of Latvia's current higher education funding reform process, this report presents recommendations for HEIs and the Latvian government. Latvia is currently undergoing a significant reform in higher education by transforming its higher education funding system, which challenges Latvian HEIs to assess their internal funding models. Following a first World Bank higher education advisory service in 2013/14 that addressed the Latvian higher education funding model on the system level, a second higher education project with World Bank support¹ started in May 2016. The second project turns to, among others, developments within HEIs and potentials for further development in the fields of internal funding and governance. Based on two sets of requirements, one for good internal funding models and one for good internal governance arrangements, discussed in the report *International Trends and Good Practices in Higher Education Internal Funding and Governance* (World Bank 2016a) the status quo in Latvian HEIs has been assessed in detail in the report *Internal Funding and Governance in Latvian Higher Education Institutions: Status Quo Report* (World Bank 2017). Building on those two outputs, recommendations for the further development of internal funding and governance directed at the Latvian HEIs and the Latvian government have been developed, which are presented in this report.

In addition to a range of potential options for action whose relevance for individual institutions differs in line with institutional characteristics and the state of development of internal funding models and governance arrangements,² challenges that Latvian HEIs need to address in the short to medium term can be identified. In the field of internal funding, Latvian HEIs can already today start with selected adaptations of their internal funding models and with setting the course for potential reforms in the future. In that respect, HEIs would be well advised to start monitoring internal funding models and their impact (F20)³; to engage in benchmarking processes and inter-institutional exchange on good practices in the field (F19); and to develop further necessary human resources in higher education management (F21). Building on those efforts, tasks to be tackled in the medium term include reinforcing the overall focus on performance (F5); finding the right balance between performance incentives directed at individuals and groups or units (F10); and reflecting on internal funding models from the perspective of a balanced three-pillar funding model (F11).

With respect to internal governance, short-term options for HEIs such as advancing managerial skills exist, and additional key tasks will emerge in the medium term related to processes of strategic planning. Already in the near future, institutions could initiate improvements in the field of internal governance by promoting management and administration skills of selected staff members (G14), and by intensifying the communication on their institutional strategies (G2). Further possibilities will emerge in the medium term related to the development of new institutional strategies. When developing new strategies, HEIs need to pay particular attention to formulating them in a SMART way (G1), that is, specific, measurable, acceptable, realistic, and time-limited; need to consider options for ensuring an actual implementation of the strategy via adequate instruments (G3); and need to ensure that the implementation progress is monitored (G4).

¹ The term "project" is subsequently used for this World Bank higher education advisory service.

² Annexes 1 and 2 provide an overview on all recommendations directed at HEIs.

³ The terms in parentheses refer to the numbering of recommendations in the main part of this report.

Some of the possibilities for the Latvian government to promote internal funding and governance within HEIs can be implemented in the short term, whereas others are long-term tasks or need to be attuned to related efforts by institutions. During the next round of the annual funding negotiations between the Ministry of Education and Science (MoES) and HEIs, it could be considered how to increase the dynamic of first-pillar funding allocations within institutions and how to enable support for innovative new study programs (P1). The upcoming design of European Structural Funds (ESF)-funded programs furthermore provides the opportunity to ensure that they contribute to strategic priorities on the national and the institutional level, and that this connection is made clear (P3). It would also be relevant for the Latvian government to reflect on the future development of financial (and other) framework conditions for HEIs and to communicate their reliability actively (P7) as soon as possible. Complementing related efforts of HEIs, the government could offer support for the development of management and administration skills within institutions (P15) already in the short term. In the medium term, two tasks stand out: introducing coherent data requirements for institutions (P6), and promoting institutional strategies that are well-targeted and realistic (P8). Long-term tasks for the government concern more comprehensive undertakings such as the development of a national strategy, including adequate communication mechanisms (P9) and progress monitoring instruments (P10), and substantive changes to the system-level funding model such as extending the performance orientation of the second pillar of the state funding model to the field of teaching and learning (P2). Additional options for supporting HEIs with their reform efforts and for promoting the right framework conditions exist with specific programs funded via ESF, which need to be attuned to the strategic priorities emerging on the national and the institutional level, and the respective timelines.

Introduction

Following a first World Bank higher education advisory service in 2013/14 that addressed the Latvian higher education funding model on the system level, a second higher education project with World Bank support addressing the internal funding models, governance arrangements, and human resource policies of Latvian HEIs started in May 2016. The 2013/14 higher education project led to the reform of the Latvian state funding model for higher education in the form of the introduction of a new, three-pillar model including a performance-based pillar, bringing the funding model closer to European best practices. To complement the changes on the system level and to address the effective management of scarce resources to attain institutional and policy goals, the second higher education project turns to developments within institutions and potentials for further development in the fields of internal funding and governance. Based on two sets of requirements, one for good internal funding models and one for good internal governance arrangements, an assessment of the status quo in Latvian HEIs and of how the new system-level funding arrangements have stimulated institutional development and responsiveness was conducted. Both sets of requirements were developed by the World Bank Latvia higher education financing team⁴ in close collaboration with the Latvian MoES and the higher education sector.⁵

Concluding the first phase of the second project and focusing on internal funding and governance, this report presents recommendations for HEIs and the Latvian government. Building on both previous outputs, the team has prepared recommendations for the further development of internal funding and governance directed at the Latvian HEIs and a relate set of recommendations to the Latvian government.⁶ Additional, detailed information and data underpinning the recommendations presented below can be found in the two previous reports.

⁴ Members of the World Bank higher education financing team are Dr. Nina Arnhold, Senior Education Specialist and Task Team Leader, World Bank; Adjunct Professor Jussi Kivistö, University of Tampere, Finland; Vitus Puttmann, Consultant, World Bank; Professor Hans Vossensteyn, Director of the Center for Higher Education Policy (CHEPS), the Netherlands; and Professor Frank Ziegele, Director of the Centre for Higher Education (CHE), Germany. The team would like to thank the Latvian MoES and the seven case study institutions, as well as all other sector representatives involved for the strong collaboration that has made the preparation of this report possible.

⁵ While information on and findings of the project were discussed and disseminated more broadly, including during a workshop on 23 November 2016, seven Latvian HEIs—the University of Latvia, Riga Technical University, Riga Stradiņš University, Daugavpils University, Vidzeme University of Applied Science, the Art Academy of Latvia, and the Latvian Academy of Sport Education—joined the project as case study institutions, which allowed for more in-depth assessments and discussions.

⁶ The first phase also included the development of another analytical output, a note on Latvian doctoral education and promotion (World Bank 2016b), which was prepared by Dr. Andrée Sursock, EUA Board Member and World Bank Consultant. The first phase will be succeeded by a second phase in 2017/18 that will address questions of academic selection, promotion, and remuneration. These topics are thus discussed to only a limited extent in these recommendations.

1 Internal Funding and Governance Models in Latvian Higher Education Institutions – Key Findings

1.1 Key Findings on Internal Funding

The reform of the system-level funding model has been taken up quickly by Latvian HEIs; however, the internal changes mostly pertain to the introduction of performance-based funding allocations. The resulting internal funding models fulfill many requirements for good internal funding models, but several challenges remain, which leaves room for improvement. Many good practices can be found in different HEIs in Latvia, even though the institutions are at different stages of development with respect to their internal funding models. There is neither a perfect model nor a one-size-fits-all solution. Institutions exhibit different strengths and weaknesses; all of them have developed good approaches in some areas but need to solve issues in others. This creates many possibilities for institutions to learn from each other in benchmarking processes and to exchange good practices for their mutual benefit.

Notwithstanding the many differences between the internal funding models of Latvian HEIs, focusing on key characteristics allows for an assessment of the status quo. This status quo—which has been assessed in detail in the report *Internal Funding and Governance in Latvian Higher Education Institutions: Status Quo Report* (World Bank 2017)—is depicted in Table 1 based on the requirements for good internal funding models derived from international experiences and good practices, the World Bank team members’ professional expertise in the field, and criteria developed for the assessment of the Latvian system-level funding model. These requirements are outlined in detail in the report *International Trends and Good Practices in Higher Education Internal Funding and Governance* (World Bank 2016a).

Table 1 Status quo of internal funding models in Latvian higher education institutions (right column) as assessed against requirements for good internal funding models (left column)

A. Strategic orientation	
A.1. Aligning internal funding model with external revenue streams and reflecting national goals	<ul style="list-style-type: none"> • Performance orientation and focus on research of the second pillar of the state funding model are taken up internally • Basic alignment of external and internal incentives is given for all income streams • Alignment of incentives connects system-level policy objectives and institutional activities
A.2. Promoting institutional strategies and profiles	<ul style="list-style-type: none"> • Funding models are connected to institutional strategies in different ways (including deliberate deviations from the system-level allocation mechanisms) • Scope for use of new models in support of institutional priorities remaining • Limited use of innovation funds to stimulate profiling
A.3. Promoting unit-level objectives	<ul style="list-style-type: none"> • Unit-level specification and differentiation are not clearly promoted by the internal funding models due to the current structural particularities

B. Incentive orientation	
B.1. Creating performance rewards and sanctions	<ul style="list-style-type: none"> • Incentives are provided to units and/or individuals in most institutions • Performance orientation of state funding model's second pillar is taken up in most institutions; some institutions also provide performance incentives via other funding streams (e.g., research base funding) • Only a few performance incentives for teaching and learning and third mission exist • Challenges related to the impact of incentives exist (e.g., the lack of funding available for targeted allocations; major reliance on one income source for some institutions and units)
B.2. Providing clear and nonfragmented incentives	<ul style="list-style-type: none"> • Potential fragmentation of incentives in some institutions (due to high number of objectives/indicators; fragmentation of rewards for different types of activities)
B.3. Avoiding undesired side effects	<ul style="list-style-type: none"> • Limited incentives to collaborate across programs and units in some cases • Potential neglect of innovation through new study programs due to overall focus on research of incentive models and inflexible study-place approach • Potential lack of targeted funding incentives for less established or upcoming researchers • Incentives provided to individuals directly bear particularly high potential for unintended side effects (crowding out of intrinsic motivation)
C. Sustainability and balance	
C.1. Combining top-down and bottom-up approaches	<ul style="list-style-type: none"> • Financial autonomy and competences of units are limited
C.2. Providing a sufficient level of stability	<ul style="list-style-type: none"> • Marked differences in degree of income diversification of institutions and units (hence insufficient degree of risk spreading in at least some cases) • Funding models can forward the potential for stability provided by state funding for study places to units
C.3. Guaranteeing continuity in development	<ul style="list-style-type: none"> • Regular adaptations of models in at least some institutions • Communication surrounding change processes not always well developed
C.4. Balancing the overall model architecture	<ul style="list-style-type: none"> • First and second pillars established • Third pillar not developed yet within many institutions (e.g., lack of targeted support for innovative projects)
C.5. Promoting diversification of unit-level funding sources	<ul style="list-style-type: none"> • Funding models contain incentives for revenue generation activities • Revenue generation is directly supported in some institutions
C.6. Balancing the key institutional missions	<ul style="list-style-type: none"> • All missions are accounted for in internal funding models • Bias toward research in the incentives and strategic steering—reflecting the system-level funding model • Potential for better integration of missions

D. Transparency and fairness	
D.1. Ensuring transparency	<ul style="list-style-type: none"> • Basic understanding by institutions' members and transparency exist • Lack of in-depth knowledge about functioning of funding models in some parts of institutions
D.2. Supporting the perception of fairness	<ul style="list-style-type: none"> • Perception of fairness promoted by extensive discussion processes surrounding internal funding models • Extent to which field differences are taken into account remains questionable in some institutions
E. Level of autonomy and flexibility	
E.1. Guaranteeing financial autonomy and academic freedom	<ul style="list-style-type: none"> • Financial autonomy of institutions is comparatively high • Restrictions result from lack of available funds
E.2. Implementing an adequate level of regulation	<ul style="list-style-type: none"> • The corresponding level of regulation is adequate
F. Link to governance and management; practical feasibility	
F.1. Increasing reliability and availability of data	<ul style="list-style-type: none"> • Information and data required for current allocation mechanisms available for the most part • Challenges related to different sources and types of data in some cases
F.2. Ensuring administrative efficiency	<ul style="list-style-type: none"> • Administrative efficiency hampered by extensive decision-making processes and restrictions in budgeting processes
F.3. Ensuring coherence with other governance approaches and university culture	<ul style="list-style-type: none"> • Internal funding models mirror governance approaches and take into account cultural particularities of institutions
F.4. Ensuring the ability of the leadership to act	<ul style="list-style-type: none"> • Scope of decision-making rights of institutional leadership and managerial capacity in the institutions questionable (due to far-reaching competences of collegial bodies)

1.2 Key Findings on Internal Governance

HEIs in Latvia exhibit internal governance arrangements that are closely connected to a deep-rooted democratic culture and a highly interactive and inclusive approach toward decision-making processes. Comparing the internal governance structures and processes against requirements for good internal governance arrangements reveals both conformities and discrepancies. As with the assessment of internal funding models presented above, several differences among institutions related to internal governance arrangements need to be considered. However, there are again common key characteristics that enable a more general assessment of the status quo. This status quo—which has been assessed in detail in the report *Internal Funding and Governance in Latvian Higher Education Institutions: Status Quo Report* (World Bank 2017)—is depicted in Table 2 based on the requirements for good internal governance arrangements derived from international experiences and good practices, and the World Bank team members' professional expertise in the field. These requirements are outlined in detail in the report *International Trends and Good Practices in Higher Education Internal Funding and Governance* (World Bank 2016a).

