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***Funding Systems
and Their Effects on
Higher Education Systems***

COUNTRY STUDY – LATVIA

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Krumins Juris, Kavale Lucija, Eglite Sandra, Leduskrasta Zane, Puce Juris,
Sloka Biruta, Stonis Janis, Zaksa Kristine (all University of Latvia)

Rivza Baiba (Higher Education Council)

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1 Introduction

The research goal of study is to describe the funding system of higher education and its impact on the overall development of higher education in Latvia. Special attention is paid to the period prior to Latvia joined the European Union in 2004 as well as the most recent changes.

Methods. The study is primarily based on qualitative research methods. Views of different groups of stakeholders are analyzed on the basis of survey data, interviews and focus group discussion results. The list of interviewees is presented in Appendix 1. A survey was performed among the members of the Latvian Rectors' Council and board of the Latvian Professors' Association. 41 questionnaires were obtained including 34 from representatives of state higher education institutions and 7 from private higher education institutions. 29 of the respondents were rectors and vice rectors, nine were department heads and three professors. A stakeholders in the study were grouped as follows: - Ministry of Finance and commercial banks, Ministry of Education and Science, Ministry of Economics, Ministry of Regional Development and Local Government; - Higher Education Council, Rectors' Council; representatives of employers; students. The views of these groups of stakeholders are reflected in this study. Only in particular cases an individual opinion is cited. Analysis of legislative and policy documents is performed as part of the study. Quantitative indicators are used to characterize specific features of the funding system of higher education, as well as the interaction of this system with the overall development of higher education.

2 Results

2.1 Main Features of the Funding System of Higher Education

The Education Law [EL] passed in 1991 triggered radical changes in the development of higher education in Latvia. It legitimized the democratization and decentralization of higher education which was already underway. State budget funding was shifted to full-time studies only and for students finishing their studies on a part-time basis. The Education Law enabled studies for tuition fees and establishment of private institutions of higher education.

Financial resources and higher education funding procedures are defined by the Law on Institutions of Higher Education [LIHE] (1995), the Education Law (1998) and other legislative documents (see Appendix 2). The Law on Institutions of Higher Education says that "Institutions of higher education shall be financed by the founders thereof. The founder of an institution of higher education shall provide financial resources and the control of the utilisation thereof for the continuous operation of the institution of higher education, as well as for the fulfilling of the tasks determined by the founder. The financial resources of State institutions of higher education shall be formed from the resources of the State general budget, as well

as other income which institutions of higher education earn by performing activities for the realisation of the aims specified in the constitutions thereof” (LIHE, Section 77 (1)).

Funding of higher education study programs is directly linked to determined number of study places. According to the Law on Institutions of Higher Education “The number of study places to be financed from the funds of the State budget in an institution of higher education shall be determined by the Minister for Education and Science on the basis of a proposal of the Council of Higher Education. The number of study places in institutions of higher education founded by local governments and other legal persons and natural persons shall be determined by the founder of these institutions of higher education” (LIHE, Section 51).

According to the Law on Institutions of Higher Education, the Higher Education Council has extensive competence and functions, including issues of funding the higher education. It has the authority, for example, to formulate proposals for the improvement of higher education and the study fee, to provide an opinion to the Minister for Education and Science and the Cabinet regarding the draft State budget for the financing of institutions of higher education. Twelve members of the Higher Education Council are the key stakeholders of the higher education market. Membership of the Higher Education Council is confirmed by Parliament – Saeima. The Higher Education Council’s resources to realize its mandate are limited, however.

Interviews with members of the Higher Education Council revealed inadequacies in existing funding vis à vis real costs of study programs. Funding of technical, natural, and arts study programs has for a long time been quite low and can be characterized as regressive. The Latvian Science and Education Workers’ Trade Union representative in interview pointed out that funding has been inadequate in those specializations that are necessary for development of national economy, and since these needs have not been assessed the available funding does not always reach its true goal. The Latvian Student Association representative emphasized that there is no information about long term market demand.

The Education Law states that “for programmes of higher education, the State shall cover the fees for the acquisition of education for a specified number of student positions in accordance with the State procurement specified for the relevant year; for other student positions each institution of higher education may determine the fees for the acquisition of education. A student may receive State credit for studies in higher educational programmes. The obtained credit shall be paid back or extinguished in accordance with the procedures prescribed by the Cabinet. An alien or a stateless person shall pay for the acquisition of education in accordance with a contract concluded with the relevant educational institution. For citizens of European Union States and their children who acquire education in Latvia, the fees for education shall be determined and covered in accordance with the same procedures as for citizens and permanent residents of the Republic of Latvia” (EL, Section 12 (2-5)).

Institutions of higher education are funded according to annual Law on State Budget. The Ministry of Education and Science, other ministries and state institutions may sign contracts

with accredited state, municipal or private institutions of higher education for the training of specialists in specific areas with appropriate funding.

The total amount of higher education funding increases annually (Figure 1). However, this increase is a result of growth of non-budget resources (Figure 2). In 1995, revenues from non-budget resources formed 21 per cent of total funding, but in 2005 these revenues surpassed budget funding and formed 59 per cent of total higher education funding (IZM, 2006). Tuition fee revenues boomed during that period.

Case study. Annual competition for state funded study places (“rotation”)

Most state institutions of higher education have devised a system whereby a student who fulfils minimum grade point requirements retains his state funded status for the entire length of his/her studies. The University of Latvia, where ¾ of the students pay tuition fees, has (upon recommendation of the Student Council) since 2001 established a yearly competition for the state funded places, so called “rotation”. All students at the same study year enrolled in the same study program take part in the competition. The only criterion to succeed in competition is the student’s grade points in the past academic year. Academic achievement statistics for all students are computerized and stored so as to ensure a fair competition. More than 15,000 students take part in the competition. As a result of the competition only 7 – 10 per cent of the students change their source of funding, but the competition is justified. Young people’s motivation to study has increased and students have become more demanding of their lecturers. Significant advantage of this system is the fact that students paying tuition fee see an opportunity to compete for state funded vacancies.

Initially institutions of higher education were funded based on detailed estimate documentation submitted to the Ministry of Education and Science, where each estimate entry was carefully checked. Higher education policy and state budget funding principles were not precisely formulated in that time. After a comprehensive assessment of the situation in Latvian higher education, OECD experts suggested the following (OECD, 2000):

improve the financing policy so as to ensure access to education to all students regardless of social and economic status; define the percentage of study costs to be covered by tuition costs; to promote student loans by offering interest rates and repayment terms that are student-friendly; define clear and transparent selection criteria for students applying for state funded vacancies; to increase finance and credit resources for those individuals returning to university as a result of changes in the education and/or labour market; to promote cooperation between universities and general secondary schools, professional and vocational schools, non-governmental organizations and other institutions supporting educational reform.

