THE FINANCING METHODS OF HIGHER EDUCATION SYSTEM

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Received 26 October, 2010; accepted 13 December, 2010.

Abstract. The need to examine the efficiency of state financing of universities is becoming more important for a number of reasons. The growth in the social demand for higher education, the globalization and internationalization of the higher education system, the recognition of the need to improve the quality of studies coincide with the financing aspects of activities of higher education institutions. The object of the research is to analyze the financing models and state funding methods of the higher education system and to disclose the advantages as well as dysfunctions of each conception. This paper examines the mechanisms through which governments allocate resources to higher education in order to establish effective means to transfer these subsidies to institutions.

Keywords: institutions of higher education, financing models, methods of state funding, state regulation.
Introduction

Relevance of the Topic. The need to examine the efficiency of state financing of universities is becoming more important for a number of reasons. The growth in the social demand for higher education, the globalization and internationalization of the higher education system, the recognition of the need to improve the quality of studies coincide with the financing aspects of activities of higher education institutions. The financing system of the higher education institutions is one of the most important elements which determine the whole system of higher education—both institutional, and qualitative, and accessibility, and other dimensions. Whatever the financial strength of a state is, whatever external financial sources the institutions of higher education could invoke, it is obvious that financial aspects are the most vulnerable and relevant to the activities of tertiary education institutions. Therefore, a few fundamental strategic questions arise to the states and higher education institutions: how to allocate the restricted financial resources of the state budget, designated to higher education; what legal and financial mechanisms are optimal for achieving ultimate accessibility of higher education, quality of studies and competitive abilities of the national higher education institutions in the conditions of globalization.

The scientists and practitioners in the fields of educology, economics, management offer different models of financing the higher education system, incorporating various financial sources and methods, theoretic concepts and reasoning, revealing the advantages and weaknesses of such models and stressing the relation of state and private funding and its importance. According D. Braun,1 A. Wagner,2 P. Cazenave,3 B. Salter ir T. Tapper,4 S. Kmit,5 L. Kraujutaitytės,6 and papers of other scientists two types of financing of higher education may be determined:

– according the interaction of the financing sources and the impact of funding subjects to the system of higher education—bureaucratic, collegial and market financial models;

The addressee of the state funding—the institutional, program financing, and method of financing of the service receiver.

The Object of the Research. The objects of the research are the financing models and state funding methods of the higher education system.

The Objective of the Research. The objective of the research is to analyze the financing models and state funding methods of the higher education system and to disclose the advantages as well as dysfunctions of each conception. This paper examines the mechanisms through which governments allocate resources to higher education in order to establish effective means to transfer these subsidies to institutions.

In order to achieve the determined aim the further tasks are settled:
- to describe the financing models of the higher education system and to reveal the advantages and weaknesses of each model;
- to discuss the state funding methods of higher education and to indicate their characteristics;
- to analyze advantages of application practice of each method of state fund allocations to the higher education institutions;
- to present the state regulation and state fund allocation conceptions of different foreign countries in order to determine the implementation problems of each method by comparative approach instrument.

Methodology of the Research. In the course of reaching the objective of the research, both theoretical and empirical methods of the scientific research were employed, i.e. methods of comparative, systemic analysis, analytical-critical, linguistic, also methods of documentary analysis and generalization were used.

1. Higher Education Financing Models

The main principle of the Bureaucratic financing model of higher education is full assignation of tertiary institutions’ budgets from state resources. In this case, the state in essence directly influences all spheres of activity of higher education institution by way of legal and financial means—it may determine the structure of the higher education institution; number of departments, employees and the number of accepted students; form a need for certain fields of studies and directions for scientific research. State institutions hold control of usage of financial resources. Tertiary education institutions do not manage their long-term material assets and, in essence, carry out state orders in the field of higher education. The state may delegate certain functions to different supervisory bodies (committees, commissions, etc.) where representatives from the academic community usually take part. Typical view of the Bureaucratic financing model is given in Figure 1.