Table 2 Status quo of internal governance arrangements in Latvian higher education institutions (right column) as assessed against requirements for good internal governance arrangements (left column)

A. Strategic development and governance	
A.1. Having in place clear and precise institutional strategies aligned with institutional strengths/weaknesses and their environment	<ul style="list-style-type: none"> • All institutions engage in strategic planning • Particular attention is given to research/research strategies; some institutions have full-fledged institutional strategies • Relevance of strategies for strategic steering purposes varies (due to, for example, generic character and lack of preciseness)
A.2. Having in place action plans that structure and support the strategy implementation process	<ul style="list-style-type: none"> • Not all institutions have developed action plans
A.3. Basing strategies on in-depth analyses and involving internal stakeholders in the strategy development process	<ul style="list-style-type: none"> • Discussion processes leading to institutional strategies involve a wide range of stakeholders • Extent to which stakeholder input is taken up is questionable in some cases
A.4. Developing measures for the implementation of strategies	<ul style="list-style-type: none"> • Different instruments for strategy implementation are in place (e.g., connection to funding models) • Scope for improvement remains in many institutions (e.g., systematic communication strategies; new funding instruments)
A.5. Monitoring the strategy implementation process and adapting instruments/objectives if necessary	<ul style="list-style-type: none"> • Great variety among institutions related to strategy implementation monitoring (from hardly any monitoring at all to yearly discussions based on key performance indicators)
A.6. Securing and monitoring fitness for purpose of governance structures	<ul style="list-style-type: none"> • Fragmented structure of (heterogeneous) units and overall high complexity of internal structures • Several instances of decoupled research institutes • Attempts to consolidate academic structures and streamline governance structures in some institutions • Some deficiencies related to the connection of different higher education missions
A.7. Accompanying institutional developments with change management	<ul style="list-style-type: none"> • Various new policy instruments addressing, in particular, pillar-two funding • To be developed further; e.g., with respect to collaboration across units, integration of teaching and learning and research, and acquisition of funding for innovation
B. Autonomy and accountability	
B.1. Securing academic freedom	<ul style="list-style-type: none"> • Obligations of institutions as defined by the Law on Institutions of Higher Education (LIHE) (Section 6)
B.2. Maintaining academic integrity	<ul style="list-style-type: none"> • Specific instruments such as ethics committees and code of ethics exist in at least some institutions
B.3. Anchoring accountability measures and quality assurance in governance structures	<ul style="list-style-type: none"> • Several institutions have bodies on the central level responsible for quality assurance
B.4. Establishing adequate monitoring procedures and management information systems	<ul style="list-style-type: none"> • Selected challenges related to definitions of indicators and valid data collection methods

	<ul style="list-style-type: none"> Comprehensive management information systems not established in most institutions
C. Good governance 1: Cooperation and participation	
C.1. Balancing responsibility of collegial bodies and personal responsibility maintaining a cooperative approach	<ul style="list-style-type: none"> Deep-rooted democratic culture and highly interactive and inclusive decision-making processes on all institutional levels Balance tilted toward responsibility of collegial bodies as opposed to personal responsibility
C.2. Involving external stakeholders in institutional governance and securing their proper conduct	<ul style="list-style-type: none"> External stakeholders are involved in different ways (on central level and on lower institutional levels) Involvement mostly in an advisory capacity (missing formal rights and responsibilities)
C.3. Developing appropriate ways of involving internal stakeholders on different institutional levels	<ul style="list-style-type: none"> Well-developed involvement of internal stakeholders (especially due to democratic and inclusive governance processes) Student representatives are generally well informed and strongly integrated into decision-making procedures
D. Good governance 2: Differentiation of functions and distribution of powers	
D.1. Separating strategic and management tasks framed by checks and balances	<ul style="list-style-type: none"> Strategic and management tasks not always clearly separated
D.2. Equipping central leadership with sufficient and adequate competences	<ul style="list-style-type: none"> Lack of competences of central leadership due to strong position of bodies of collegial self-governance
D.3. Securing efficiency and transparency of governance structures	<ul style="list-style-type: none"> Complex governance structures with a high number of bodies and actors and extensive informal negotiation processes lead to lack of efficiency and effectiveness of internal governance processes
D.4. Establishing an adequate level of devolution	<ul style="list-style-type: none"> Weak position of units and unit leadership Sporadic attempts to strengthen units
D.5. Ensuring staff development and developing human resource strategies	<ul style="list-style-type: none"> Only a few human resource development initiatives for higher education management and administration

2 Recommendations for Higher Education Institutions

Based on the assessment of the status quo in Latvia and, in particular, the analysis of case study institutions, generic recommendations for the entire Latvian higher education sector were developed. Nevertheless, not all recommendations are of equal relevance for the next steps any specific institution needs to take. Latvian HEIs are at different stages of development with respect to their internal funding models and governance arrangements, and have initiated changes in both fields starting from different points of departure resulting from, among others, their specific institutional characteristics and histories. Each institution exhibits different strengths and weaknesses. This implies that the relevance of the recommendations presented in the following

can differ among institutions in terms of actions that still can be taken and in terms of urgency,⁷ even though some general challenges apply to the entire sector. Latvian HEIs are encouraged to use the recommendations as a checklist to identify where they already have realized good practice, where further action is needed, and which tasks would need to be tackled with priority. The presentation of the recommendations basically follows the structure of the requirements for good internal funding models and for good internal governance arrangements (see Annex 1 and Annex 2 for an overview on all recommendations). In the case of internal governance, recommendations sometimes cross the borders of some of the requirements for good internal governance arrangements to prevent duplications.

2.1 Recommendations on Internal Funding

Strategic Orientation

F1. Continue to adapt to changes in external state funding.

Latvian HEIs are currently using internal funding well as a mediating device between external revenue streams and internal resource allocations. This has been particularly evident in the activities of implementing second-pillar components rapidly after the recent changes in the state funding model. Institutions are encouraged to also use this flexibility in reacting quickly to future changes and, where possible, to proactively anticipate future developments of the state funding model in their internal models. This could be done, for instance, by creating a pool of teaching and learning-related or research-related performance indicators—performance indicators in both areas are, for example, used by the University of Twente and the Delft University of Technology in the Netherlands (World Bank 2016a:25–26)—for measuring and monitoring without immediately attaching funding to them, which can be flexibly taken into full use when the state funding allocation criteria are revised.

F2. Put more effort into finding ways of translating the state funding model into a specific internal allocation model that corresponds to the institutional profile and situation.

That each institution finds its “own way” would require an internal assessment of the strengths and weaknesses of the internal funding model in use (for example, reverting to the “requirements for good internal funding models” presented above). The objective of this assessment would be to keep the “spirit” of the external funding model alive in the internal model while adapting its logic to the specific situation, culture, and strategic objectives of an institution (for example, by putting greater weight on negotiation-orientation in funding allocations as opposed to formula-based approaches if this fits better with the internal culture). Similarly, different allocation mechanisms could be used if they are better accepted internally (for example, competitive innovation funding instead of formula funding). Moreover, institutional profiles might require that additional aspects of performance funding are introduced such as institution-specific performance indicators (for example, related to regional engagement) and weights that deviate from the system-level allocation mechanisms—as, for example, at the University of Tampere in Finland (World Bank 2016a:21–23).

⁷ For the case study institutions, specific recommendations, also identifying priorities for each institution, were developed and sent to them after the site visits.

F3. Treat the development of internal allocation systems and strategy development as “two sides of the same coin.”

Internal funding models need to be aligned with strategic priorities and institutional plans. Having an institutional strategy that is not supported by the internal funding model makes its realization ineffective or even impossible. Having an internal funding model without a proper strategy and concise priorities might lead to misguided funding allocations. Effective funding models require a comprehensive institutional strategy that defines the institution’s profile, and concrete action plans that are specific enough to be supported with the funding model. Therefore, institutions are advised to develop both the institutional strategies and internal funding models in a coherent and systematic way. Some Latvian institutions have already developed good practices, but this has been limited to research strategies and related financial incentives in most cases.

F4. Establish incentives to use specific opportunities to generate more funds for the institution.

HEIs benefit from systematically reflecting their strengths and weaknesses vis-à-vis the funding allocations by the state and other income sources. For instance, some institutions in Latvia have successfully exploited their potential to acquire funds from municipalities, which are “topped up” with performance-based allocations of the state funding model (which also provides other incentives for HEIs to acquire third-party funding under the second pillar, especially in the field of research). In a similar way, research-intensive institutions could actively seek competitive research funding by offering co-funding or match funding for already established research projects internally, whereas regionally engaged institutions could develop business activities within the region by investing in knowledge transfer activities in those areas that appear to be most promising given the institution’s profile.

Incentive Orientation

F5. Continue to strengthen the performance orientation in the internal funding model.

Latvian HEIs have taken big steps in integrating performance-oriented components into their internal funding models. This has happened in different ways with a variety of functioning approaches. Institutions are encouraged to continue on this path, taking full advantage of the momentum created by the reforms of state funding.

F6. Create a balance of incentives regarding the core missions of research, teaching and learning, and valorization.

The funding models of Latvian HEIs are currently biased in their performance orientation toward research-related activities. This is understandable as an effect of compliance with the incentives set by the second pillar of the state funding model. However, further steps of widening the scope of activities that are the target of performance incentives need to follow for the sake of creating more balanced internal funding models. Funding models should be able to incentivize all three institutional core missions, thereby creating a clear signal concerning the importance of all of them. Incentivizing all three core missions could also lead to a more integrated approach in designing the models without unnecessarily fragmenting the funding streams by institutional missions. Some HEIs already have experience with a broader range of performance indicators, for

which reason interinstitutional exchange on the feasibility of the use of additional indicators is highly recommended.

F7. Support program innovation via base funding for teaching and learning, and remain sensitive in relating programs and study places to demand as far as possible within the given framework.

The fact that basic funding for teaching and learning is related to the allocation of study places should not impede innovation. Within the given framework, HEIs would be well advised to allow for the development of new, innovative study programs (and the phasing out of programs that are no longer needed), to stimulate curriculum innovation, and to remain sensitive with respect to developments in the supply and demand of study places. In this, institutions would need to consult closely with the MoES to address the needs of the Latvian society for highly educated graduates.

F8. Experiment more with internal third-pillar elements to create incentives for realizing innovations and change, and to promote prospective performance orientation.