Steps have been taken in subsequent years to realize these suggestions.

An important stage in the alignment of higher education funding started by the passing of Cabinet of Ministers regulation Nr. 334: “Procedure for state funding of institutions of higher education” (2001). Based on this regulation, a unified normative financing principle was im-

plemented in Latvia from the year 2002. Unfortunately, the norms do not include several important positional entries like funding of internet access. According to this regulation, the annual funding of full-time studies is based on definite number of state funded study places for each university (this number along with the number of graduates is affirmed by a contractual agreement between rector and minister), basic cost per student and tuition cost coefficients by study fields. The tuition cost coefficient in the master degree program is 1.5, but in the doctoral program it is 3 times greater than the respective coefficient value in undergraduate study program. State funding is not available for part-time studies.

The main features of the funding system of higher education in Latvia are:

- State budget funding forms the smallest part of income in many state institutions of higher education. For example, the budget of the University of Latvia, the largest university in the three Baltic countries, included only 29 per cent budgetary subsidy in 2005.
- Tuition fee revenues are significant in the financing of study programs in social sciences and humanities. The institutions of higher education define tuition fees themselves, but students have a free choice to choose an institution and study program.
- There are several state defined differences between state and private institutions of higher education in the management of financial and other resources resulting in inequitable operations of these institutions. Differences include accounting, real estate ownership, staffing, purchasing procedures etc.
- State budget subsidy for research has been inadequate during the whole transition period to market economy. Assigning of funds by National Research Council is characterized by restrictions by research areas (certain areas receive no funding at all, like political science). Corporate ties can play a role as well. The cooperative ties between universities and the private business are inadequate and irregular. The researchers' own personal initiative efforts are a key factor.
- After entering the European Union, the share of funding from the EU budget at the institutions of higher education has increased radically.

One characteristic specific to the Latvian system of financing of higher education is the fact that state funding is channelled through six ministries – Education and Science, Agriculture, Health, Interior, Defence and Culture. This has both advantages and disadvantages. One advantage is that the individual ministries have a say in implementation of new study programs, another is the opportunity for higher education institutions to receive additional funding from the individual ministries. A disadvantage is the fragmentation of institutional and financial resources, which makes control and effective monitoring of financial resources more difficult. In addition, institutions of higher education have inequitable access to state funding because of the differences in financial resources between ministries.

The last 10 – 15 years have seen the onset of establishing regional institutions of higher education and branch campuses of existing institutions of higher education throughout Latvia. Although the term 'regional institution of higher education' cannot be found in legislative

and normative documentation, it is used to designate any institution of higher education that is not located in the capital city Riga. In the opinion of the Ministry of Education and Science representative, municipalities should be encouraged to play a more active part in funding of regional institutions of higher education and ensuring training of well-qualified human resources for regional development. Individual municipalities do support their local institutions of higher education. For example, Ventspils city council provides additional funding for Ventspils University College. A tendency to open branch campuses in various cities in general is viewed by interviewees as positive, but attention must be paid to quality assurance there.

Based on the opinions of many stakeholders, there is lack of unified document describing the funding strategy of higher education in Latvia. Funding issues is included as part of various policies and planning documents, that are not always in agreement with each other. The strategy also appears as part of budget redistribution among institutions of higher education, study levels and programs.

2.2 Interrelationships Between the Funding System and Higher Education Policy

The growing demand for higher education since the mid-1990s has stimulated expansion and diversification of the higher education system. The private sector, regional institutions of higher education and branch campuses have all developed within the framework of this system. A market economy demands more attention be focused on the quality of education, which is largely connected with the amount of funding per student. Several ministry representatives noted in their interviews that higher education still inadequately responds to the demands of the labour market and that there is a concern about the quality of education, especially in the natural sciences and engineering. These problems demand searching for effective resolution.

Representatives of the higher education system were asked the question: Is there a higher education market in Latvia? In the opinion of government representatives, there is a market of higher education, and Latvian institutions of higher education must be competitive in European and global educational space. The Study Foundation expert pointed out that there is a market in the area of social sciences, where exist large supply and demand. Both state and private institutions of higher education are competing here. By contrast, in the natural sciences a market is practically nonexistent, because they require expensive infrastructure, which private institutions of higher education cannot provide yet. A rector of private institution of higher education said that in his opinion market exists as far as demand is concerned, but on the supply side situation is more complicated – there is no free competition among the institutions of higher education and legislation does not promote the development of a market in this area.

The amendments to the Education Law enacted in 2001 proscribed that the Ministers' Cabinet establish a unified national educational policy and strategy and submit an educational development concept for the next four years to the Saeima for confirmation. The educational development conception (confirmed in 2002 by KM regulation Nr. 383) sets the developmental goals of the educational system for the period from 2002 to 2005. This conception was formulated taking into account guidelines set forth in Latvia's long term economic strategy, the National Development Plan and the National Employment Plan.

Much discussion has taken place in recent years about the system of financing higher education in Latvia, because with growing numbers of students the ability of the state budget to increase funding of higher education institutions has been rather limited. State budget funding of higher education as compared to the GDP has steadily decreased since the mid-1990s (Figure 3). According to the Ministry of Education and Science, inadequacy of state budget funding is the major problem of higher education. The state budget cannot adequately finance higher education in response to the growing demand. The part of GDP used for higher education is comparable with other European countries, but the low level of GDP per capita results in a low absolute level of funding of higher education. Thus, other resources are searched.

The number of students continues to grow, mostly due to those paying tuition fees. During the 2005/2006 academic year 23 per cent of students studied in groups financed from state budget while 77 per cent paid tuition fee (IZM, 2006). Thus, tuition fee has become a significant source of revenues for financing higher education. However, the tuition fee for full time studies in many study programs at state institutions of higher education was set lower than what the state budget pays per student, and a levelling of resources took place between state funded and tuition vacancies.

In 2001 experts and politicians offered several suggestions to tackle a problem of higher education funding, starting with the most liberal – switching to a total tuition fee system and making study loans available to all students. With appropriate legislation and well-considered study loan system this approach could work in Latvia as it has in other countries. The proposed model proscribed that total funding of state institutions of higher education would come at 85 per cent level of required funding according to the system of tuition cost coefficients in correspondence with the determined number of full-time study places with the remaining 15 per cent coming from tuition fees paid by students for specific study programs.