One of the main advantages of this model is that this way the state may fully meet its needs by ensuring preparation of the needed experts and by controlling their number; the state also acquires the tangible possibility and mechanisms to ensure the quality studies provided by legal acts. Yet more shortages than advantages are currently foreseen
in this model. Firstly, a strict and centralized financing (usually followed by extremely thorough normative regulation by the state) almost completely limits the real institutional autonomy and academic freedom of the tertiary education institutions in deciding the most important issues of university activities. The system of higher education, likewise, is becoming dependent on the political power of the state and may often become hostage to various political decisions of dubious nature. Usually, educational institutions, under such a financing model, are not permitted to independently dispose of the financial resources. The resources are usually assigned based on the data from the previous year, which, in turn, fosters reckless usage of the assigned financial resources by ignoring the daily needs of the tertiary institution, which may change within the course of the financial year. It is also problematic to implement changes of the activities of tertiary education institutions which require fast decision-making, because the decision-making procedure is, as a rule, regulated in detail and is followed by numerous bureaucratic procedures. Although ensuring the quality of the studies by state regulatory means is distinguished as one of the positive aspects of this model, it also stands as a weakness of such a model, because in this case the system of quality evaluation has to be legitimized and thoroughly described by both internal and external regulatory means, yet institutions of higher education tend to negatively react toward such quality evaluation systems and are usually prone to overly formalize the process of quality evaluation itself.

Figure 1. Example of the Bureaucratic financing model of the higher education institutions.

Collegial model usually implicates activity of the tertiary education institutions subsidized by the state, the right of the higher education institutions to attract private funds (by way of payment for tuition, reward for the services provided in projects, for implementation of scientific research for other economic units, financing of certain programs or scholarships), it also encompasses the right academic institutions to freely
dispose of the resources assigned to them. Such model structure is based both on the traditional idea of financial dependency of higher education institutions, and on a trusted relationship between the state and universities. Although state funding usually comprises a larger part of the higher education institutions’ budget under such a model, tertiary institutions are granted the right of financial independence, which allows universities to decide how and where to effectively spend the acquired resources. Subsidies by the state under such a model comprise of the budget of the tertiary education institution, utilization of which is decided on the institutional level of a university—senates and/or boards. Under domination of such a model of higher education financing, the responsibility for proper distribution and effective utilization of resources is handed over to the municipal institutions of a higher education institution, which, in turn, by disposing of their right of decision making have to accommodate state, public and academic needs of each university department while distributing resources. An example of a collegial model is given in Figure 2.

![Figure 2. Example of the Collegial financing model of the higher education institutions.](image)

Such system of financing calls for an appropriate management system for each particular model, which may be described as a professional management model, where a higher education institution is managed by the highest hierarchical rank of academic professionals selected by the personnel and students of the university itself. Both the financing model and the management model formed under the influence of the former, have their advantages and disadvantages. “When the resources obtained can be matched with the academic needs professional integration, high quality of the academic services and strong academic solidarity are preserved.”7 Also, as was stated above, this model preconditions that tertiary education institutions have the right to full institutional auto-

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nomy, especially in the processes of resource management and distribution, which, no
doubt, positively influences academic freedom, quality of higher education, and optimal
utilization or financial resources. It is perceived as an advantage, that all resources (both
state-assigned and earned by universities themselves) are considered private money,
which also has a positive effect on the above mentioned aspects of activity.

Nevertheless, application of the collegial model of financing of higher education
institutions may inevitably meet certain negative outcomes. Following objectionable
results of application of the model are usually discussed in scientific literature:

- Institutions of higher education, by receiving constant subsidies by the state,
  which are supplemented by private income, become excessively independent
  from the public in light of financial accountability; usually the rules and met-
  hodology of financing of higher educational institutions are not public, or the
  criteria of financing are too complex and incomprehensible to the wider public;
  an unreasonable threat of putting own academic interests before the public inte-
  rest arises;

- One of the most frequently identified negative aspects (likewise addressed in
  the bureaucratic model of financing discussed above) is that, in essence, the
  state budget is redistributed in regard of the system of higher education from all
  members of society (including financially ineligible persons) only to representa-
  tives of a certain social status, which are financially capable and privileged in a
  social sense, because, as a rule, children of such persons seek a higher education.
  Such a rather insignificant part of all who seek higher education are supported
  by resources from all the taxpayers, therefore a question is raised whether higher
  education is just as valuable a virtue as, for example, healthcare, that it should
  receive support from the public;

- There are conflicting and frequent arguments under such financing model related
  to the above mentioned system of management, when important issues solved
  are concentrated in the hand of the minority of the academic society (professors
  of the highest academic competency), in such a way that the authorities that
  dispose a wide institutional authority, acting through the managing organs of a
  tertiary institution, may abuse the powers vested in them by seeking to diminish
  competition.