Latvian HEIs already possess several good practices with their internal funding pools or target agreements, and some institutions also introduced practices of providing seed funding to promising projects. In the future, a greater variety of modes of internal project funding, seed funding, and matching funds need to be developed, in parallel with using internal target agreements. Strategic funds should be used as ex-ante funding for prefunding innovation and change not only in research but also in study programs and third mission activities. At the same time, outcomes should be monitored and incentivized via the use of ex-post performance-based funding. Internal third-pillar funding could be used for improving the quality of study programs (for example, by offering competitive funding for program development initiatives), lead to the systematic prefunding of innovative projects, and create financial incentives to engender clearer and more distinctive institutional profiles.

F9. Seek possibilities to create funding components that allow units to define performance measurement according to their own priorities (especially within larger institutions).

Formula funding systems within institutions usually apply the same indicators to all faculties and other types of units. Internal target agreements could additionally create the opportunity for units to define their own measurement of performance, increasing the “ownership” and identification with performance orientation. Institutions would therefore be well advised to allow for an adequate level of autonomy regarding the internal allocations within units (for example, between faculties and departments) while retaining the central level’s ability to secure the performance of units via adequate performance control. Unit-level strategies should generally be aligned with the overall institutional strategy (that is, strategies at the decentralized level should aggregate to common goals), but related internal autonomy should not be obstructed (that is, each decentralized unit can set different priorities). An efficient way to implement this would be a “package deal” that includes block grants allocated partly via output-based formulas and partly via negotiated funding (for example, in the form of target agreements).

F10. Strengthen incentives for good performance by striking a balance between rewarding individuals and groups or units.

In some Latvian HEIs, part of the income from the second pillar of the state funding model is paid out as salary bonuses to individuals. Even though the low wage levels of some academic staff make the use of salary bonuses

understandable in Latvia, financial incentives offered to individuals involve several risks. One of these risks is related to crowding-out effects where extrinsic rewards such as salary bonuses under certain conditions “crowd out” the intrinsic motivation (that is, the noninstrumental interest in academic work). Rewarding those dimensions of academic work that are not “extra” but can be considered a “normal” part of the work is particularly likely to trigger crowding-out effects. Moreover, individual salary bonuses can all too easily be considered unfair because the performance is often an outcome of a series of actions of multiple individuals. Therefore, institutions must find a way to strike a balance between individual incentives offered in terms of salary bonuses and incentives provided to groups and units through the internal funding model.

Sustainability and Balance

F11. Use the structure of the three-pillar model to reflect the balance in the internal funding model.

Many of the HEIs in Latvia still lack a balance in their approaches with respect to the functions of a three-pillar funding model, which are providing an adequate level of stability (first pillar); creating performance incentives (second pillar); and promoting innovation, excellence, and change (third pillar). This situation mirrors the structure of funding received from the Latvian state. Whereas basic funding and performance-oriented funding have been integrated into the internal funding models in most institutions, attempts to provide targeted funding for innovations and profile-oriented development are currently weak. Even though ESF are used to provide funding for investments in strategic projects to institutions (the third pillar), these funds often do not lead to the development of a stable innovation-oriented ex-ante funding component within institutions. Despite those challenges, institutions are advised to use the logic of the three-pillar funding model to assess their current practices. Such an assessment should lead to finding an adequate balance among the three pillars—which, for example, has been established at the KTH Royal Institute of Technology in Stockholm, Sweden, in line with its profile as a research-intensive university (World Bank 2016a:38–39).

F12. Balance different orientations in research funding.

Latvian HEIs are coming from a difficult financial situation related to research, starting from low funding levels after severe cutbacks. A situation where every researcher has substantial per capita basic funding is simply not currently realistic. Even if the per capita calculation plays a role in state funding, it is not advisable to distribute it internally in the same way, because this would lead to fragmentation of scarce research funds. On the one hand, institutions could work to identify their priority areas in research. Prioritized areas would then need a certain degree of financial stability to be able to develop, while at the same time they should be monitored continuously, framed by funding formulas or target agreements. Focus areas could terminate and new ones could emerge, keeping up the internal competition. On the other hand, there must be research funding for new projects outside focus areas to stimulate innovation—the Technical University Aachen in Germany provides an example for a funding instrument that serves this purpose (World Bank 2016a:30–31)—, potentially leading to the development of new areas of strengths. Introducing institution-internal “creativity funds” can also be recommended. Those funds could offer opportunities for talented young researchers, and not only for established researchers and research clusters.

F13. Use both formula funding and target agreements in internal allocations.

Combining allocation instruments allows institutions to benefit from the strengths of each of them while avoiding their problems. Designing a sound combination of funding instruments is an institution-specific process, but using formula funding *and* target agreements is a valid recommendation for all institutions. Formula funding, when combined with block grants, provides efficiency, transparency, and the legitimization of allocations while guaranteeing the internal autonomy of units. Target agreements—which have, for example, been introduced at the University of Duisburg-Essen in Germany (World Bank 2016a:40–41)—are often needed for effective prefunding of future developments (under the third pillar), and to apply performance measurement according to different disciplinary cultures. Target agreements can also be used to reach a balance among funding streams allocated under the three pillars, and to promote goal orientation toward the strategic objectives of the institution and units.

F14. Find a balanced approach to promote external revenue generation and to fund central infrastructure and services by retaining a share of third-party funds on the central level.

External revenue generation (that is, revenue outside of the state funding model) is essential for building and maintaining financial reserves and central funds of an institution. Central funds are often crucial for the effective promotion of institutional strategies and profiles, for example, via supporting and directing new strategic initiatives, institution-wide development activities and the overall strategic development of the institution, and via subsidizing non-revenue-generating activities critical to institutional missions and profiles. Central funds can be used as financial buffers (“rainy day funds”) equally well. Currently, some of the Latvian HEIs apply deductions to their units’ income to cover the costs of the central administration, of support services, or related to premises, or to build reserves at the central level for future investments. This approach should be continued or, where not practiced yet, introduced. The size of deductions (also known as “tax” or “overhead cost”) needs to be big enough to provide resources for necessary infrastructures and to create some financial discretion on the central level, but should not impede incentives for units to raise these funds or lead to approaches perceived as unfair.

There are different ways institutions can promote the generation of external revenues with a “win-win” approach. For instance, institutions can leave a certain percentage of the financial benefits or end-of-year surplus with the unit, or top up external revenue streams with state funds (especially with second pillar funding). A positive effect of allowing units to carry forward surpluses from one year to another is that this usually leads to better multi-year planning and curbs year-end spending on unnecessary items. As additional options for promoting revenue generation, seed funding can be offered for promising initiatives to generate external revenue, administrative support can be provided to facilitate the acquisition of projects, and, alternatively, lower or no overhead can be charged for certain types of revenue deemed strategically important (that is, a selective “tax-free” policy). A successful approach would be to formulate a package combining all or most of those approaches. To promote revenue generation effectively, it is necessary to make this topic part of the institutional strategy. That could be preceded by a systematic strengths, weaknesses, opportunities, and threats (SWOT) analysis to identify the most relevant revenue sources and risks attached to them, and to set targets and define actions for attaining them.

Transparency and Fairness

F15. Be more active—and not only reactive—in creating internal transparency on funding criteria and outcomes.

Enhancing the internal funding models' transparency and impact requires a more thorough understanding by institutional members. However, systematic, regular information campaigns and processes have not yet been established by Latvian HEIs. The perception of fairness requires that units and individuals know the allocation criteria, the actual distribution of funding among units, and the ways in which units can increase their income. This is likely to lead to a greater engagement in those activities that the funding models seek to incentivize. In the case of discretionary allocation decisions, it should be clear to all stakeholders how the decisions are made, and on what basis. To promote an in-depth understanding of funding models and their transparency, systematic and proactive approaches offering wide participation play a key role.

F16. Develop indicator systems with an adequate degree of complexity.

In the case of formula-based allocations, a first basic issue to consider is the share of indicators that actually measure performance, and not inputs, and their weight among all indicators. Using formula funding, however, requires careful consideration of the overall number of the performance indicators to be included in the formula. A too-low number of indicators could be viewed as unfair, because they would not be able to cover all relevant areas of performance. Too many indicators, however, lead to a lack of transparency and the fragmentation of incentives. Especially considering challenges related to a high number of indicators appears to be relevant for some Latvian HEIs. Institutions are invited to reflect on the appropriate number and weighting of indicators in accordance with their own institutional characteristics.

Autonomy and Flexibility

F17. Gradually strengthen financial autonomy of decentralized units such as faculties and institutes.

Many of the Latvian HEIs still have a highly centralized approach when it comes to budgeting and distributing other financial competences. There were important reasons for that approach: making critical decisions that became necessary during the financial crisis and the ensuing budget cuts required broad decision-making capacities on the central level. However, especially the larger institutions could now take steps toward more decentralized approaches via granting more financial autonomy to the unit level. Unit-level autonomy is an important prerequisite for the sustainable strategic development of units, allowing them to develop their own specific objectives under the broader framework of an institutional strategy. Autonomy also guarantees more flexible decisions and the ability to decide issues “on the ground,” where teaching and research are conducted.

Transitioning to a more decentralized model should assume the form of a gradual development and phased implementation. For instance, institutions can introduce a “learning year” where no real allocations are made, but units receive a calculation of how much funding they would have received if the new or revised model would have been fully effective. This can be followed by a period during which the amount of funds subject to the new allocation model is increased incrementally. One of the most important aspects in the process of designing a more decentralized model is to keep a balance between decentralized flexibility (and strategy) and the central level's ability to finance the strategic actions in a way that aligns unit strategies with institutional strategies. Part

of this balance is to avoid the emergence of “isolated” units with their own, separate budgets and strategies that follow only their own agendas (see also recommendation G9). Implementation of the decentralized model could start with small steps, for example, by offering strategy-driven funding pools for deans and other unit leaders (such as of research institutes), which could then be followed by more comprehensive unit-level grants. The way in which unit-level financial autonomy is used should be monitored and evaluated regularly to ensure that the strategies of decentralized units align with the overall institutional strategy.

F18. Create the organizational preconditions for decentralized financial autonomy.

Decentralization of financial authority requires larger unit sizes and a coherent unit structure. Currently, some of the Latvian institutions exhibit relatively complex and incoherent structures of units with different types and sizes. A sufficient size of the units allows them to develop their own specific objectives under the broader framework of an institutional strategy. The adequate size of units depends on the circumstances and characteristics of an institution. However, the smallest units should be large enough to be sufficiently diverse and robust to spread some risks, pool resources, and capitalize on efficiencies of scale and scope. At the same time, units should be small enough to maintain a level of flexibility and a sense of collective responsibility and loyalty stemming from the identification with the unit.⁸ In all cases, organizational and financial reforms need to go hand in hand. In some cases, financial autonomy could be best enhanced by also pooling resources at the interinstitutional level.

Practical Feasibility

F19. Share information and implement formats of benchmarking and peer counselling.

Many good practices related to internal funding models can be found in Latvian HEIs. Institutions exhibit different strengths and weaknesses. All of them have developed good approaches in some areas but need to solve issues in others. Generally, institutions are at different stages of development with respect to their internal funding models. However, good ideas and practices have not spread effectively throughout the system so far. Hence, Latvian institutions would benefit greatly from having a more coordinated and facilitated exchange and mutual learning on good practices to increase the overall knowledge in the system. Having coordinated platforms and events for sharing information (for example, rotating site visits or workshops with a focus on some specific theme) would offer many possibilities for institutions to learn from each other in benchmarking processes and to exchange good practices for their mutual benefit.

F20. Monitor the impact of funding models (including potential unintended side effects) and at the same time consider issues of continuity, especially if changes are perceived to be necessary.

Every internal funding model bears the risk that the activities of units and individuals are affected in ways not foreseen by the design of the model. For that reason, the impacts of an internal funding model need to be closely monitored. Whatever the specific side effects, their mere possibility calls for close monitoring of the effects of internal funding models to detect them as early as possible, and to take appropriate actions afterward. At the same time, internal funding models require a certain degree of continuity to develop an impact. Too frequent

⁸ Management literature suggests units between 15 and 50 persons.

changes of the basic architecture and the specific mechanisms are likely to make institutions less attentive to current requirements, reducing their orientation toward those activities that are the target of financial incentives. Changes that last for less than three years cannot be evaluated properly and lead to instability. Nevertheless, the adaptation of internal funding models can become necessary, but changes in general need to be made cautiously and based on a sound assessment of the previous impact of the models. Taking all this into account, it appears reasonable to conduct a more detailed evaluation of substantially reformed internal funding models about three years after the changes were introduced.

