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The Higher Education Financing System: The Case of Latvia

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Abstract

The aim of the present article is to evaluate the higher education financing system and to consider the opportunities for improvement of the higher education financing model in Latvia. To reach this aim, the authors have analyzed the sources of direct and indirect financing of higher education establishments in Latvia and the conditions for allocation of financial resources. Investigating the higher education financing model, the existing model has been analyzed, which comprises a range of baseline costs. It has been concluded that in order to improve the financing model of the Latvian higher education system, it should be reoriented towards increasing performance efficiency and effectiveness of higher education establishments. Having conducted the present research, the authors have come to the conclusion that the higher education financing model of the Latvian state higher education establishments should be mainly based on the state funding. It is also necessary to develop and elaborate the system according to which higher education establishments will have to perform internal proportional allocation of funds.

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Keywords: Higher education; financing system; Latvia;

1. Development of the Higher Education Financing System in Latvia

Nowadays, the social role of higher education is getting more and more significant, it has become an important factor promoting development. Higher education does not only ensure comprehensive personality development, but also has an impact on economic progress, thus reflecting the importance of the higher education.

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The problems persisting in the field of higher education and the issues connected with the financing of higher education have been widely discussed not only by the researchers but also by the general public (Altbach et al, 2009; Marginson, and Wende, 2007; Ferlie, 2008 and other authors). In Latvia, the improvement of the higher education financing mechanism has been set as the main precondition in the strategic development documents of the state in general and higher education in particular.

The existing model of higher education financing system in Latvia has been developing since 2002, starting with 2001 a range of regulating legal enactments, norms and regulations have been passed (Law on Institutions of Higher Education, 1995; General Education Law, 1998; Regulations of the Cabinet of Ministers of the Republic of Latvia No 1316, 2009; Regulations of the Cabinet of Ministers of the Republic of Latvia No 994, 2006 and other Laws and Regulations of the Cabinet of Ministers of the Republic of Latvia).

In accordance with the existing Latvian higher education financing model, financing of higher education in Latvia can be received not only from the state, but also from municipalities, legal and natural persons.

2. Discussion

Allocating state funding to the accredited higher education establishments founded by the state, municipalities, or other legal persons, the system of public contract is used. It means that the Ministry of Education and Science and other ministries controlling higher education establishments sign an agreement with a higher education establishment on educating and training a definite number of specialists at a definite price. In Latvia, the formula estimated on the basis of the number of students is used to determine the amount of financing to be allocated. Therefore, based on the planned number of students, the amount of financing for Bachelor, higher professional education, and Master study programs is determined using the following formula (1):

\[
F_s = T_b \times \left[ \sum (k_i \times n_i) + 1,5 \times \sum (k_i \times m_i) \right] + S_b \times \sum (n_i + m_i)
\]

where:
- \( F_s \) – amount of student funding, EUR;
- \( T_b \) – baseline costs per student, EUR;
- \( k_i \) – thematic field index of the respective education field;
- \( n_i \) – the number of study positions allocated for a higher educational establishment at Bachelor and higher professional education study programs in the respective education field;
- \( m_i \) – the number of students in the respective education field at Master study programs;
- \( S_b \) – social support per student at Bachelor, higher professional education, and Master study programs, EUR.

As it can be seen from formula (1), the amount of student funding is determined considering the number of students to be trained, which is allocated by the state to a respective higher education establishment or college at Bachelor, higher professional education, and Master study programs (\( n_i, m_i \)), as well as the baseline costs per student (\( T_b \)) and thematic field index of the respective education field (\( k_i \)). It can be also noticed that student funding at Master study programs is planned to be one and a half times higher comparing with the study costs of Bachelor study programs.

Baseline costs per student include the following expenses: employee remuneration; employer contributions to social security payments; work and business trip expenses; service expenses; materials, energy resources, water and inventory charges; purchasing of books and magazines; equipment procurement and modernization costs. It should be pointed out that each accounting item listed above consists from several elements.
Based on the analysis performed, the authors conclude that in order to improve the existing model of higher education financing, it should be reoriented towards increasing performance efficiency and effectiveness of higher education establishments. The authors propose to supplement the existing formula for the calculation of the amount of financing (1) with the efficiency ratio ($k_i'$):

$$ F_s = T_b \times k_i'\left[S(k_i \times n_i) + 1.5S(k_i \times m_i)\right] + S_b \times S(n_i + m_i) $$

$$ F_d = 3T_b \times k_i' \times S(k_i \times d_i) + S_d \times S_{di} $$

Two types of methods can be used to estimate efficiency ratio. The first method: if the agreement with the Ministry of Education and Science on educating and training of specialists in the previous fiscal year was implemented fully:

100% - ($k_i'$) = 1.00 (for the following financial year);
99% - ($k_i'$) = 0.99;
80% - ($k_i'$) = 0.80;
50% - ($k_i'$) = 0.50.

Therefore, if the implementation of agreement is lower than 50% an issue on closing the study programme is considered (withdrawal of funding per one student). The second method would be more precise and scientifically justified, but it is complex and demands additional research. Its essence is the following: number of graduates is attributed to the number of enrolled 1st year students during the period of acquiring the respective study programme.

In conclusion, the authors repeatedly stress that if the state does not have sufficient financial resources, it is not the reason to reduce baseline financing. The amount of baseline financing is an economic category, and it depends on the prices of goods and services in a particular country in a particular year. The only correct solution in such situations is to reduce the amount of public contract.

References