A conclusion can be made, that in both models of financing of higher education
discussed above, the biggest stake of financing is given to the state, therefore, a constant
issue regarding the ratio of state and private financing is raised. It is obvious that the
system of higher education cannot be ensured with quality and effectiveness solely ba-
ased on state resources, that’s why in all models of higher education (with an exception
 to the strictly centralized, bureaucratic Soviet model of financing of higher education)
an opportunity to earn and attract private resources is given to the institutions of higher
education, sources of which may vary—it is both student income from tuition, competi-
tive-program financing of scientific research, and income received on a contractual basis
with other economic units.
Universities must look for financing on their own in the private sector, tertiary education institutions are encouraged to look for contractors to carry out their fundamental and application studies. It not only encourages representatives from the entrepreneurial sector to directly add to the financing of higher education, but enables institutions of higher education to better comprehend the needs of entrepreneurship and industry so that study programs, internships, etc., would be designed accordingly. Therefore, for example, resources from research of other economic units have comprised circa 5.5% of all research financing, or 1.3% from resources of all education and study institutions, in tertiary institutions of OECD in 1996. While in Lithuania this source of financing in 1998 has comprised as little as 0.1% of resources of higher education institutions. Currently the situation is somewhat different—in 2008 the portfolio of resources of universities was 1 billion 312 million litas, 362 million of which were resources from legal and natural persons, and that comprises circa 22% of all income of universities. In 2009 resources and income of higher education institutions were 1 billion 211 million litas, 381 million of which were resources from legal and natural persons. It is, however, notable that as much as 312 million, i.e., 86%, of these resources are received from household units, therefore, a conclusion can be made that these resources are payments from students and their families for tuition and other services provided by institutions of higher education (payments for room and board, etc.). Input by legal persons (that usually are representatives of entrepreneurial and industrial sector, who finance certain scientific research and studies) into the budget of institutions of higher education only formed around 69 million litas, and that is as little as 5.7% of resources of all institutions of higher education.

Therefore, a conclusion can be made that cooperation between economic units and higher education institutions is not sufficient. A greater participation by representatives of private sectors in financing of higher education would indicate greater social justice and more proportionate distribution of investors and benefactors. Finally, private resources have a possibility to increase the effectiveness of the overall system of higher education by demanding an appropriate quality of services and stimulating competition

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9 OECD is an international organization, its mission is to help its member countries to achieve sustainable economic growth and employment and to raise the standard of living in member countries while maintaining financial stability—all this in order to contribute to the development of the world economy. The Organization provides a setting where governments compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies. OECD also shares expertise and exchanges views with more than 100 other countries, it has been one of the world’s largest and most reliable sources of comparable statistics and economic and social data. 33 states are now members of the OECD.

10 Financing of Lithuania’s Higher Education in the New Millenium, op. cit., p. 42.


of higher education institutions both for research financed by the private sector, and student activity and motivations while seeking target scholarships or studies financed by a potential employer.

Tertiary education institutions may (usually such a possibility is given under any governing financing model) to attract other additional resources. For example, that scientific research is usually financed not only by economic units, yet income is also received on basis of competitive-program research financing. Various institutions, research councils (Research Councils—in England, Holland, Norway, Sweden, Finland and other countries), research associations (Germany), science and technology advancement centers (Finland), etc.,\(^\text{13}\) are created for such a purpose. Institutions of higher education may also attract resources from foreign investors by implementing international research and study programs. Universities may receive income for various services which usually coincide with the direct purpose of tertiary institutions—and inconsistent studies, course of requalification and qualification improvement, publishing and other creative activities. Institutions of higher education may receive part of the resources from activities that are not prescribed as their main functions—resources for rent of facilities, buildings and other material assets, marketing, housing, study and recreational facilities’ services, boarding, also resources form the economic activities.

Yet an issue which draws the utmost attention while discussing the ratio between state and private funding of the system of higher education is the problem of student tuition for their studies. There are or there were European states where studies fully or partially (student pay registration fees and other fees for additional services provided by the university) were covered by the state, for example, Austria, Denmark, Finland, Sweden, Germany. In countries where students or part of the student body pay their tuition, student support mechanisms (loans, loan interest compensation, fee exemptions, scholarships for certain social groups, etc.) are usually in place.