F21. Promote human resource development in higher education management.

Effective internal funding (and governance) models require that the institutional and unit-level leaders and administrators possess the required management skills and competences with regard to strategic management, change management, and an understanding of the dynamics of using different incentive mechanisms (see also recommendation G14). In particular, a general shift from traditional administrative tasks to a proactive management and development approach—which itself has not been completed in all institutions in Latvia—leads to different skills needs. These skills can be developed with staff training schemes aimed particularly at serving the needs of those who are or will be holding leadership posts. At the moment, comprehensive management training schemes for staff members, academics, and administrators do not exist in Latvian HEIs, despite some initiatives such as ad-hoc trainings, and mentoring and coaching programs. Since these would be required, Latvian HEIs should consider establishing and implementing human resource development strategies that address those needs. In doing so, institutions could revert to training opportunities provided by different institutions in various European countries tailored to the particularities of HEIs.

F22. Develop integrated management information systems and use available systems whenever possible.

Comprehensive management information systems (MIS) that deliver data of a sufficient quality do not exist in all Latvian HEIs. When considering the establishment of comprehensive MISs, institutions could look for data sets that are already available, for example, from their participation in U-Multirank. These data are not yet used for institution-internal purposes, and provide a European reference frame for multidimensional performance measurement. Reverting to the data set from U-Multirank, in which many institutions in Latvia participate and which is promoted by the government, could also lead to benefits related to nationally aligned data (see also recommendation P6).

2.2 Recommendations on Internal Governance

G1. Formulate SMART institutional strategies based on a SWOT analysis.

Most Latvian HEIs have developed strategic documents and general institutional strategies, even though some focus primarily on research. In many cases, strategies are substantive documents that address a broad spectrum of themes and ambitions, bringing together all activities that the institutions engage in. Not all strategies make clear the institution's profile yet. However, some are devised in a more targeted way, identifying key priority areas and specific targets to be achieved. It is recommended that HEIs formulate their strategies in a "SMART" way (and based on a SWOT analysis): specific, measurable, acceptable, realistic, and time-limited. Designed that way, strategies can give direction to the institution by demonstrating their strengths, weaknesses, and particular

profile or niche in a specific way, with clear ambitions that can be achieved realistically within the time span of the strategic plan.

G2. Keep the communication on the strategy focused and make transparent how various stakeholders contributed.

Strategic plans are supposed to be “lived” by an organization. This requires that the key messages are used repetitively inside the institution to make sure that as many internal stakeholders as possible know what ambitions, norms, objectives, and targets to adhere to. HEIs would also be well advised to demonstrate and openly communicate about these ambitions, norms, objectives, and targets in various policy documents and meetings at the central and faculty level. The same applies to the contributions that different groups and individuals have made to achieve the strategic objectives. Potential activities in that respect are celebrating milestones that were achieved (for example, an annual celebration honoring those who have won international research grants), and monitoring progress toward education innovations and communicating the progress within the wider HEI community via the institutional newspaper and website, and news items.

G3. Ensure actual implementation of the strategy and translate the strategy into policies aimed at achievable goals.

As stated, a strategy needs to “live” in an organization. This implies that if an HEI has formulated a particular objective (for example, to increase the number of PhD holders), specific strategic action plans need to be adopted (for example, to allow units to recruit more PhD holders, to allow and stimulate staff to obtain a PhD, and to make the number of PhD holders an issue of regular debate among the rectorate and deans, or deans and department heads). The action plans can also be implemented into target agreements or performance contracts among the various levels in an organization.

G4. Monitor implementation progress, for example, by keeping track of key performance indicators.

The realization of strategic plans can be made visible by translating the key strategic priorities into concrete and measurable targets that are then documented and recorded periodically. Forms in which this can be done are, among others, annual performance overviews, performance contracts, annual reports, and improvement plans of teaching programs. Procedures like those can subsequently provide input to regular meetings among the institutional leaders and managers of different levels: rector, deans, department heads. A central MIS can be of great help in that respect, when it includes all basic data that can inform strategic decision making and the wider HEI community on the status of the HEI in various areas. In developing the MIS, the institutions can greatly benefit from making use of the data that are already collected (see also recommendation F22).

G5. Develop further internal quality assurance procedures such as an annual improvement plan and report, and create units or positions with a clear mandate of taking on responsibility for quality assurance.

Most Latvian HEIs deploy some form of quality assurance and prepare their study programs for accreditation. To embed quality assurance more fully and continuously within the institution (that is, also during the period between two accreditations) and to transform it from an externally prescribed duty into an essential part of the HEI’s operations, there needs to be a place within institutions where the responsibility for monitoring and facilitating quality assurance is located. This can be implemented in the form of a central quality assurance unit, administrators appointed as quality assurance managers, or academic staff members that assume that function

on a part-time basis. It is furthermore important that this responsibility is used actively, and that it leads to concrete results, in particular, to tools and guidelines (for example, on how to monitor program quality and translate the insights gained into quality enhancement activities) via which teaching and research staff, departments, and faculties can easily create transparency on and have benchmarks to improve the quality of their activities. One possible approach is annual reports and improvement plans for study programs that address the major progress toward strategic (quality) objectives and the intended improvements to be achieved the next year. Despite the administrative anchoring of quality assurance, quality remains a shared responsibility of all members of an institution.

G6. Develop accountability mechanisms that measure (individual) performance without jeopardizing academic freedom.

Complementing the previous recommendation, some mechanism that allows for a periodic assessment of individual staff members and units can be useful in the governance and authority relationships within an organization, particularly for promoting the transparency of authority relationships—one example for such a mechanism is the “academic scorecard”-instrument introduced at the Münster University of Applied Sciences in Germany (World Bank 2016a:70). This can be achieved at least partially via an MIS, which can include data on individuals, but also via an annual personal overview on main activities and performances in the areas of, among others, teaching, research, and project work. Past performance and envisaged contributions to the unit as well as career plans can be discussed in an annual appraisal talk between staff members and unit leaders.

G7. Develop a simple and transparent governance structure with as few overlaps and duplications of functions and positions as possible.

Some Latvian HEIs have complex organizational structures with various institutes, faculties, academic and practical departments, centers, study programs, and administrative services. Many of those units are necessary to structure the various tasks that HEIs need to fulfill. Nevertheless, it appears that over time some institutions have grown into organizations with a multitude of organizational units and structures that may exhibit a range of duplications in functions, responsibilities, and tasks. In addition, individuals may be members or heads of multiple units that stand in vertical or horizontal authority relations to each other. One example is formed by the governance councils of study directions that have been implemented in most HEIs. However, their role is not always clearly defined. In those cases, it is an open question whether they are part of the overall internal quality assurance structure, whether they focus on strategic or operational aspects, and whether they form the prime link to employers. In some cases, external representatives can be involved both in advisory boards and in the governance councils of study directions. Against this backdrop, some HEIs could greatly benefit from reassessing the functionality of their internal governance structures—as, for example, the Technical University Munich, Germany, did (World Bank 2016a:80).

G8. Consider forming larger institutional subunits, but do not perceive size as a goal in itself, and design internal mergers carefully.

Some HEIs are about to reform their internal organizational structures by forming larger units and thereby reducing their overall number. The trend toward larger units can be observed in many countries. The rationale behind this is to overcome barriers among units to stimulate internal, multidisciplinary cooperation, and to build units with a critical mass, especially, for research—reasons that, among others, also motivated the

comprehensive internal restructuring process at the Technical University Dresden, Germany, which furthermore exhibits an elaborate design of the transition process (World Bank 2016a:60). Internal mergers, however, might lead to conflicts and a situation where no real collaboration takes place and the unit members simply continue to do what they've always done. HEIs therefore need to focus on approaches of change management accompanying such processes. For instance, there needs to be intensive communication, internal scouting for joint interests in research, and a competition for the best concepts for interdisciplinary study programs. Larger units have the potential for more self-steering on the faculty or institute level, so that internal mergers can be combined with greater autonomy on the decentralized level (see also recommendation F18).

G9. Integrate research institutes to increase mass, stimulate innovation, and forge stronger links among teaching and learning and research.

Some Latvian HEIs feature research institutes that function semi-autonomously within the institution. Bringing those structurally and practically closer to academic departments and faculties would help stimulate closer research collaboration among the various academics that work in similar research domains. This could be done by ensuring that those research institutes are integrated into the HEIs' governance structures and strategic development and by promoting links and exchange between those research institutes and other institutional subunits—or, where appropriate (see also recommendation G8), by formally integrating research institutes under or into subunits. Irrespective of the approach chosen, increased innovativeness, greater efficiency, and a stronger basis for collaboration with external partners could be achieved. In addition, academics that predominantly teach would be brought closer to the research portfolio of the institution, which can inspire and innovate teaching programs. For the same reasons, institutions could in some cases search for possibilities to realize structural synergies also at the interinstitutional level.

G10. Distribute authority appropriately and clearly among organizational levels, and find the right balance between top-down and bottom-up relations among them in decision-making processes.

The legal framework to some extent regulates the authority distribution within Latvian HEIs, but leaves institutions some flexibility in allocating powers among organizational levels. Ultimately, a lot of decision-making power is located at the central level with the rector, senate, and constitutional assembly. To become more flexible and reactive to external developments, some larger Latvian HEIs exhibit a tendency to provide lower levels such as faculties and departments with more autonomy—as, for example, also the Free University of Berlin, Germany, did to complement the introduction of a performance-oriented funding system (World Bank 2016a:81)—, for example, by providing them with budgets from second-pillar funding. However, it remains unclear in many cases whether there is a clear and transparent distribution of authority and responsibility within institutions. It is therefore recommended—along with an assessment of the efficiency of internal organizational structures mentioned above—that responsibility, autonomy, and authority relationships of the different organizational levels be clarified and possibly redefined.

G11. Strengthen decision-making powers of key management positions while balancing academic and managerial self-governance in an adequate way, and analyze critically the checks and balances for all aspects of decision making.

Academic self-governance, that is, decision making by collegial academic bodies such as the senate, councils, a science commission, or a budget commission, plays a major role in Latvian HEIs. This is quite different from the

development in many European countries, where, on the one hand, the role of leaders on the different levels (rectors, vice-rectors, deans, and so forth) is strengthened, but, on the other hand, increased accountability of these decision makers, combined with personal responsibility, leads to a system of checks and balances. A good governance system must create an adequate balance between academic and managerial self-governance, because each of these forms of decision making in HEIs has its pros and cons. Academic self-governance via collegial bodies including academics, administrative staff representatives, and students ensures internal acceptance and bases decisions strongly on the principles of democracy, but is time-consuming and tends to produce egalitarian decisions. The collegial character of decision making could lead to a situation of what might appear as a collective lack of responsibility, because there is no clear person responsible. Managerial self-governance makes decision making efficient and flexible, and more easily allows for setting clear priorities. Strategies with actual focuses and organizational reforms are more likely to be feasible and successful with clear personal responsibility. The danger related to managerial self-governance lies in autocratic decisions. In a system of sound checks and balances, the powers of collegial bodies and individual leaders are balanced. Latvian HEIs would be well advised to conduct a critical assessment of their decision-making structures, and the respective checks and balances. It would be particularly important to reflect on whether there is currently an imbalance toward exaggerated academic self-governance, and whether steps could be taken to increase the relevance of managerial self-governance, without endangering the important basic principles of internal democracy—key developments in Europe in this respect (for an overview see World Bank 2016a:71–72; 76–81) can provide points of reference for such a reflection and for potential steps taken afterwards. For example, benchmarks from other countries show that it can work well to let a collegial academic body decide on the principles of resource allocation, but to let the rector decide on the yearly allocation based on those principles. Decisions on prefunding of new initiatives, for example, can then be made in the rectorate.

G12. Design clear roles, responsibilities, and rights related to the involvement of external stakeholders in internal governance.