The advantage of such a model would be a balance between state and individual investment in higher education as well as more equitable educational opportunities for all residents of Latvia. This model, however, did not receive the support needed for a political decision, because the idea of raising tuition costs gained little support among society and the majority of politicians.

The main goals of the higher education system and its funding are determined in the National concept of development of higher education system and institutions of higher education for

the time period up to 2010, which was voted through by the CM committee in 2001. Among the main goals set forth by the plan of development of funding system were:

- To develop a doctoral studies and review salary system in order to attract younger academic staff to academia;
- To achieve step by step optimal tuition costs;
- Guarantee the availability of study and student loans to anyone needing them;
- Review pertinent legislation to allow institutions of higher education to attract more funding from the private sector.

It was planned to increase state budget funding of higher education by factor 1.7 in order to achieve the above goals. This, however, realized only partially.

Representatives of the higher education system were interviewed if they felt that Latvia as a small country had a specificity for higher education and its funding thereof. According to government representatives the educational system of a small country is more flexible and it should be able to respond more effectively to market changes. On the other hand, it is impossible for a small country to be able to provide all the science and engineering qualifications spectrum demanded by the national economy.

Tuition fees in Latvia are relatively high when compared with other western European countries. It is about 23 – 70% of the average yearly wage (CSB, 2005). For this reason many households cannot afford the cost of a higher education. Lower tax rates and a study loan system are two ways that this problem is being tackled.

Does the existing tax system stimulate the development of higher education?

The majority of interviews expressed the opinion that the existing system of taxation does not have any significant effect on the development of the higher education system. 63 per cent of principals of institutions of higher education also said that the tax system has no effect and it does not promote attracting financial resources to higher education. Only 32 per cent of respondents considered that the tax system does help and five per cent did not have an opinion on this question. The fact that state budget scholarships are not subject to income tax was appreciated.

The existing tax system does not stimulate the employer to get involved in the financing of higher education because if they choose to pay tuition for an employee, they have to pay corporate income tax. The only exception to this is engineering doctoral scholarships, in which case the tuition cost is tax deductible. Interviewed representatives of commerce banks, Chamber of trade and industry suggested that the tax deductible amount should be increased and study loan interest rates be included in the amount to be reimbursed.

In the case of a private individual, the income tax law provides for compensation of education and health care expenses in the amount of 150 Lats per taxation year. This was set by CM

regulation Nr. 336 (2001) “Regulation on justifiable expenses for education and health care” and the amount has not changed in many years and is totally inadequate today. Tuition fees set by institutions of higher education are considerably higher. In addition, interview responses expressed concern about the tremendous amount of bureaucracy required to get reimbursed for even part of the tax paid.

Study and student loans. Pluses and minuses. Student loans, available since 1997, offer students considerable financial support. They are meant to cover living expenses for full-time students. In 1999 study loans became available for both full and part-time students enrolled in state and private institutions of higher education (Figure 4). The mentioned loan system was established to make higher education more universally available. Both types of loans are available to all successful students enrolled in accredited study programs, including studies abroad. The loan system is regulated by several CM regulations and it is administered by a specially created entity – the Study Foundation.

Initially the state budget was the source for loans. In 2000 the Cabinet of Ministers approved a conceptual decision to switch gradually to crediting by commercial banks. From September 1, 2001 commercial banks started to issue loans with state guarantees. According to this new procedure, loans are granted and administered by commercial banks that are selected annually in public auction based on total loan amount and interest rate offered. The banks having thus gained the right to deal in student loans receive from state budget the difference between the interest rate paid by students and the established interest rate. The overall lending strategy is based on replacing loan funds from the state budget by sources from lending institutions, thus easing the uptight state budget. The amount of loans has increased radically during the last few years.

Loans can be discharged with state budget funds. Based on the Cabinet of Ministers regulation Nr. 219 (2001) “Procedure for approval, granting, repayment and discharge of study loans from state budget funds”, loans are discharged for the following categories of students:

- Students who upon graduation start working in their area of specialization (academic or professional) in professions at public or municipal institutions approved annually by the Cabinet of Ministers;
- Handicapped persons of first and second group;
- In the case of death of loan recipient.

In line with the Cabinet of Ministers regulation Nr. 445 (2001) “Procedure for approval, granting, repayment and discharge of student loans from state budget funds”, loans are discharged the same as described above. In addition, a student who has a child during the lending or repayment period needs to repay 30 per cent of the loan.

In evaluating the existing loan system, the majority (55 – 56%) of interviewed respondents expressed opinion that it is more in the interest of society than not. There is agreement among the respondents regarding innovations in the student loan system – 59 per cent of

them are of the opinion that the student should be able to choose his lending bank, without tying banks to specific institutions of higher education; 36 per cent feel that the overseeing of student loans must be simplified striking universities from the loan administration process. Only one respondent suggested granting non-guaranteed loans.

Along with the procedure for determining the number of state budget funded study places, both the lending system and study/student loan discharge system is a significant tool in training specialists in areas vital for national economy and sectors of national importance. It was emphasized in interviews that in this way higher education becomes more accessible, social expenditures are eased, student becomes more disciplined and successful, and the loans have low interest rates and favourable repayment terms.

Nevertheless, representatives from the banking sector, Study Foundation, Chamber of trade and industry admitted that the present student loan system does have weaknesses. Three parties (the institution of higher education, the Study Foundation and the bank) are involved in the lending process, which inhibits effective information exchange and complicates the loan procedure. Resource quotas for student loans are divided among the institutions of higher education. Most of the institutions use the quotas, however, some do not. Only some institutions of higher education request additional loan funding for their students. Upon entering the institution of higher education students cannot immediately apply for a study loan although the first tuition payment is due upon enrolment. The process for securing state guarantee is rather lengthy. Study loans often do not cover all of the tuition costs. Therefore the difference must be paid by student. The loan discharge system is not altogether clear. Several institutions of higher education have electronic data processing problems and banks receive faulty information. Bank requirements to qualify for a loan are overly stringent (mandatory co-signer, mandatory account at that bank, salary direct deposit to that account). These requirements could be eased if banks had to directly compete for borrower rather than being awarded the right to a one-year monopoly in the study loan business.