The question of tuition payment by service receivers, i.e., the students is discussed in many countries, because the decreasing economic capacity of the states makes the tuition fees an essential condition for financing and survival of higher education. An exceptionally frequent and sharp discussion regarding whether higher education is a private or public investment arises. If higher education were to be also regarded as a private investment, then the main benefactor, undoubtedly, becomes the student himself, therefore he must add to the financing. Otherwise all tax payers in form of taxes are paying for the private investment when, in fact, only a small percentage of them use this service. But if higher education were to be regarded more public than a private investment, while taking it into consideration as social and national priority, then it is possible that all of the society has to at least in part contribute to the maximum implementation of this investment. It is not questionable, that state funding of higher education makes the studies more accessible, but it is perceived that a right to higher education should be more related to individual capacities and competition on knowledge basis. It should also be noted that the issue of accessibility of higher education usually arises before the

\(^\text{13}\) Financing of Lithuania’s Higher Education in the New Millenium, supra note 8, p. 26.
actual decision to take part in a certain study program or tertiary institution, and that is more related to problems of overall system of education and social exclusion.

Private financing of the studies forms competitive precondition in the system of higher education. Tendencies of competitiveness may take various forms—by setting the tuition price (tertiary institution may no longer increase the tuition price without proper reason, because students may choose a similar study program in another tertiary institution); pricing a certain study program (if the price for obtaining a certain profession shall be higher than the potential return after completion of the studies, such a program would not be in demand); by seeking higher quality of studies; encouraging student motivation (exempting best performing students for the tuition fee, giving scholarships, etc.). In this case, one of the greatest dangers of private financing would be the issue of survival of not very popular, fundamental or expensive, due to their complexity or object, programs of study. Trying to finance such programs from the resources of the state or create other models of financing, of course, would distort the market and result with other negative consequences. Another valid argument would be that competitiveness of higher education institutions and quality of studies’ can be achieved by other than the private financing ways. Therefore discussions regarding the ratio between the private and state financing are continuous and the chosen model of financing influences both the overall higher education system and its legal regulation.

The discussed variety of financial resources is especially common in the third model of financing of higher education, the so-called Market model. The latter stands out not only by its possibility of alternative financial resources, but also by its obligation to cooperate the work of all the participants of the system of higher education—providers of academic services (lecturers and scientists); users of services (students and their employers); state which represents the public interest; and managing organs of institutions of higher education, who are responsible for an effective, qualitative functioning of tertiary institutions. “Plurality of interests and financial resources, as well as their distribution mechanisms, gives favorable conditions for expansion of activity, complying with interests of different groups of society, by the academic community.”

It is considered that under such model of financing, the main contractor for the services of higher education would not be the state, who would by way of state regulation set priorities and demands, but, in a general sense, direct receivers of the services (society, business, industry). Institutions of higher education are encouraged to seek and to invoke more diverse resources of financing, which would ensure qualitative and effective functioning of the institution that would meet the needs of the market. At the same time, the market model of financing obliges tertiary institutions to provide sufficient information about its activities, and supposes the maximum financial and qualitative accountability, because investors (state, businesses, private entities, etc.) are only interested to cooperate under clear academic and management processes.

14 Kraujutaitytė, L. Foundations of Democratic Higher Education, supra note 6, p. 195.
This model stresses the balance between state and private financing, the latter being a priority. It is considered that one of the main advantages of this model is the competition between institutions of higher education for resources from the private sector, which would encourage universities to lower tuition fees, seek better quality, react to demand of the market with flexibility and timely. Yet the advantages are also the disadvantages of this model. It is believed that the long-term conceptual goals may be undermined by seeking maximum financial benefit, when short-term, financially attractive priorities would begin to dominate. The study programs may be oriented accordingly; therefore expensive programs, with a long period of return, may become unattractive, and may precondition shortage of certain experts in the state in the long run. An exceptionally strict financial control does not only pose a positive phenomenon, it may demand too much time from the academic personnel (filling out various reports, applications, etc.), and such control in certain aspects would gradually start to resemble the rules strictly governed by norms of bureaucratic model. The weakness of the market model is also such that it usually calls for very fast academic and scientific results which may be incompatible with the academic freedom.