Currently, external stakeholders can be represented in Latvian HEIs in various ways via advisory boards at the central and decentralized level, for example, for study programs (including the governance councils of study directions), for research programs, and for central management issues such as in the form of the convent of counsellors. In most cases, it is not entirely clear whether the external stakeholders have an authoritative or an advisory role. Therefore, ensuring straightforward formal links among institutions and their bodies staffed with external stakeholders is highly recommended—and also fully in line with recent developments in many European higher education systems (for an overview on key trends related to the roles and responsibilities of external stakeholders in internal governance see World Bank 2016a:72–75). Introducing a distinct role, and allowing external stakeholders to assume the role of “critical friends” and promoters of strategic thinking (without mixing them up with internal authorities such as senates) could, for instance, take place by granting them formal rights to veto institutional strategies. In any case, external stakeholders need to be vested with sufficient institutional support in terms of information and decision-making capacity provided to them—as, for example, the experience with university councils in Germany reveals (World Bank 2016a:74). One specific area where closer links between external stakeholders such as the industry and HEIs could be particularly beneficial would be the strengthening of innovation capacity by developing closer ties in the area of human capital development. Governance arrangements ensuring mutual representation could play a supportive role in that regard.

G13. Keep students and staff well-informed, and take up their initiatives.

As stated in recommendation G2 concerning the communication of the institutional strategy, communication and the transparent sharing of information is important to keep members of an organization involved and committed. This means that successful organizations need to pay substantive attention to regular and objective communication toward their internal audience. However, this does not imply that staff representatives and students necessarily have to have decision-making powers on all matters, since this can negatively impact flexibility and innovation (see also recommendation G11). What is important, is to value the contributions that internal stakeholders, including students, make, and to support them as far as possible. For example, student representatives appeared as drivers for change in teaching and learning in several Latvian HEIs. They should therefore be intensively involved in reform processes, also being encouraged to start initiatives in areas of concern to them.

G14. Actively develop management and administration skills among (interested) staff to create a pool of (future) managers and leaders, and to facilitate a culture of change management.

Latvian HEIs need to face rapid developments and changes, which often receive considerable support from various actors. However, integrating new functions, responsibilities, and tasks (for example, quality assurance, decentralized budgeting, and internationalization) requires careful and efficient management by individuals or organs with the expertise, mandate, and skills to find optimal solutions that balance the interests and opportunities in any given situation. The tasks and responsibilities emerging from this cannot be executed well without experience and training in the field, which institutions need to promote actively. Of course, different HEIs can collaborate to offer professional development programs in an efficient and effective manner. On a broader note and with a view to academic integrity, support schemes and trainings covering ethic-related contents addressing all academics could be another option in the field of staff development.

2.3 Considerations on Shared Challenges in the Near Future

Despite differences among Latvian HEIs with respect to their current internal funding models and governance arrangements, challenges that almost all of them need to address in the short to medium term can be identified. As discussed, differing institutional characteristics and states of development imply that the recommendations presented above need to be seen as a potential checklist that allows individual institutions to choose those issues that are of particular relevance to them. Nevertheless, some recommendations apply to almost all institutions and can furthermore be tackled already in the near future.

In the field of internal funding, Latvian HEIs can already today start with selected adaptations of their internal funding models and with setting the course for potential future reforms. Building on those efforts, additional common tasks need to be addressed in the medium term. To lay the groundwork for future reforms of internal funding models, all HEIs would be well advised to start monitoring their internal funding models and their impact (F20) as soon as possible. Institutions could furthermore engage in benchmarking processes and initiate an inter-institutional exchange on good practices in the field (F19). Complementing those efforts to prepare future reforms but also supporting the current impact of internal funding models, a key task shared by the entire Latvian higher education sector is to develop necessary human resources in higher education management (F21).

Related to the current impact of funding models, HEIs also need to consider how to increase the transparency of internal funding models (F15). Taking a look at the medium term, a set of tasks related to potential improvements of internal funding models that all institutions need to tackle looms, namely, reflecting on the models from the perspective of a balanced three-pillar model (F11), finding the right balance between performance incentives directed at individuals and groups or units (F10), and reinforcing the overall focus on performance (F5).

When it comes to internal governance, short-term options such as advancing managerial skills exist, and additional tasks will emerge in the medium term related to processes of strategic planning. Institutions need to initiate developments in the field of internal governance in the short term by promoting management and administration skills of selected staff members (G14), and by intensifying the communication on their institutional strategies (G2). In addition, a major set of tasks will emerge in the medium term once the period covered by the current institutional strategies comes to an end. When developing new strategies, HEIs need to pay particular attention to formulating them in a SMART way (G1), consider options for ensuring an actual implementation of the strategy via adequate instruments (G3), and make sure that the implementation progress is monitored (G4).

3 Recommendations for the Government

Reforms on the institutional level are in many cases at least partly dependent on the external framework, requiring the government to establish conditions conducive to the Latvian HEIs' reform efforts in the fields of internal funding and governance. The main focus of this report has so far been on the institutional level in accordance with the level of analysis in the previous two reports (World Bank 2016a; 2017). However, the institutional level is not independent from the external framework. That raises the question of whether there is a need for further development on the state level to create the right framework for institution-internal developments of internal funding and governance. Key options are presented in the recommendations below that address both fields separately. Fortunately, there is the political will in Latvia to use ESF funding to promote that development. Recommendations on which mechanisms could be used in that respect, and which objectives would be key to pursue, are presented as well.

3.1 Recommendations for Government Policies on Internal Funding

P1. Allow for more internal dynamics and for support for innovative new programs under the first pillar of the state funding model.

While a fundamental reform of the study place model might only be envisaged for the future, it is recommended that any revision of the model take into account not only existing study programs, but also allow for the support of innovative new programs, and make the study place allocation overall more dynamic (for example, by also supporting multidisciplinary and joint degree programs). The government's plan to increase the funding amount per study place could prove to be crucial in that respect because additional funding is very important for strengthening the teaching and learning function. However, it would be important to ensure that the teaching and learning mission is not only supported via additional funding under the first pillar, but also via additional

funding for that mission under the second pillar to introduce teaching and learning performance indicators (for example, covering the number of graduates or international students), and under the third pillar to establish funding pools for innovations in teaching and learning (see also below).

P2. Extend the performance orientation under the second pillar of the state funding model to teaching and learning.

Widening the current focus of performance incentives beyond the field of research, a component that provides incentives for performance in teaching and learning (for example, with graduates, exams, or credit points as possible indicators) could be added to the second pillar. Also worthy of consideration is how the employability of graduates⁹ could be monitored and reflected in terms of funding under this pillar.

P3. Clearly show how the deployment of ESF funding contributes to strategic targets and sustainable actions.

While in the longer term the inclusion of other funds under the third pillar would be desirable, the use of ESF funds for promoting innovation seems to be a suitable approach in the medium term. Irrespective of the source of funds, there needs to be a visible connection between the ways in which the funding is used and the strategic objectives on both the state and the institutional level, with a particular focus on the sustainability of the activities supported.

P4. Increase the usability and effectiveness of the state funding model by sorting funding streams and mechanisms to the appropriate pillars.

The system-level funding model is based on the separation of three pillars with different functions, to which the respective allocation mechanisms are connected. The model's steering potential and impact could be increased by ensuring that the different funding streams and mechanisms currently implemented in Latvia are sorted to the different pillars according to their function, as recommended in the first World Bank reimbursable advisory service (World Bank 2014). This could, for example, mean rearranging the model in such a way that the performance-oriented parts of the allocation of the first-pillar research base funding, particularly the number of awarded doctoral degrees, could become part of the second pillar.

P5. Promote the integration of all core missions into institution-internal funding models.

To support institutions in fulfilling their core activities, it would be important to establish the right framework for the integration of teaching and learning, research, and valorization in internal steering mechanisms. Relevant aspects of such an institution-internal integration via external integration are the gradual transition from the separate staff categories of professor (meaning teacher) and researcher toward a model in which most academics perform both teaching and research tasks, and an integrated funding model supporting the idea that teaching, research, and valorization form an integrated work portfolio of academic staff members (which was already started with the three-pillar model). This does not imply that there cannot be staff categories that focus on either teaching or research, or that the allocation of time among different tasks cannot differ among

⁹ The team was informed that a performance indicator covering the employability of graduates is under preparation by the MoES. Such an indicator would ideally capture employment outcomes considering differences among fields and regions. The design of the indicator could benefit from being conducted jointly with the sector, among others, to account for that complexity.

academics. What is important, however, is that professors, as the leading academic figures, are always also researchers, even though the time allocated to different types of activities can differ from one professor to another. More generally, it would be important to conduct a thorough reflection of the current staff structures in the higher education sector. In the medium term, it will be important to assure that all supported missions of HEIs are reflected in the higher education legislation.

P6. Introduce coherent data requirements.

It would be beneficial to the Latvian higher education sector if similar data were collected for different purposes such as national statistics, quality assurance, performance measurement by the government, and international transparency tools like U-Multirank. The reporting of data would at best be adapted to the needs related to the current funding formula system and other external data requirements. That way, a coherent approach with one database for various purposes could be created, while also providing a good basis for institution-internal MISs.

P7. Ensure and communicate the reliability of external framework conditions for internal developments.

The three-pillar model on the state level is being introduced step by step. That makes it important to have a clear plan and schedule for the implementation of additional components of the model, which also need to be communicated actively. In particular, institutions would need to know in advance for how many years selected allocation criteria will be effective (with longer periods of four to five years being preferable to shorter periods). In addition, keeping track of the effects of the reforms by analyzing their impact on HEIs—which the project of which this report is a part did at an early stage to enable first reactions—at a later stage would be advisable.

3.2 Recommendations for Government Policies on Internal Governance

P8. Stimulate higher education institutions to produce well-targeted and realistic strategic plans.

The Latvian government would be well advised not only to request HEIs to develop strategic plans, but also to promote their formulation in a SMART way—that is, specific, measurable, acceptable, realistic, and time-limited (see also recommendation G1)—and that they actually give direction to institutions in terms of a unique profile and a distinct role within the Latvian higher education sector (which would also require an effective communication of the strategy), integrating the different core functions of HEIs. Designed that way, strategic plans can also help foster open and transparent dialogue between HEIs and the ministry on how institutional strategies and actions contribute to national strategies.

P9. Implement and communicate the national strategy.

Like institutional strategies, the national strategy is to inform the dialogue among the ministry, HEIs, and additional stakeholders involved in higher education, and should also be developed in a SMART way. To have an impact, it needs to be communicated widely and strategically, and translated into various policy instruments that are prioritized and executed at the appropriate time and in the appropriate sequence. The contribution of HEIs to the strategy can be stimulated through different policy instruments such as funding arrangements (for example, funding formulas and performance agreements), regulations (for example, laws and regulations that widen or restrict the range of activities institutions can engage in), organizational measures (for example, new

innovative programs and degrees), and information mechanisms (for example, information on study programs and their outcomes that can inform prospective students). In line with the development trend in the overall higher education governance approach in Latvia revolving around institutional autonomy, indirect steering mechanisms (as opposed to direct regulatory influence), which set targets but grant HEIs autonomy in deciding how to attain them, are particularly relevant in that respect.

P10. Monitor the implementation progress of the national strategy, for example, by keeping track of key performance indicators.

At the national level, relevant information on the higher education sector needs to be collected to inform, among others, public policy, funding and governance instruments such as performance agreements (for additional information on the connection between monitoring results and funding instruments like performance agreements see World Bank 2014:22–23, 39–44), and international statistical needs. It is important for all those purposes to reach an agreement on common definitions and a shared understanding of relevant data (ibid.), which are supposed to reflect the essence of the country and individual HEI strategic priorities. This could be supported by a national MIS. Going forward, relevant indicators could include, for example, the number of graduates or international students (see recommendation P1), while ensuring that data collection at the national level, institutional level, and through instruments such as U-Multirank is well aligned.

P11. Stimulate excellent research and the integration of teaching and research.