2.3 Changes to be Expected

Current legislative and normative changes in the funding and development of the higher education are focusing on improvement of functioning system. This section of study gives position expressed by representatives from the Ministry of Finance, Ministry of Education and Science, Ministry of Economics and Ministry of Regional Development and Local Government.

Improvement in the budget funding mechanism. In order to promote faster development of higher education a transition from the minimal study cost coefficient values to optimal values must be ensured, raising the minimal coefficient value by one tenth every year. This process must be implemented gradually over the ten years period in accordance with the Cabinet of Ministers regulation Nr. 334. Simultaneous funding must be increased for research and doctoral studies. Raising the coefficients is a painfully slow process due to re-

stricted budget resources. This is particularly deterring vis à vis the studies in natural sciences and engineering whose coefficients are higher.

State institutions of higher education, taking into account solvency, often set tuition fees lower than the cost of state budget funded vacancies. This is especially true in upper level study programs with high cost coefficients. This creates quality assurance problems in the studies covered by tuition fees and threats to redistribute budget funding from the state funded places to tuition fee covered vacancies.

Considering the increase of research funding and the distribution of this funding by type of institutions of higher education, it can be expected that institutions will more clearly define their stance towards research activities. Obviously, some institutions of higher education will place emphasis on their research institution status and will accent innovation and applied research.

Corruption is noted as a significant problem in Latvia. Respondents among public administration and Higher Education Council representatives noted that corruption has not touched the financing of higher education and due to the present complexities of the system, it is practically impossible to do so. Favouring one institution of higher education manifests itself more or less as lobbying. Politicians and government officials have for the most part graduated from the bigger institutions of higher education. The opinion that state institutions of higher education have a strong informal effect on state administration and its officials – graduates of these same institutions of higher education – is quite prevalent.

Demographic challenges. The number of students is expected to decrease over the next years. It will be determined by the very low birth rate in the early 1990s, and partially by increasing enrolment of other EU institutions of higher education. The contribution to institution of higher education budgets from the inner education market may decrease for this reason. Institutions of higher education will be forced to pay special attention to external markets in an effort to attract foreign students (forming business alliances, developing affiliated programs, franchise type activities abroad, branch campuses etc.).

It is quite conceivable that the decline in the student numbers will force public authorities to use budget funding more effectively. Competition among institutions of higher education, including private institutions, for state budget funding could be promoted, the distribution mechanism of budget funding has to be improved, too. That in turn will force the institutions of higher education to improve their strategies. More importance will have to be placed on being informed about demand of national economy, lobbying methods may have to be improved, too (if a tender procedure for distribution of funding will be accepted). Marketing methods will be used more and more and institutions of higher education will have to clearly mark their role in the national and global higher education market, especially if the budget funding model of “the money follows the student” will be realized and the student will be given free choice to enrol any institution of higher education.

Development of research and doctoral studies. It is most likely that state budget funds for graduate and post-graduate studies will continue to increase both in number of vacancies as well as the funding per student. Some institutions of higher education will see an increase in the state budget share of their respective budgets, which will result in more attention being paid to the demands of the state. The Scientific Activity Law adopted in 2005 states that the Cabinet of Ministers, when drafting and submitting its annual budget law to the Saeima, projects an annual increase in research funding no less than 0,15 per cent of the GDP until the time that the total state subsidy reaches one per cent of the GDP (Latvijas Vestnesis, 2005).

The position of the Higher Education council states that the ratio between research and education funding does not have to be the same in all institutions of higher education. Research is traditionally funded less at private institutions of higher education, but academic staff from state institutions of higher education supplement their ranks and ensure the study process. The university status by definition means a pronounced emphasis on research, especially fundamental research. Universities collaborate with and render assistance to academies and other institutions of higher education which are more oriented to labour market needs and are more involved in applied research.

Both EU funding and state budget financing of investment programs in higher education will increase. It is conceivable that institutions of higher education will pay more attention to the realization of the EU and national higher education policy statements.

The effect of the funding system on the accessibility of higher education. Only 38 per cent of the representatives of institutions of higher education feel that the current system of financing promotes accessibility of higher education. 37 per cent feel that it does not promote accessibility at all, 20 per cent feel that it has no effect whatsoever, but 5 per cent of them had no opinion on this question. To promote access to higher education, socio-economic factors should be considered when distributing funding for students. In response to the question "What should be considered in awarding state budget subsidy?" 33 per cent of the respondents named family income, 15 per cent - social conditions in the family, 13 per cent - student's place of residence. Of the remaining 39 per cent, who named other factors, academic success and cost of study programs were mentioned most often. These are already the main criteria for accepting students into university and for awarding state budget subsidy.

The efficiency of use of financial resources at state and private institutions of higher education. Private institutions of higher education with the exception of the Higher School of Social Work and Social Pedagogies "Attistiba" do not receive state budget funding. They are functioning under the guidelines of commerce legislation. All state institutions of higher education with the exception of the Banking College of Higher Education receive state budget subsidy for education and also enrol students for a fee. Thus it is difficult to do a comparative analysis of the performance of both types of institutions. In the opinion of most of the respondents, the effectiveness issue should be addressed as a complex. There is less scientific activity and its infrastructure for it at private institutions of higher education, but they are

rather effective in the study sector and tend to react to changes in market demand more quickly than state institutions. The latter have less autonomy in resource management than do private institutions.

Measures implemented to reach the goals of the Lisbon Strategy. In accordance with EU economic policy and employment guidelines, in October 2005 the Cabinet of Ministers accepted Latvia's national Lisbon Program for 2005 – 2008. It points to the problems and main areas of activity needed to implement the Lisbon Strategy in Latvia, as well as target indicators. In order to assure completion of the objectives of the Lisbon Strategy, the government has formed a Lisbon Strategy Monitoring Council led by the Minister of Economy. The Council also consists of ministers involved in the Lisbon Strategy realization, representatives of the Saeima, municipalities and social partners. Ministries and other responsible institutions ensure completion of Latvia's national Lisbon Program for 2005 – 2008 within the assigned budget guidelines.

2.4 The Influence of the Higher Education Funding System on Institutional Strategies

Main features of institutional strategies. The majority of institutions of higher education in Latvia have formulated and confirmed their development strategies. Sometimes these documents are formulated as institutions' management programs. The available development strategy documents are not very extensive. They address the following main issues: 1) personnel development (attracting a new personnel, changes in the structure of academic staff, development of personnel holding doctoral degrees); 2) curriculum development (development of new study programs, compliance with labour market needs, regional and national demands and global trends); 3) promotion of research activities (regional needs, attracting funding from external sources, particularly from the EU research programs and funds, promoting innovation); 4) infrastructural development (room repairs, search for new facilities, study and research equipment, library development, information technology development etc.).