2. State Financing Methods of Higher Education and Experience of Foreign Countries

It would undoubtedly be hard to find pure examples of a certain model since usually mechanisms are chosen based on different models. Yet despite the type of model aspects of which prevail in a certain country, the main financing source of higher education
currently is the state. Direct budget assignments in EU countries for tertiary institutions comprise from 60% to 90% of their received resource income. Only in Great Britain the private funding to higher education reaches 25% of the whole financing amount, in other states this indicator does not exceed 20%.

State financing methods and mechanisms in different countries are various; their application depends on the goals set by way of state regulation, economic capacity of the state, ratio of state institutions and tertiary institutions autonomy. Since the state still remains the main funder of the system of higher education, the applied method of state financing must guarantee effectiveness, quality and must be sufficient. Various sources usually describe several methods of state financing according to its target—institutional financing “in common amount” (also described as “financing by formula”), program financing and financing of the service receiver.

By way of Institutional financing of higher education the institution providing services of higher education itself is financed by taking into account the cost of studies and scientific research. This method of state financing in essence was dominant for a long time up to the current day and is still applied in the majority of the countries of the world. Theoretically it is stated that in this way a state may influence quality of higher education and the whole process of studies the most, and may also, by way state financing, implement national priorities in higher education. Such method of state financing is appropriate for models of bureaucratic and collegial financing, but it may also be applied in the market model by forming state resources as part of the university budgets.


Such state financing methods is also sometimes called the “discretionary budget” method by taking into account the discretion of the state in deciding a certain amount of financing for a certain institution of higher education.\textsuperscript{17} For example, budget resources for higher education in Germany\textsuperscript{18} are distributed based on very complex procedures. The latter is influenced by the fact, that the system of higher education is managed both on the level of different lands and on the federal level.\textsuperscript{19} Institutions of higher education annually prepare detail budget plant and submit it for approval to ministry of certain land and the parliament. The budget of a tertiary education institution approved by the land may be amended according to the remarks of the Federal Ministry of Finance. The budget project of higher education institutions is very detail and utilization of resources strictly regulated. It is usually not permitted to utilize resources assigned to certain field of activity for covering other expenditures. Unutilized resources must be returned to the state budget, therefore, a tendency is observed to utilize all of the assigned resources at the end of the year, even though there is not a great necessity, because if unutilized resources remain, the budget of the forthcoming year may be reduced accordingly. Resources are usually allocated for salaries of the personnel, purchase and maintenance of appliances necessary for infrastructure and studies. Scientific research is not excluded in a separate budget line, yet additional income for scientific research institutions usually obtain by way of participation in competitions, other state and private sources.

Basis of institutional state financing model are resources allocated to a certain institution of higher education according to a formula, certain calculation method (formula-based funding). A certain amount is allocated, which was previously decided based on the approved budget of the tertiary institution. Usually resources in the budget of a tertiary institution that are received from the state are allocated in great detail, by indicating a definite purpose of utilization of such resources (infrastructure, salaries, purchase of appliances, etc.). Calculation of the allocated resources to in institution varies, different criteria are applied. Resources for studies and resources for scientific research are differentiated in certain countries, other countries do not separately finance the latter activities, and scientific research line is not indicated in the budgets of institutions. One of the criteria that are used in almost all countries that apply such state financing method


\textsuperscript{19} There are approximately 300 universities and 200 special engineering higher education institutions in Germany. As a subsequence of Bologna Process the three level tertiary education has been introduced in Germany. Before that five-year studies dominated, providing master degree qualification, but almost 75% of those who entered the higher education institution did not finish the studies.
is the number of students accepted. This indicator is usually supplemented with other, that vary and are individually selected by each state—number of credits collected by students per year, ratio of lecturers and students, structure of salaries, results of studies, high level publications prepared, dissertations approved, and other indicators. Scientific research, just as other study programs may be financed separately, according to the competitions or separate contracts with the state gotten by the institutions of higher education. Such method of state financing was applied in Lithuania ever since restoration of independence in 1990 until the reform of higher education in 2009.20