Given the limited research-related resources currently available in Latvia, it is key that they are used efficiently and effectively. That requires smart organization of the research capacity and facilities in the system, in particular, since research as one of the core functions of HEIs also constitutes an important aspect of graduate education. Many countries apply a strategy of “focus and mass” in which larger groups of researchers with common interests are concentrated in larger units, for example, by merging research institutes and HEIs. In addition to creating substantive research groups that are more likely to be successful in the application for external resources (for example, European Union (EU) projects and industry contracts), that opens the possibility of connecting academics with a strong teaching role to their more research-oriented peers, which fosters up-to-date teaching practices and innovation. The practical implementation of restructuring processes could be achieved via a combination of top-down financial support for bottom-up internal (and probably also external) consolidation efforts, as was used for consolidation efforts in Denmark, in the fields of research and teaching.¹⁰ Setting incentives at the central level and allowing HEIs to choose strategic alliances increases ownership and, in most cases, enhances the likelihood of successful collaboration. That could be supported through stimuli that are already used, such as financial support for the involvement of students in research activities. However, additional incentives would be needed, which could include ESF support for joint research units, which are established as a first step toward more comprehensive strategic alliances or mergers. In general, that approach might be preferable to restructuring by detailed planning at the central level.

¹⁰ The potential benefits of consolidation were already identified and discussed in a first World Bank reimbursable advisory service on higher education funding in Latvia (World Bank 2014).

P12. Promote the development of a quality culture within institutions and related procedures such as annual improvement plans and reports.

The government can facilitate the development of a quality culture within institutions by increasing the importance attached to quality assurance on the higher education policy agenda, and by supporting HEIs to develop such cultures, for example, through enhancing the connection and exchange of good practices among institutions, by providing support for the fostering of closer stakeholder relations with the aim of increasing quality of provision (see recommendations G12 and G13), through targeted training for institutional leadership and other staff (see also recommendations G14 and G15), and through support for ‘change agents’, that is, institutional quality champions. Again, such activities and related quality enhancing structures could be supported by ESF-funded programs. All activities in that field would need to take into account the Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG) (ENQA 2015).

P13. Facilitate transparent governance structures within institutions.

Laws and regulations regarding the governance structures (that is, the entirety of formalized decision-making and management arrangements) of HEIs need to be clear and provide transparent definitions of roles, responsibilities, and levels of autonomy of the various bodies and actors. Also future legislation needs to indicate what HEIs can decide by themselves. The government could furthermore stimulate greater decentralization within institutions, for example, by simultaneously strengthening the powers of deans, reducing the powers of collegial self-governance bodies, and enclosing the decision-making rights in a checks-and-balances system, which should be based on further analysis, for example, via functional reviews (see recommendations G7 and option ESF6), and might require subsequent adjustments of the legal framework. Clarity and transparency are also needed regarding the roles, responsibilities, and expectations of external stakeholders in advisory or supervisory bodies (such as the convents of counsellors and the governance councils of study directions—see recommendation G12) and in quality assurance procedures. In that respect, it is advisable that institutions are clearly aware of whether they are expected to give certain responsibilities to such bodies and stakeholders, or whether they are free to decide on their involvement (see World Bank 2016a:72–75). In general, it would be best if the government defined general principles (ibid.) which are then specified by the institutions within their organizational autonomy, thereby striking a balance between necessary sector-wide standards and the essential institutional autonomy (see also recommendation P16). For instance, a law or regulation could state that external stakeholders should have an explicit say on the institutional strategy, but the way in which that is implemented is decided by each HEI. Similarly and with a view to greater organizational effectiveness (see recommendation G7 and World Bank 2017:49–50, 52–53), the regulatory framework could determine that there should be a separation between internal legislative power (for example, concerning general principles of funding allocations or internal rules) on the one hand, and executive power or operational management (for example, responsibility for yearly allocations or the execution of rules) on the other hand, without determining all potential details of the implementation of such a separation.

P14. Keep students and staff well informed.

The government can set guidelines for how HEIs inform their staff and students to ensure their contribution to a balanced institutional development (guidelines as they have been developed, for example, by the European Students’ Union (2011) might serve as a source of inspiration for the government), which would be particularly relevant in case there is an internal adjustment of decision-making powers. In that respect, such an involvement

does not necessarily imply providing students and staff members with ultimate decision-making powers (in collegial bodies). As discussed (see recommendation P13), finding the right balance between sector-wide principles and institutional autonomy is also important in this respect (see also recommendation P16).

P15. Actively develop management and administration skills among (interested) staff members to create a pool of upcoming managers and leaders.

It is recommended that the management capacity development in the higher education sector (see recommendations F21 and G14) be supported by the government. That can be done by providing separate funds for that purpose, for example, in the form of ESF-funded programs supporting trainings (see option ESF4), by promoting a more centralized higher education management development program in which HEIs collaborate or jointly determine their needs, or by assigning the responsibility to one of the HEIs (without subsequent direct involvement of the government but potentially supported by ESF).

P16. Preserve the autonomy of higher education institutions.

Any future attempt to promote certain developments within HEIs needs to take into account the potential impact on the autonomy of institutions, which is a fundamental component of the overall higher education governance approach in Latvia that contributes to the system's efficiency and effectiveness, and should therefore be preserved.

3.3 Options for the Use of European Structural Funds

The improvement of governance in Latvian HEIs and assistance with strategy implementation are the key objectives of the strategic background of ESF funding when it comes to support for internal funding and governance. The strategic framework in which the potential allocations of ESF funding are embedded includes the “National Reform Programme of Latvia for the Implementation of the ‘Europe 2020’ Strategy” and the “Operational Programme ‘Growth and Employment.’” Within that framework, there is a wider range of ESF programs for 2014–20 from which HEIs in Latvia can benefit, some of which are still in a development phase. Of particular importance for the fields of internal funding and governance addressed in this report is specific objective (SO) 8.2.3, which aims at better governance within HEIs and which has as one of its core objectives supporting institutional strategy implementation, but also SO 8.2.2 aiming at strengthening the capacity and competences of academic staff members, and SO 8.2.1 aiming at the development of competitive study programs in EU languages and joint doctoral programs. Potential options for using ESF funding to promote internal funding and governance in Latvian HEIs within the discussed framework are the following, which cover basic considerations concerning the use of ESF funding and specific objectives that could be covered by ESF-funded programs.

Basic Considerations

- ESF1. There is no single best funding measure to be used for ESF funding. Developments would need to be addressed with a variety of targeted financial support measures. The new three-pillar funding model currently under development reflects the priorities of the MoES, and constitutes an overarching frame on the system level, and additional funding would at best be distributed as part of this model to support those priorities.
- ESF2. One way in which ESF funding could be used would be to finance a systematic third-pillar component with target agreements on the state level in the form of a funding pool (linked to target agreements) for either innovative projects or to support the development of institution-specific profiles. Innovative projects to be funded by such a pool of resources could include experiments with new study programs or the improvement of the quality of existing programs (see also recommendation F8). In past years, ESF funds were used to make institution-specific investments. A systematic link to the third pillar would mean framing the funding through an explicit link to institutional strategies, also measuring the impact on the attainment of strategic objectives at the institutional and national level (see also recommendation P3).

Specific Objectives

- ESF3. An integrated database that creates the technical basis for institution-specific MISs could also be an important target of funding. Efforts to create such a database would benefit from taking into account the need (on the side of HEIs) for a sufficient data quality, the relevance of nationally aligned data, and the potential that existing datasets that are currently not used for that purpose bear (see recommendations F22 and P6). In addition, the possibilities for HEIs to use MISs need to be considered, for example, as a source of information for strategic decision making and steering (see recommendation G4), or as an accountability instrument supporting authority relationships (see recommendation G6).
- ESF4. ESF funding could be used to promote competence development in higher education management (which is supposed to be supported by SO 8.2.2). Possibilities for that include establishment of a respective unit at one HEI (potentially, also in collaboration among the Baltic states to create a critical mass), supporting formats of peer learning for decision makers, and targeted trainings in higher education management (see also recommendation P15). Any form of support for higher education management competence development would need to account for the diversity of potential beneficiaries (ranging from the central-level and unit-level leaders to administrators) and the variety of skills needs (ranging from strategic management and an understanding of the dynamics of using different incentive mechanisms to the implementation of quality assurance instruments) (see recommendations F21 and G14), while any assessment would need to be based on the agreed learning outcomes of the respective programs. That way, Latvia and its HEIs could become part of a European community revolving around academic training in higher education management, possibly also providing impulses to expand applied research on HEIs.

- ESF5. Promotion of the strategic development of institutions is a particularly important purpose and an avowed activity to be supported by SO 8.2.3. The institutional strategies, which are anchored under the strategy of the MoES, are an important point of reference in that respect. Potential funding instruments and mechanisms that HEIs could deploy for strategy implementation are, among others, strategic or innovation funds of the rectorate, innovative research funds (for example, dedicated to high risk research outside existing institutional profile areas), study program development funds, young researcher funds, and matching funds for EU projects (see also recommendation F8; for details and examples see World Bank 2016a:29–33). All these mechanisms could be supported via ESF funding. An important question to be addressed here is co-funding modalities, for example, arrangements where the MoES provides financial support that is reinforced by HEIs. Generally, a sensible approach would be for HEIs to establish and conceptualize targets, complemented by MoES-initiated peer review procedures that check the quality of internal instruments, such as whether performance orientation is guaranteed and whether mechanisms are competitive.
- ESF6. For the further development of institution-internal decision-making structures, funding could support HEIs with functional reviews of their governance structures, leading to detailed concepts for institutional checks and balances. Key questions that need to be covered by a functional review concern: the complexity and transparency of governance structures, for example, potential duplications in functions, responsibilities, and tasks, and potential multiple memberships of individuals in units that stand in vertical or horizontal authority relations to each other (see recommendation G7); the appropriate distribution of authority among organizational levels (see recommendation G10), including matters of financial autonomy of decentralized units (see recommendations F17 and F18); connections to potential changes of academic structures (see recommendations G8 and G9); an adequate balance between academic and managerial self-governance with sufficient decision-making powers of key management positions (see recommendation G11); and appropriate ways of involving external stakeholders (see recommendation G12) and internal stakeholders (see recommendation G13).
- ESF7. Another reasonable option for using ESF funding is the further development of quality assurance structures and processes, one of the activities explicitly envisaged under SO 8.2.3. That could be done through support for individual institutions or could take the form of a project involving all Latvian HEIs. One option would also be to establish a competitive fund that supports innovative proposals and good practice approaches in the field of quality assurance that could then be replicated by other institutions. In this, it would be important to promote that quality assurance is embedded comprehensively as an essential part of the HEIs' operations in the form of a quality culture (for example, via targeted training for institutional leadership and other staff, or via support for 'change agents', that is, institutional quality champions), and to support the institutionalization of quality assurance within HEIs and the development of suitable quality assurance instruments (see recommendations G5 and P12).
- ESF8. Finally, to create a stronger basis for teaching and research quality and excellence, ESF funding could be used to support initiatives to intensify collaboration and, in some cases, mergers, among HEIs, their faculties, and research institutes. Support programs in that respect need to account for the potential conflicts and critical outcomes of mergers (for example, the absence of actual collaboration despite a

formal merger) (see recommendation G8). A recommendable approach that mitigates several of the challenges related to (internal) restructuring processes—and which could be either used directly by the ESF-funded program or supported via the program—consists in providing top-down support for bottom-up efforts, that is, establishing incentives but leaving the choice to the institutions or units in question (see recommendation P11). In addition, it is important to keep in mind that questions of internal restructuring are also closely related to questions of decentralized financial autonomy (see recommendation F18).