The development of international collaboration is less significant in institutional strategies (a student and staff mobility is mentioned, development of joint and double degree study programs, enrolment of foreign students), as well as development of institutional management (democratization of decision making, structural improvements). Quantitative indicators like share of research funding, number of students, and goal attainment criteria, responsibility for goal attainment, appear in the strategies very rarely. Preparation of strategies and their realization process is not clearly described. The strategies characteristically refrain from serious use of marketing. The target market is seldom emphasized, nor is pricing, increasing market opportunities etc.

The formation of institutional strategies and influential factors involved. The strategic development document is usually the institution's management program or guidelines for its

activities. Administrative departments, collegial governing bodies, representatives from academic staff and heads of academic divisions are involved in preparation of strategy as well. Stakeholders (public and private sector employers, representatives from non-governmental organizations, students and graduates) are rarely involved in preparatory process. Usually they are involved in discussions about already formulated guidelines.

The opinion that the rector should be the key person involved in forming a university strategy is dominant. In many cases the strategy is defined by the rector's pre-election program, which is more or less formulated by the individual candidate. In cases when the university strategy is confirmed by the senate or another governing body, the rector's role in the process is prominent.

The formulation of institutional strategies is not described in any other managerial documents therefore it is not easy to describe a list of determinants forming strategy. However, based on strategy content, in our opinion, the most important elements of a strategy are: 1) analysis of the present situation at the institution of higher education – personnel, resource analysis, institutional traditions, market position assessment etc.; 2) relative advantages of the institution in the near future – a statement of students' demands, its determinants and trends, changes in the offer study programs, staff involvement in research; 3) opinion of the administration regarding priority development directions and institutional management policy.

The relationship between the funding system and institutional strategies. Institutional strategies have, for the most part, developed due to the existing system of funding. Within this context they can be characterized by:

- Emphasis on the role of the study process. The long term shortage of research funding has forced institutions of higher education to focus more on income from tuition fees and other sources in large part dependent from educational activities of the institution;
- Emphasis on compliance with national educational market demands rather than global or EU market demands. This is due to the fact that the educational market provides the major part of the budget of the institution of higher education. Some institutions of higher education perceive all of Latvia as their market, for others it is a specific region;
- Less emphasis on the need to attract state budget funding for specific programs. Institutions of higher education tend to rely on their own revenues and infrastructure;
- Little attention paid to foreign markets, enrolment of foreign students. The portion of revenues earned from foreign students is small. A deterring factor in this regard is the national policy towards foreign students, which has been very stringent;
- Increased emphasis on attracting EU funding. During the last two years we have seen that EU funding is available for refurbishing the studies and research infrastructure, curriculum development etc. This is why institutions of higher education are interested and have started to emphasize this in their strategy documents.

A chronological assessment of institutional strategies brings us to the conclusion that their formulation has been effected by changes in the funding system. For example, the strategies formulated during the mid 1990s placed less emphasis on education market factors and the development of research was hardly ever mentioned.

The funding system of higher education institutions and course for its improvement.

54 per cent of principals of higher education institutions consider the present system of financing as unsatisfactory, 41 per cent rate it as satisfactory, but needing significant improvements. Only 5 per cent of the respondents feel that the present system does not need any improvements.

There is no consensus among the leadership of Latvia's institutions of higher education regarding the most appropriate system of higher education funding from the state budget. 42 per cent of the respondents feel that the state should continue to allocate budget subsidy according to determined student numbers, 27 per cent feel that funding should follow the student and 23 per cent believe that institutions of higher education should be funded based on outcomes. All the private university administrators believe that funding should follow students, who choose in which institution to study. Only eight respondents feel that the state should not fund higher education institutions at all, but all students should pay tuition fees and apply for study loans.

Nor is there any consensus regarding the most effective distribution of state funding. 24 per cent of the respondents feel that fewer students should receive state financing, but the funding per student should be increased. 14 per cent of the respondents feel that more students should receive state budget funding, 21 per cent feel that the number and diversity of educational institutions should be reduced, but 7 per cent feel that the above should be increased. 34 per cent of the respondents suggest their own solution to the problem: increase of funding (most often mentioned), provide equitable support for regional institutions of higher education, finance higher education based on priorities set forth in the national development plan, finance institutions based on results or academic success indicators. 4/5 of private university administrators feel that the funding per student should be increased.

Institutional Foundations. Based on their strategic guidelines and existing legislation, institutions of higher education are establishing foundations and agencies in order to gain more autonomy in dealing with their resources and to separate them from state funds, which are controlled by the state. According to the ministries, this is simply an attempt to circumvent bureaucracy and gain additional funding to distribute as institutions see it. In the opinion of the Chamber of trade and industry representatives, institutions of higher education are attempting to solve the problems of financial flow, which are caused by legal restrictions and liens. Business representatives admit that foundations do somewhat help to resolve the issues of current funding model. According to the representative from the Ministry of Economics: "If foundations are closely monitored and the utilization of funds occurs in compliance with the goals of the university, they help promote the development of higher education and

results in more effective use of state funding for public institutions of higher education. The amount of cash flow in institutional foundations is small, however, and does not significantly affect the funding system of higher education. Foundations are not the solution to the problem of inadequate funding”.

2.5 Strengths and Weaknesses of the Funding System and Development of Higher Education: a Summary of the Stakeholders' Opinions

2.5.1 Strengths

Higher education is traditionally very highly valued in society. The largest state institutions of higher education are very prestigious. The number of students per 1000 inhabitants has increased steadily since the mid-1990s and now it is among the highest in the EU and the world. In 2005 the number of students per 1000 inhabitants was 562 (IZM, 2006). Political understanding of the significance of higher education has increased. Latvia has entirely become part of the European higher education space.

The number of institutions of higher education has increased since 1991. The private institutions (which mainly focus on the social sciences) and regional institutions of higher education have been established. The network of branch campuses is developing throughout the country. Along with growing competitiveness among the institutions, new and more diverse study programs are being offered, including evening and weekend programs for working students, correspondence courses, e-courses. The government has set the development of programs in engineering and the natural sciences as its priorities.