Institutional financing method according to the formula—based funding is applicable in Finland.21 All universities (circa 20 tertiary institutions and circa 10 specialized institutes—polytechnics) in Finland are public, yet they contain quite a large level of institutional, study and academic, also internal administration autonomy. Investments by public sector to studies and science comprise 2.1% GDP of Finland which is one of the highest in the entire EU. Resources allocated by the State to higher education form the bigger part of financing of the system—almost 90%; it is also one of the greatest state inputs toward higher education in the countries of European Union.22 Universities are financed according formula-based funding, a certain calculation method which is largely based on performance evaluation criteria (performance-based funding). The amount of allocated resources according certain indicators is determined by a contract between a university and a ministry. The contract usually provides a direction of development of the university, its goals. No fees are foreseen for citizens of Finland based on an assumption that extremely high taxes of the nationals have to cover all expenses or public services (including higher education). Additional support in amount of 300 Euros for each student is allocated to cover additional expenses. Students who finance their studies by way of private funding have a possibility to receive loans from private sources that are guaranteed by the State.23 Tertiary education institutions receive additional financing by

22 The Ministry of Education and science administers State funding to higher education institutions. The Ministry forms the requisition of finances of higher education institutions and presents this requisition to the state budget.
23 Recently some intentions to impose charges at least on part of study costs (accommodation, additional services, cultural or sports activities) are seen, which could be paid by loans, guaranteed or rendered by state, and returned after finishing the studies and reaching corresponding level of income. Completely free higher education upraises certain negative consequences—just about 50% of all students finish their studies in time, usually studies last 2-3 years longer than is foreseen in the study program.
providing services (for example continuous education and courses of higher qualification), by invoking external sources of financing for research and development of project activities. The Ministry of Education and Culture also has a discretionary right to separately subsidize projects and research related to education and science, the latter may be funded by other organizations (for example, Finnish National Board of Education, the Academy of Finland, etc.). Financing of science and research in Finland stands out as the highest indicator if counting resources from the GDP—circa 4%.

*Program financing* provisions provide for a different basis of allocation of state resources to institutions of higher education. This method empowers the state to allocate resources for concrete study programs, by setting goals, which should be achieved by the institution implementing the program, and in case of studies—the students. Institutions of higher education are given an opportunity to compete for implementation of the program. Some authors call this method as performance-based funding when a tertiary institution is financed according to results of performance, which are evaluated according to a previously set method by the state (number of accepted students and number of those who graduated, scientific research and results—academic produce are usually taken into account). Such a method, in essence, is more practical while implementing the model of market financing in the system of higher education, but it carries all the disadvantages that are also applicable to the method of institutional state financing. Even though it is stated that program financing is most efficient in ensuring the quality of studies, but usually certain program is financed for four years at least (until students under a certain study program graduate), therefore the final result can be evaluated only after one financial cycle. Program financing also raises a question of quality control, because the state, while being the contractor of the services who seeks to ensure their quality, usually creates state control mechanisms which may lead to instigation of an overly bureaucratic processes. It, however, should be observed that this method allows to effectively amending quality of the studies during the process of their implementations. It is notable, that allocation of resources for scientific research is quite an effective method of program financing. Certain aspects of this method are noticed in financing of higher education in Lithuania up to 2009.

Principles of program financing are applicable in funding scientific research in Great Britain. Methodology of financing of scientific activities in Great Britain is quite complicated, yet sufficiently effective. Financing of scientific research is linked with the qualitative dimension of research, expressive mechanisms of which are international and national quality standards. Criteria such as number of internationally cited publications, number of doctoral students who complete their studies, innovativeness of research are usually evaluated. Institutions themselves decide data of which researchers to provide to the applicable state institutions in charge. Institutions of higher education may receive additional financing for scientific research and various projects form specialized state

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24 The involvement of the economic sector financing science and innovation has great impact in this field, for example, the allocated resources of the Finnish concern Nokia to the science projects compose almost 70% of the whole amount designated by the economic subjects to science.

institutions and funds (for example, Science Research Investment Fund), contract with economic units, state institutions.

There are various methods of state financing of higher education and their application depends on goals of the state, related to higher education, priorities of the system of higher education of the state management scope, and other aspects. It should be observed, that in Europe under the institutional and program state financing method, two types of state budget resource allocation to institutions of higher education prevail—block-grant funding, when state resources allocated to a university cover only part of certain expenditures of a category (for example, tuition costs, daily operational expenses, etc.) and universities are responsible for distribution of these resources according to the needs within the institution. Line-item budget funding financing method means that universities are funded by budget resources which are previously assigned to cover certain expenses of finance certain activities, and universities do not have a right to freely distribute the resources. The line-item budget funding financing method is usually set by parliaments or ministries of the appropriate fields, such method exists in Hungary, Cyprus, Greece, Latvia, Serbia, Turkey, it was also applied in Lithuania.