3.4 Considerations on Priorities for the Near Future

Some of the possibilities for the Latvian government to promote internal funding and governance within HEIs can be implemented in the short term, whereas others are long-term tasks or need to be attuned to related activities within institutions. A first set of the recommendations presented above could already be addressed during the next round of the annual funding negotiations between the MoES and HEIs, for example, considering how to increase the dynamic of first-pillar funding allocations within institutions and how to enable support for innovative new programs (P1). The upcoming design of ESF-funded programs provides the opportunity to implement another recommendation in the near future, namely, to ensure that the programs contribute to strategic targets on the national and the institutional level, and that this connection is made clear (P3). It would also be relevant for the Latvian government to reflect on the future development of financial (and other) framework conditions for HEIs and to communicate their reliability actively (P7) as soon as possible. Complementing related efforts of HEIs, the government could offer support for the development of management and administration skills within institutions (P15) already in the short term. In the medium term, two tasks stand out: introducing coherent data requirements for institutions (P6), also in connection to the establishment of a centralized higher education information system, and promoting institutional strategies that are well-targeted and realistic (P8). Long-term tasks for the government concern more comprehensive undertakings such as the development of a national strategy, including adequate communication mechanisms (P9) and progress monitoring instruments (P10), and substantive changes to the system-level funding model such as extending the performance orientation of the second pillar of the state funding model to the field of teaching and learning (P2). Finally, additional options for supporting HEIs with their reform efforts and for promoting the right framework conditions in the form of specific programs funded via ESF would need to be attuned to the strategic priorities emerging on the national and the institutional level, and the respective timelines.

References

- ENQA (European Association for Quality Assurance in Higher Education). 2015. "Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG)." http://www.enqa.eu/wp-content/uploads/2015/11/ESG_2015.pdf.
- European Students' Union. 2011. *No Student Left Out. The do's & don'ts of student participation in higher education decision-making*. Brussels: European Students' Union. <https://www.esu-online.org/wp-content/uploads/2016/07/ESCBI-handbook-online.pdf>.
- World Bank. 2014. *Higher Education Financing in Latvia: Final Report*. Washington, DC: World Bank. http://viaa.gov.lv/files/news/24067/lv_hef_r3vsub_190922014_c_final.pdf.
- . 2016a. *International Trends and Good Practices in Higher Education Internal Funding and Governance*. Washington, DC: World Bank. http://www.izm.gov.lv/images/izglitiba_augst/Pasaules_Banka/LV_2nd_HEd_RAS_Ph1_Trends_and_Practices_20Dec16_post_review_final.pdf.
- . 2016b. *Latvian doctoral studies and promotion system*. Washington, DC: World Bank.
- . 2017. *Internal Funding and Governance in Latvian Higher Education Institutions: Status Quo Report*. Washington, DC: World Bank. http://www.izm.gov.lv/images/izglitiba_augst/Pasaules_Banka/LV_2nd_HEd_RAS_Ph1_Status_Quo_Report_EXT_FINAL_13Feb17.pdf.

Annex 1 – Overview on Recommendations on Internal Funding for Higher Education Institutions, Related Selected Recommendations for the Government, and Related Options for the Use of European Structural Funds

The following table contains the requirements for good internal funding models (first column), the status quo of internal funding in Latvian HEIs (second column), the recommendations on internal funding for HEIs (third column), related selected recommendations for the government¹¹ (fourth column), and related options for the use of ESF funding¹² (fifth column).

Recommendations that apply to more than one category are listed under each relevant category.

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
A. Strategic orientation				
A.1. Aligning internal funding model with external revenue streams and reflecting national goals	<ul style="list-style-type: none"> Performance orientation and focus on research of the second pillar of the state funding model are taken up internally Basic alignment of external and internal incentives is given for all income streams Alignment of incentives connects system-level policy objectives and institutional activities 	<ul style="list-style-type: none"> Continue to adapt to changes in external state funding. (F1) Put more effort into finding ways of translating the state funding model into a specific internal allocation model that corresponds to the 	<ul style="list-style-type: none"> Ensure and communicate the reliability of external framework conditions for internal developments. (P7) 	<ul style="list-style-type: none"> ESF5. Promotion of the strategic development of institutions is a particularly important purpose and an avowed activity to be supported by SO 8.2.3. The institutional strategies, which are anchored under the strategy of the

¹¹ The full set of recommendations for the government on internal funding is presented above in chapter 3. Recommendations for the government that are related to more than one requirement or recommendation for HEIs are listed multiple times in the table.

¹² In the following table, only those potential options for the use of ESF funding that address specific objectives have been taken up in a shortened form as compared to the main text. Options for the use of ESF that are related to more than one recommendation are listed multiple times in the table.

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
A.2. Promoting institutional strategies and profiles	<ul style="list-style-type: none"> Funding models are connected to institutional strategies in different ways (including deliberate deviations from the system-level allocation mechanisms) Scope for use of new models in support of institutional priorities remaining Limited use of innovation funds to stimulate profiling 	<p>institutional profile and situation. (F2)</p> <ul style="list-style-type: none"> Treat the development of internal allocation systems and strategy development as “two sides of the same coin.” (F3) Establish incentives to use specific opportunities to generate more funds for the institution. (F4) 		MoES, are an important point of reference in that respect. Potential funding instruments and mechanisms that HEIs could deploy for strategy implementation are, among others, strategic or innovation funds of the rectorate, innovative research funds, study program development funds, young researcher funds, and matching funds for EU projects. All these mechanisms could be supported via ESF funding.
A.3. Promoting unit-level objectives	<ul style="list-style-type: none"> Unit-level specification and differentiation are not clearly promoted by the internal funding models due to the current structural particularities 			
B. Incentive orientation				
B.1. Creating performance rewards and sanctions	<ul style="list-style-type: none"> Incentives are provided to units and/or individuals in most institutions Performance orientation of state funding model’s second pillar is taken up in most institutions; some institutions also provide performance incentives via other funding streams (e.g., research base funding) Only a few performance incentives for teaching and learning and third mission exist Challenges related to the impact of incentives exist (e.g., the lack of funding available for targeted allocations; major reliance on one 	<ul style="list-style-type: none"> Continue to strengthen the performance orientation in the internal funding model. (F5) Create a balance of incentives regarding the core missions of research, teaching and learning, and valorization. (F6) Support program innovation via base funding for teaching and learning, and remain sensitive in relating programs and study 	<ul style="list-style-type: none"> Extend the performance orientation under the second pillar of the state funding model to teaching and learning. (P2) Promote the integration of all core missions into institution-internal funding models. (P5) Allow for more internal dynamics and for support for 	

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
	income source for some institutions and units)	places to demand as far as possible within the given framework. (F7)	innovative new programs under the first pillar of the state funding model. (P1)	
B.2. Providing clear and nonfragmented incentives	<ul style="list-style-type: none"> Potential fragmentation of incentives in some institutions (due to high number of objectives/indicators; fragmentation of rewards for different types of activities) 	<ul style="list-style-type: none"> Experiment more with internal third-pillar elements to create incentives for realizing innovations and change, and to promote prospective performance orientation. (F8) 	<ul style="list-style-type: none"> Ensure and communicate the reliability of external framework conditions for internal developments. (P7) 	
B.3. Avoiding undesired side effects	<ul style="list-style-type: none"> Limited incentives to collaborate across programs and units in some cases Potential neglect of innovation through new study programs due to overall focus on research of incentive models and inflexible study-place approach Potential lack of targeted funding incentives for less established or upcoming researchers Incentives provided to individuals directly bear particularly high potential for unintended side effects (crowding out of intrinsic motivation) 	<ul style="list-style-type: none"> Seek possibilities to create funding components that allow units to define performance measurement according to their own priorities (especially within larger institutions). (F9) Develop indicator systems with an adequate degree of complexity. (F16) Monitor the impact of funding models (including potential unintended side effects) and at the same time consider issues of continuity, especially if changes are perceived to be necessary. (F20) Strengthen incentives for good performance by striking a balance 		

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
		between rewarding individuals and groups or units. (F10)		
C. Sustainability and balance				
C.1. Combining top-down and bottom-up approaches	<ul style="list-style-type: none"> Financial autonomy and competences of units are limited 	<ul style="list-style-type: none"> Seek possibilities to create funding components that allow units to define performance measurement according to their own priorities (especially within larger institutions). (F9) Gradually strengthen financial autonomy of decentralized units such as faculties and institutes. (F17) Create the organizational preconditions for decentralized financial autonomy. (F18) Monitor the impact of funding models (including potential unintended side effects) and at the same time consider issues of continuity, especially if changes are perceived to be necessary. (F20) Use the structure of the three-pillar model to reflect the balance in the 	<ul style="list-style-type: none"> Ensure and communicate the reliability of external framework conditions for internal developments. (P7) Promote the integration of all core missions into 	
C.2. Providing a sufficient level of stability	<ul style="list-style-type: none"> Marked differences in degree of income diversification of institutions and units (hence insufficient degree of risk spreading in at least some cases) Funding models can forward the potential for stability provided by state funding for study places to units 			
C.3. Guaranteeing continuity in development	<ul style="list-style-type: none"> Regular adaptations of models in at least some institutions Communication surrounding change processes not always well developed 			
C.4. Balancing the overall model architecture	<ul style="list-style-type: none"> First and second pillars established Third pillar not developed yet within many institutions (e.g., lack of targeted support for innovative projects) 			
C.5. Promoting diversification of unit-level funding sources	<ul style="list-style-type: none"> Funding models contain incentives for revenue generation activities Revenue generation is directly supported in some institutions 			
C.6. Balancing the key	<ul style="list-style-type: none"> All missions are accounted for in internal funding models 			

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
institutional missions	<ul style="list-style-type: none"> • Bias toward research in the incentives and strategic steering—reflecting the system-level funding model • Potential for better integration of missions 	<p>internal funding model. (F11)</p> <ul style="list-style-type: none"> • Experiment more with internal third-pillar elements to create incentives for realizing innovations and change, and to promote prospective performance orientation. (F8) • Balance different orientations in research funding. (F12) • Use both formula funding and target agreements in internal allocations. (F13) • Establish incentives to use specific opportunities to generate more funds for the institution. (F4) • Find a balanced approach to promote external revenue generation and to fund central infrastructure and services by retaining a share of third-party funds on the central level. (F14) 	institution-internal funding models. (P5)	
D. Transparency and fairness				
D.1. Ensuring transparency	<ul style="list-style-type: none"> • Basic understanding by institutions' members and transparency exist • Lack of in-depth knowledge about functioning of funding models in some parts of institutions 	<ul style="list-style-type: none"> • Be more active—and not only reactive—in creating internal transparency on funding criteria and outcomes. (F15) 		

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
D.2. Supporting the perception of fairness	<ul style="list-style-type: none"> Perception of fairness promoted by extensive discussion processes surrounding internal funding models Extent to which field differences are taken into account remains questionable in some institutions 	<ul style="list-style-type: none"> Develop indicator systems with an adequate degree of complexity. (F16) 		
E. Level of autonomy and flexibility				
E.1. Guaranteeing financial autonomy and academic freedom	<ul style="list-style-type: none"> Financial autonomy of institutions is comparatively high Restrictions result from lack of available funds 	<ul style="list-style-type: none"> Gradually strengthen financial autonomy of decentralized units such as faculties and institutes. (F17) Create the organizational preconditions for decentralized financial autonomy. (F18) 		
E.2. Implementing an adequate level of regulation	<ul style="list-style-type: none"> The corresponding level of regulation is adequate 			
F. Link to governance and management; practical feasibility				
F.1. Increasing reliability and availability of data	<ul style="list-style-type: none"> Information and data required for current allocation mechanisms available for the most part Challenges related to different sources and types of data in some cases 	<ul style="list-style-type: none"> Share information and implement formats of benchmarking and peer counselling. (F19) Monitor the impact of funding models (including potential unintended side effects) and at the same time consider issues of continuity, especially if changes are perceived to be necessary. (F20) Promote human resource development in higher 	<ul style="list-style-type: none"> Actively develop management and 	<ul style="list-style-type: none"> ESF3. An integrated database that creates the technical basis for institution-specific MISs could also be an important target of funding. ESF4. ESF funding could be used to promote competence development in higher education management (which is supposed to be supported by SO 8.2.2).
F.2. Ensuring administrative efficiency	<ul style="list-style-type: none"> Administrative efficiency hampered by extensive decision-making processes and restrictions in budgeting processes 			
F.3. Ensuring coherence with other governance	<ul style="list-style-type: none"> Internal funding models mirror governance approaches and take into account cultural particularities of institutions 			

Requirements for Good Internal Funding Models	Status Quo of Internal Funding in Latvian Higher Education Institutions	Recommendations on Internal Funding for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
approaches and university culture		education management. (F21)	administration skills among (interested) staff members to create a pool of upcoming managers and leaders. (P15)	Possibilities for that include establishment of a respective unit at one HEI (potentially, also in collaboration among the Baltic states to create a critical mass), supporting formats of peer learning for decision makers, and targeted trainings in higher education management.
F.4. Ensuring the ability of the leadership to act	<ul style="list-style-type: none"> • Scope of decision-making rights of institutional leadership and managerial capacity in the institutions questionable (due to far-reaching competences of collegial bodies) 	<ul style="list-style-type: none"> • Develop integrated management information systems and use available systems whenever possible. (F22) 	<ul style="list-style-type: none"> • Introduce coherent data requirements. (P6) 	

Annex 2 – Overview on Recommendations on Internal Governance for Higher Education Institutions, Related Selected Recommendations for the Government, and Related Options for the Use of European Structural Funds

The following table contains the requirements for good internal governance arrangements (first column), the status quo of internal governance in Latvian HEIs (second column), the recommendations on internal governance for HEIs (third column), related selected recommendations for the government¹³ (fourth column), and related options for the use of ESF funding¹⁴ (fifth column).