The funding system of higher education institution is continuously being improved. Given insufficient state budget funding, the tuition fee system is developing at both state and private institutions of higher education, making higher education more accessible. Tuition fees are subject to tax advantages as well.

A comprehensive study and student loan program has been established. Graduates of higher education institutions can apply to have their loan discharged from state budget. Scholarships awarded by the state have become bigger.

In recent years institutions of higher education have successfully attracted more EU financing, state budget funding for research and development has increased.

2.5.2 Weaknesses

The governmental decision to increase funding of higher education by 10 per cent annually has not been realized. Inadequate investment has been made in the development of infrastructure, expanding library resources, the share of investments in total expenditure is low. Research funding in the institutions of higher education still was inadequate. The current

system of awarding state budget subsidy does not encourage institutions to improve quality assurance, because the funding is not results oriented.

State and private institutions of HE operate under inequitable competitive conditions.

The collaboration between institutions of higher education, employers and professional associations is weak. Study programs often are superficial and general, competencies and skills gained do not correspond fully to the demands of the labour market. Study programs tend to be quite fragmented (more than 500 programs have been registered), which does not encourage consolidation of academic personnel and development of research.

The extensive technology and investment programs have disappeared due to inadequate investment in their development.

Existing legislation does not encourage the participation of the employers in the funding of education of their factual and potential future employees. These include paying students' tuition, discharging student loans, scholarship support and others.

The distribution of budgetary funds among institutes of higher education and thematic groups of study programs takes place based on criteria that are not rather clear and understandable for all players in the educational market. Future long term demands for definite specialists have not been clearly identified. Students are restricted in their choice of study direction and institution, because opportunities to compete for state budget funded vacancies are inequitable. For this reason, the choice of study field is often made based on financial considerations rather than interest or ability. The distribution of students by type of study program is rather disproportionate (every second student is in the social sciences).

Different conditions of managing financial resources in the state and private institutions of higher education. Private schools comply with commercial legislation while management of financial resources, including tuition fees, in state institutions are regulated by more strict provisions of budget institutions. Cross-subsidization between budget funded and tuition fee funded studies, between different level and type of study programs still exist in educational establishments.

The number of students per faculty is disproportionately high (30 students per faculty member in Latvia, 15 students per faculty member in OECD countries). Extremely high is students to professors ratio - there are 100 students per professor in Latvia. Academic personnel are aging and qualified young replacements are sorely lacking.

Study loans for the most part do not completely cover the tuition costs. There is no direct contact between the bank and the institution of higher education, which delays the lending process. This is especially important for first year students, who have to personally pay the tuition costs at the beginning of studies. Students are not allowed to choose a bank of their choice for a loan; the loan discharge system is not clear enough.

Social factors such as family income are not taken into consideration when awarding funding (including scholarships), which limits access of poorer students to higher education. The proportion of students working parallel to their studies is very high.

There is a relatively low salary differentiation based on level of education and obtained qualification, resulting in lack of motivation to continue schooling beyond the secondary level. Graduates of specific programs (teachers, for example) are not motivated to work in their specialty due to the inadequate salary level.

There has been a very small increase in the number of state budget subsidized study places. Therefore proportion of state budget funded students in the total student population is declining. There is practically no competition among the candidates to tuition fee covered study vacancies; in reality anyone able to pay is accepted. This is a threat to the quality of education. The dropout rate is considerable. The number of doctoral students and doctoral degree recipients is low (0.4 per cent of total number of graduates in all cycles of higher education).

3 Conclusions

Interviews and discussions with stakeholders as well as analysis of statistics, policy documents and legislation lead us to the following conclusions about the funding and its effect on the development of higher education in Latvia:

- The rapid growth of the higher education sector in Latvia became possible due to growing demand for higher education, the increase in number and type of educational facilities, including private and regional institutions of higher education, and tuition fee programs. All of these factors contributed to the formation of a higher education market. State and private institutions activity in this market stimulates the development of the higher education system.
- Introduction of a tuition fee system has made higher education more accessible. A significant turning point in the development of higher education is the establishment of a study and a student loan program. The lending process, however, must be simplified. Loan administration functions should in fact be removed from the institutions of higher education and delegated to the Study Foundation. Loan amount quotas should be divided not among institutions, but rather among nationally significant study areas.
- The mechanism of normative allocation of state budget subsidy at institutions of higher education has resulted in a more stable academic development planning. However, there is no guarantee of special normative compliance with real needs of educational institutions, especially in the field of modern technologies. Increased state budget funding in the higher education sector would make create opportunity to increase number of graduate

and post-graduate students. The continued growth in the number of students is seriously threatened in the near future by the decline of fertility.

- Different conditions of competition exist for state and private institutions of higher education. All players in the market should have to comply with the same rules regarding managing of financial resources, asset management, language of instruction and rights to claim for state budget subsidy.
- The existing tax system does not promote involvement of businesses sector to support the higher education system, making it difficult for an employer to invest in the education of his employees, nor does it facilitate collaboration in education and research with institutions of higher education. All business transacted with institutions of higher education related to training or research should qualify for tax advantages.
- The Ministry of Education and Science supervise most of the institutions of higher education in Latvia. A transparent resource allocation system regarding higher education development for all ministries is lacking. It is recommended to establish competition procedures to ensure more transparency of funding activities.
- The higher education funding system directly affects the institutional strategies. Market concerns are dominating more and more in strategic documents. Recently more emphasis is being placed on attracting funds via research and other projects.
- Some institutions of higher education have established foundations in order to attract additional funding. However, the results are less than satisfactory. Deterring factors include lack of experience in fundraising and a resistance to donating, both on the part of society as well as legislators.
- The existing criteria and system of state budget allocation among institutions of higher education is not transparent enough. State funds support the most talented among students, but do not stimulate a greater access to higher education among the nations poor.

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- Riga Higher School of Pedagogies and School Management –
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- Banking College of Higher Education – <http://www.ba.lv/lat/augstskola/misija/>
- Latvia Academy of Culture –
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- Stockholm School of Economics in Riga –
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- Riga Graduate School of Law – <http://www.rgsl.edu.lv/index.php?part=about&page=philosophy>
- Latvian Christian Academy – http://www.kra.lv/sak_parakademiju.htm
- Riga International Higher Education Institution for Economics and Business Administration –
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- School of Business Administration “Turiba” – <http://www.turiba.lv/index.php?s=5>
- Higher School of Social Work and Social Pedagogies “Attistiba” –
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5 Appendix

1. List of Interviewees (Name, surname, position, institution, time of interview)

- Aldis Baumanis, Vice-chairman of the Board, School of Business Administration 'Turība', Member, Higher Education Council, representing the Employers' Federation of Latvia, June, 2005.
- Anatolijs Melnis, Assistant Director, Department of Science and Higher Education, Ministry of Education and Science, November, 2005.
- Andris Liepins, Deputy State Secretary, Ministry of Economics, October, 2005.
- Astrida Harbacevica, Chairperson, Trade Union of Latvian Education and Science Employees, Member, Higher Education Council, June, 2005.
- Baiba Rivza, Chairperson, Higher Education Council, June, 2005.
- Gatis Silins, Study Loan Division, Hansabanka, October, 2005.
- Ivars Knets, Rector, Riga Technical University, Member, Higher Education Council, representing the Rectors' Council, June, 2005.
- Janis Cakste, Director, Department of Science and Higher Education, Ministry of Education and Science, November, 2005.
- Janis Kirsons, Director, Study Foundation, October, 2005.
- Janis Rozenblats, Director, Riga Technical College, Member, Higher Education Council, representing the Latvian College Association, June, 2005.
- Janis Silins, Rector, Latvian Academy of Culture, Member, Higher Education Council, representing the Association of Arts Universities of Latvia, June, 2005.
- Juris Birznieks, Businessman, Member, Higher Education Council, representing the Chamber of Trade and Industry, June, 2005.
- Juris Zakis, Rector, Institute of Social Technology, Member, Higher Education Council, representing municipal and private institutions of higher education, June, 2005.
- Marina Meksa, Director, Department of Credit and Finances, Ministry of Education and Science, November, 2005.
- Maris Kucinskis, Minister of Regional Development and Local Government, October, 2005.
- Oskars Spurdzins, Minister of Finance, September 2005.
- Uldis Kondratovics, Dean, Faculty of Biology, University of Latvia, Expert, Higher Education Council, June, 2005.
- Uldis Luckans, President, Latvian Students Association, Member, Higher Education Council, June, 2005.
- Uldis Osis, Correspondent Member, Latvian Academy of Science, Rector, Riga Higher Education Institution for Economics and Culture, President, SIA Konsorts, October, 2005.
- Valdis Rocens, Chamber of Trade and Industry, October, 2005.

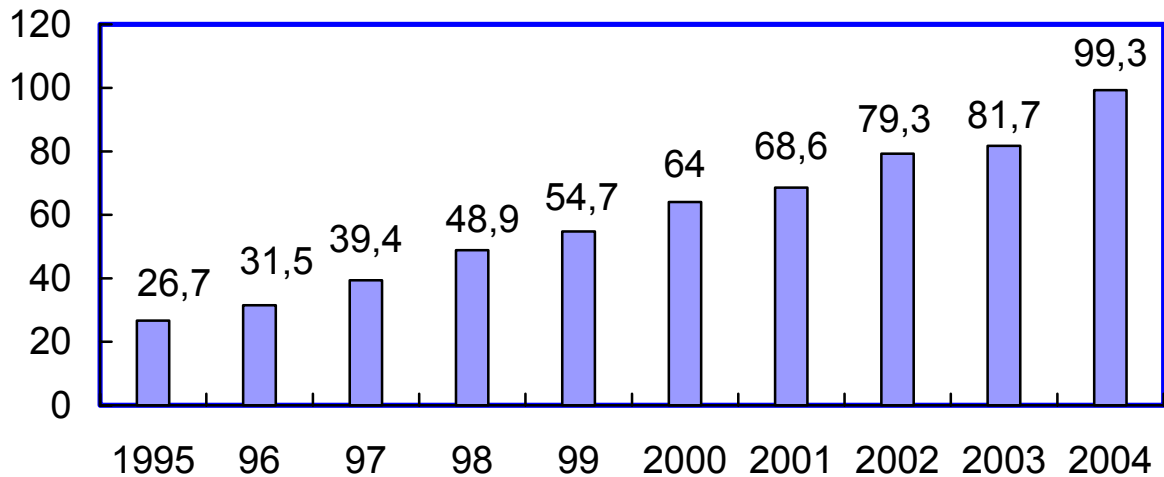
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- CM Regulation Nr. 334, July 24, 2001. Funding procedure of state institutions of higher education from the state budget.
- CM Regulation Nr. 385, August 8, 2001. About foundations and international education and collaboration programs.
- CM Regulation Nr. 445, October 23, 2001. Procedure for assignment and repayment of student loans from the state budget.
- CM Regulation Nr. 138. Scholarship Regulations.

- CM Regulation Nr. 820, November 1, 2005. Assignment of base financing to state research institutions and state university research institutes.
- CM Regulation Nr. 666, December 10, 2005. Discharging student loans from state budget.
- Education development conception for 2002 – 2005.
- Higher education funding system development plan for 2004 – 2005.

Figure1.

Total funding of higher education institutions in Latvia, 1995-2004, Million LVLs

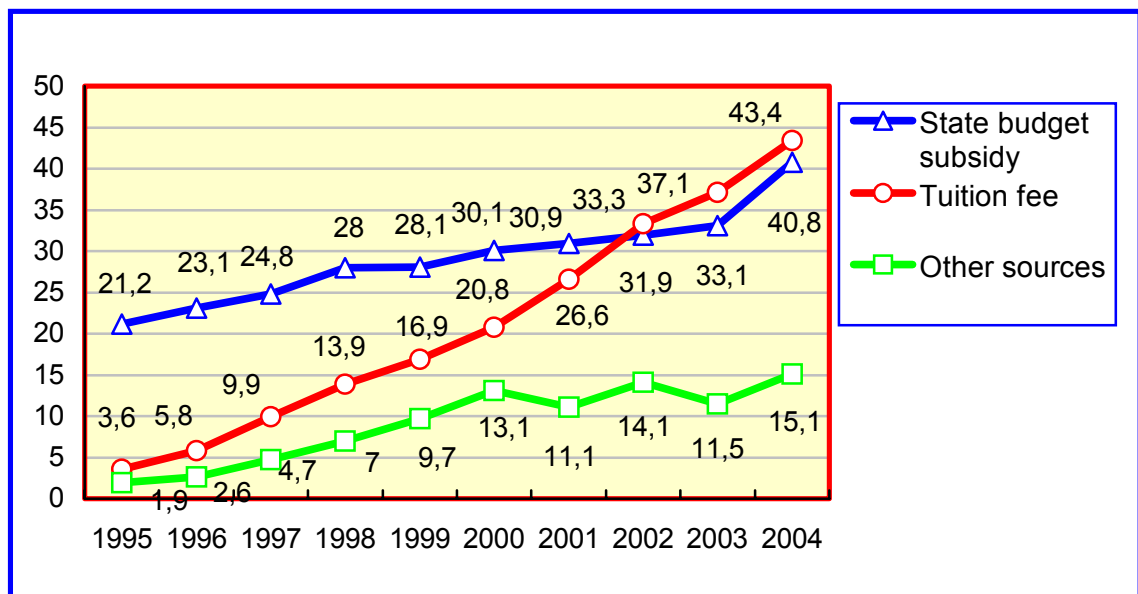


Note: Study and student loans are not included.