Recommendations that apply to more than one category are listed under each relevant category.

Requirements for Good Internal Governance Arrangements	Status Quo of Internal Governance in Latvian Higher Education Institutions	Recommendations on Internal Governance for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
A. Strategic development and governance				
A.1. Having in place clear and precise institutional strategies aligned with institutional strengths/weaknesses and their environment	<ul style="list-style-type: none"> All institutions engage in strategic planning Particular attention is given to research/research strategies; some institutions have full-fledged institutional strategies Relevance of strategies for strategic steering purposes varies (due to, for example, generic character and lack of preciseness) 	<ul style="list-style-type: none"> Formulate SMART institutional strategies based on a SWOT analysis. (G1) Keep the communication on the strategy focused and make transparent how various stakeholders contributed. (G2) Ensure actual implementation of the strategy and translate the strategy into policies aimed at achievable goals. (G3) 	<ul style="list-style-type: none"> Stimulate higher education institutions to produce well-targeted and realistic strategic plans. (P8) 	<ul style="list-style-type: none"> ESF5. Promotion of the strategic development of institutions is a particularly important purpose and an avowed activity to be supported by SO 8.2.3. The institutional strategies, which are anchored under the strategy of the MoES, are an important point of reference in that respect. Potential funding instruments and
A.2. Having in place action plans that structure and support the strategy	<ul style="list-style-type: none"> Not all institutions have developed action plans 			

¹³ The full set of recommendations for the government on internal governance is presented above in chapter 3. Recommendations for the government that are related to more than one requirement or recommendation for HEIs are listed multiple times in the table.

¹⁴ In the following table, only those potential options for the use of ESF funding that address specific objectives have been taken up in a shortened form as compared to the main text. Options for the use of ESF that are related to more than one recommendation are listed multiple times in the table.

Requirements for Good Internal Governance Arrangements	Status Quo of Internal Governance in Latvian Higher Education Institutions	Recommendations on Internal Governance for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
implementation process		<ul style="list-style-type: none"> • Monitor implementation progress, for example, by keeping track of key performance indicators. (G4) 		<p>mechanisms that HEIs could deploy for strategy implementation are, among others, strategic or innovation funds of the rectorate, innovative research funds, study program development funds, young researcher funds, and matching funds for EU projects. All these mechanisms could be supported via ESF funding.</p>
A.3. Basing strategies on in-depth analyses and involving internal stakeholders in the strategy development process	<ul style="list-style-type: none"> • Discussion processes leading to institutional strategies involve a wide range of stakeholders • Extent to which stakeholder input is taken up is questionable in some cases 	<ul style="list-style-type: none"> • Develop a simple and transparent governance structure with as few overlaps and duplications of functions and positions as possible. (G7) 		
A.4. Developing measures for the implementation of strategies	<ul style="list-style-type: none"> • Different instruments for strategy implementation are in place (e.g., connection to funding models) • Scope for improvement remains in many institutions (e.g., systematic communication strategies; new funding instruments) 	<ul style="list-style-type: none"> • Consider forming larger institutional subunits, but do not perceive size as a goal in itself, and design internal mergers carefully. (G8) • Integrate research institutes to increase mass, stimulate innovation, and forge stronger links among teaching and learning and research. (G9) 	<ul style="list-style-type: none"> • Stimulate excellent research and the integration of teaching and research. (P11) • Facilitate transparent governance structures within institutions. (P13) 	<ul style="list-style-type: none"> • ESF6. For the further development of institution-internal decision-making structures, funding could support HEIs with functional reviews of their governance structures (see also recommendation G7), leading to detailed concepts for institutional checks and balances.
A.5. Monitoring the strategy implementation process and adapting instruments/objectives if necessary	<ul style="list-style-type: none"> • Great variety among institutions related to strategy implementation monitoring (from hardly any monitoring at all to yearly discussions based on key performance indicators) 			
A.6. Securing and monitoring fitness for purpose of governance structures	<ul style="list-style-type: none"> • Fragmented structure of (heterogeneous) units and overall high complexity of internal structures • Several instances of decoupled research institutes 			<ul style="list-style-type: none"> • ESF8. To create a stronger basis for teaching and

Requirements for Good Internal Governance Arrangements	Status Quo of Internal Governance in Latvian Higher Education Institutions	Recommendations on Internal Governance for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
	<ul style="list-style-type: none"> Attempts to consolidate academic structures and streamline governance structures in some institutions Some deficiencies related to the connection of different higher education missions 			<p>research quality and excellence, ESF funding could be used to support initiatives to intensify collaboration and, in some cases, mergers, among HEIs, their faculties, and research institutes.</p>
A.7. Accompanying institutional developments with change management	<ul style="list-style-type: none"> Various new policy instruments addressing, in particular, pillar-two funding To be developed further; e.g., with respect to collaboration across units, integration of teaching and learning and research, and acquisition of funding for innovation 			
B. Autonomy and accountability				
B.1. Securing academic freedom	<ul style="list-style-type: none"> Obligations of institutions as defined by the Law on Institutions of Higher Education (LIHE) (Section 6) 	<ul style="list-style-type: none"> Develop further internal quality assurance procedures such as an annual improvement plan and report, and create units or positions with a clear mandate of taking on responsibility for quality assurance. (G5) Develop accountability mechanisms that measure (individual) performance without jeopardizing academic freedom. (G6) 	<ul style="list-style-type: none"> Promote the development of a quality culture within institutions and related procedures such as annual improvement plans and reports. (P12) 	<ul style="list-style-type: none"> ESF7. Another reasonable option for using ESF funding is the further development of quality assurance structures and processes, one of the activities explicitly envisaged under SO 8.2.3. That could be done through support for individual institutions or could take the form of a project involving all Latvian HEIs. ESF3. An integrated database that creates the technical basis for institution-specific MISs
B.2. Maintaining academic integrity	<ul style="list-style-type: none"> Specific instruments such as ethics committees and code of ethics exist in at least some institutions 			
B.3. Anchoring accountability measures and quality assurance in governance structures	<ul style="list-style-type: none"> Several institutions have bodies on the central level responsible for quality assurance 			
B.4. Establishing adequate monitoring procedures and	<ul style="list-style-type: none"> Selected challenges related to definitions of indicators and valid data collection methods 			

Requirements for Good Internal Governance Arrangements	Status Quo of Internal Governance in Latvian Higher Education Institutions	Recommendations on Internal Governance for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
management information systems	<ul style="list-style-type: none"> Comprehensive management information systems not established in most institutions 			could also be an important target of funding.
C. Good governance 1: Cooperation and participation				
C.1. Balancing responsibility of collegial bodies and personal responsibility maintaining a cooperative approach	<ul style="list-style-type: none"> Deep-rooted democratic culture and highly interactive and inclusive decision-making processes on all institutional levels Balance tilted toward responsibility of collegial bodies as opposed to personal responsibility 	<ul style="list-style-type: none"> Strengthen decision-making powers of key management positions while balancing academic and managerial self-governance in an adequate way, and analyze critically the checks and balances for all aspects of decision making. (G11) 	<ul style="list-style-type: none"> Facilitate transparent governance structures within institutions. (P13) 	<ul style="list-style-type: none"> ESF6. For the further development of institution-internal decision-making structures, funding could support HEIs with functional reviews of their governance structures (see also recommendation G7), leading to detailed concepts for institutional checks and balances.
C.2. Involving external stakeholders in institutional governance and securing their proper conduct	<ul style="list-style-type: none"> External stakeholders are involved in different ways (on central level and on lower institutional levels) Involvement mostly in an advisory capacity (missing formal rights and responsibilities) 	<ul style="list-style-type: none"> Design clear roles, responsibilities, and rights related to the involvement of external stakeholders in internal governance. (G12) 		
C.3. Developing appropriate ways of involving internal stakeholders on different institutional levels	<ul style="list-style-type: none"> Well-developed involvement of internal stakeholders (especially due to democratic and inclusive governance processes) Student representatives are generally well informed and strongly integrated into decision-making procedures 	<ul style="list-style-type: none"> Keep students and staff well-informed, and take up their initiatives. (G13) 	<ul style="list-style-type: none"> Keep students and staff well informed. (P14) 	
D. Good governance 2: Differentiation of functions and distribution of powers				
D.1. Separating strategic and	<ul style="list-style-type: none"> Strategic and management tasks not always clearly separated 	<ul style="list-style-type: none"> Strengthen decision-making powers of key 		

Requirements for Good Internal Governance Arrangements	Status Quo of Internal Governance in Latvian Higher Education Institutions	Recommendations on Internal Governance for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
management tasks framed by checks and balances		management positions while balancing academic and managerial self-governance in an adequate way, and analyze critically the checks and balances for all aspects of decision making. (G11)	<ul style="list-style-type: none"> Facilitate transparent governance structures within institutions. (P13) 	<ul style="list-style-type: none"> ESF6. For the further development of institution-internal decision-making structures, funding could support HEIs with functional reviews of their governance structures (see also recommendation G7), leading to detailed concepts for institutional checks and balances.
D.2. Equipping central leadership with sufficient and adequate competences	<ul style="list-style-type: none"> Lack of competences of central leadership due to strong position of bodies of collegial self-governance 	<ul style="list-style-type: none"> Develop a simple and transparent governance structure with as few overlaps and duplications of functions and positions as possible. (G7) 		<ul style="list-style-type: none"> ESF4. ESF funding could be used to promote competence development in higher education management (which is supposed to be supported by SO 8.2.2). Possibilities for that include establishment of a respective unit at one HEI (potentially, also in collaboration among the Baltic states to create a critical mass), supporting formats of peer learning for decision makers, and targeted trainings in
D.3. Securing efficiency and transparency of governance structures	<ul style="list-style-type: none"> Complex governance structures with a high number of bodies and actors and extensive informal negotiation processes lead to lack of efficiency and effectiveness of internal governance processes 	<ul style="list-style-type: none"> Distribute authority appropriately and clearly among organizational levels, and find the right balance between top-down and bottom-up relations among them in decision-making processes. (G10) 		
D.4. Establishing an adequate level of devolution	<ul style="list-style-type: none"> Weak position of units and unit leadership Sporadic attempts to strengthen units 	<ul style="list-style-type: none"> Actively develop management and administration skills among (interested) staff to create a pool of (future) managers and leaders, and to facilitate a culture of change management. (G14) 	<ul style="list-style-type: none"> Actively develop management and administration skills among (interested) staff members to create a pool of upcoming managers and leaders. (P15) 	
D.5. Ensuring staff development and developing human resource strategies	<ul style="list-style-type: none"> Only a few human resource development initiatives for higher education management and administration 			

Requirements for Good Internal Governance Arrangements	Status Quo of Internal Governance in Latvian Higher Education Institutions	Recommendations on Internal Governance for Higher Education Institutions	Related Selected Recommendations for the Government	Related Options for the Use of European Structural Funds Funding
				higher education management.