Source: Pārskats par Latvijas augstāko izglītību 2005.gada (skaitļi, fakti, tendences). Rīga: IZM, 2006. P.135.

Figure 2.

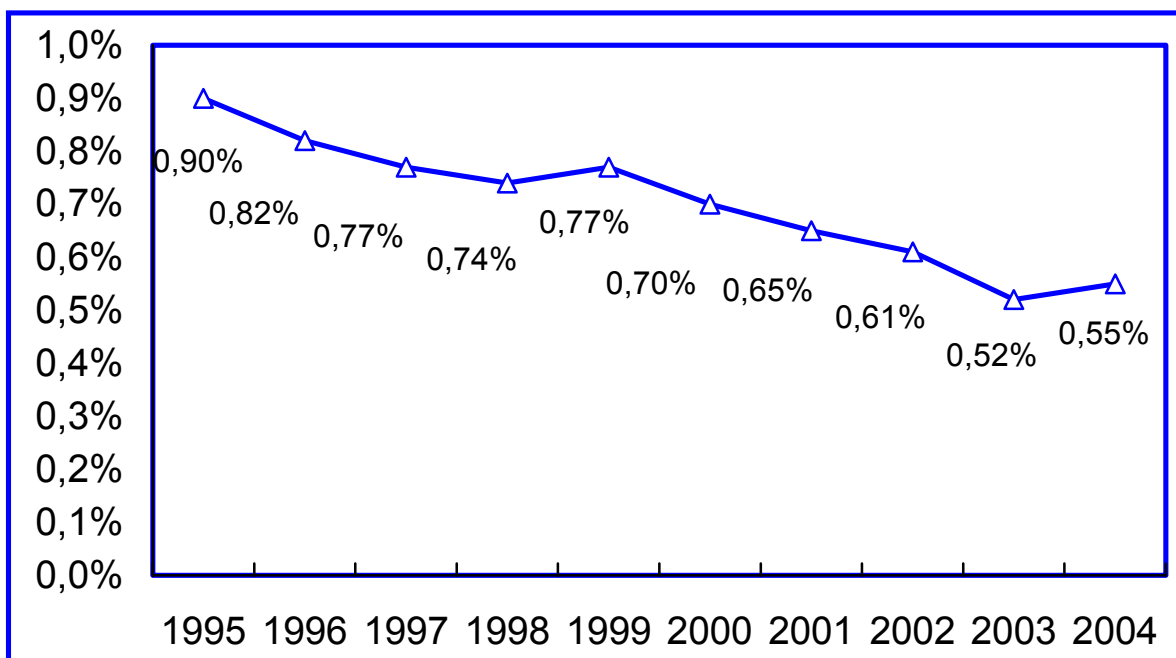
Funding of higher education institutions from state budget and other sources in Latvia, 1995-2004, Million LVL



Source: Pārskats par Latvijas augstāko izglītību 2005.gada (skaitļi, fakti, tendences). Rīga: IZM, 2006. P.139.

Figure 3.

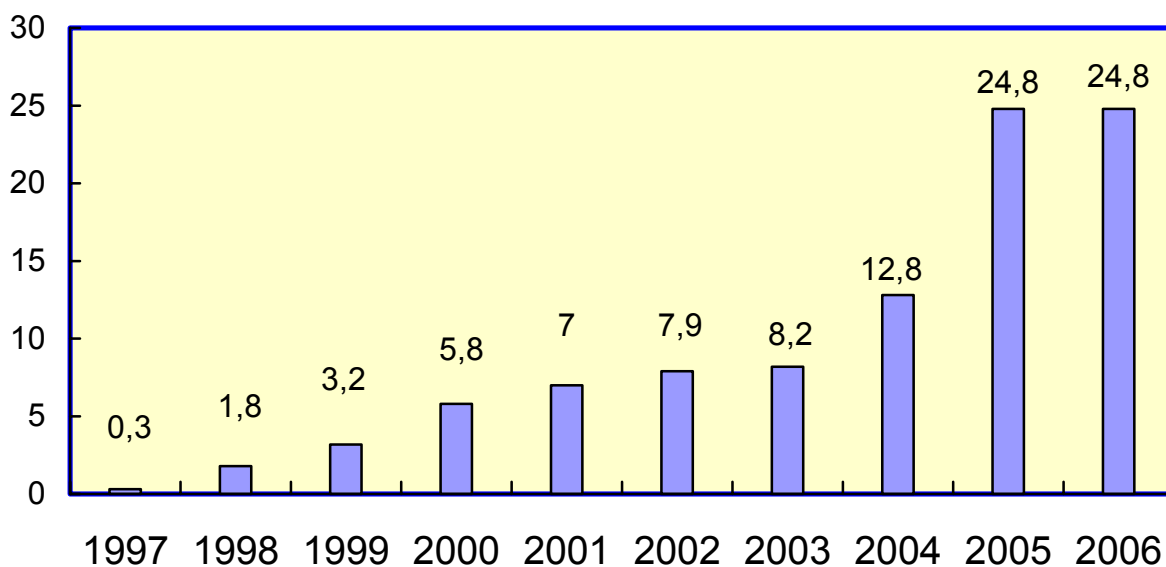
A share of higher education funding in the Gross Domestic Product in Latvia, 1995-2004, per cent



Source: Paskats par Latvijas augstako izglitiba 2005.gada (skaitli, fakti, tendencies). Riga: IZM, 2006. P.140.

Figure 4.

Study and student lokans used by students of higher education institutions in Latvia, 1997-2006, Million LVL



2006 – planned amount.

Source: Paskats par Latvijas augstako izglitiba 2005.gada (skaitli, fakti, tendencies). Riga: IZM, 2006. P.147.