The financing method of block-grant funding is applied in twenty-six European countries, although not all provide a right for universities full discretion to distribute the acquired resources independently, for example, Sweden and Slovenia resources are allocated in certain blocks (research, salaries of the staff, infrastructure), and universities cannot relocate resources from one block to the other, independent decisions by institutions of higher education may be adopted on redistributions of resources only within a certain block.26

Block-grant funding financing system is applied in Great Britain,27 when state resources are allocated according to a certain methodology after determining financial needs of a certain institution of higher education for the financial year. The resources are allocated separately for studies and scientific research. Tertiary education institutions independently dispose the state subsidies; they are accountable to a local municipality organ—the university council. Despite a large amount of state resources in the budgets

of higher education institutions, state institutions do not substantially influence universities neither in internal resource redistribution, nor utilization, nor academic (personnel selection, quality and implementation of study program) decisions. Part of income of higher education institutions are comprised of the tuition payments (up to 3 300 GBP as of 2009) that are paid by all students, except those who receive state or university scholarships.\textsuperscript{28} Income from the tuition fees are accounted into a general sum of income received by the tertiary institution, yet these fees must be gathered by institutions themselves. Universities are allowed to accept students who fully cover their tuition costs set by the university. Students are allowed to cover their tuition expenses and other expenses (that a student has taken out a student loan) that are related to studies, after completing the studies when a former student starts to receive an income of certain amount (circa 15 000 GBP per year)\textsuperscript{29}. One of the most criticized aspects of state financing is the annual change in financing; it is planned that the amount of resources need should be determined for at least three years and would only be amended yearly given objective reasons.

Reform of the block-grant funding financing system has been discussed recently with intention to ensure a principle of financing of the service receiver (study “pouch”). Method of financing of the service receiver is oriented towards financing of the direct service receivers, the students, when the latter decide which institution of higher education shall receive the resources allocates to the students to obtain higher education. It is stated, that such method of state financing is the method that encourages competitiveness of institutions of higher education and preconditions them for effective and qualified activity the most. In such a way universities become independent on the maximum level from the state’s policies and short-term goals, because the end decision is made by the receiver of services. A mechanism of-so-called “pouch” is used while applying this method, when a student receives certain subsidized resources from the state to finance the studies and to cover their expenses, and the student “brings” the resources to the selected institution of higher educations. The tuition in this case is comprised of all the expenses of operation of the tertiary institution that the student’s “pouch” resources should, in turn, cover. Of course, the tuition paid solely with the subsidized resources by the students is not sufficient for tertiary education institution; therefore this method of state financing should be combined with other financing alternatives. A conclusion can be made that such model of state financing is the closest to the market method of financing in system of higher education.

There can be several mechanisms for application of this method. Tuition fee for certain programs can be set both by way of centralized decision (by the state), and de-centralized decision (by institution of higher education itself). Accessibility of the studies

\textsuperscript{28} Until the year 2009 the tuition fee, paid by all students, was appr. 1100 pounds. Welfare recipient students are relieved from that payment, the number of such students reaches almost 50%. Non Great Britain students (cirizens of other EU members) pay the full amount. The state grants the support in the amount of 3000 pounds to all students, which family income does not reach the established annual average (appr. 23 000 pound per year).

\textsuperscript{29} According the established rules, when income reaches the corresponding level the students pay approximately 10% of the income, exceeding the minimal level, to cover the loan. It is required to repay the loan within five years from the first installment.
is ensured by the state to the best-performing students, when applying to the institution—to the best graduates, by using the financial instrument of the student “pouch.” The remaining part of the expenses (if a price of a certain program is bigger than the student “pouch” or the student does not excel well) should be covered with the tuition payment fee. The size of the student “pouch” can vary annually, depending on the structural changes (for example, increase of wages) or can be fixed for the whole duration of the studies. It is, however, discussed which expenses should be covered by the “pouch”—only direct expenses or should it be allowed to cover indirect expenses of the institutions of higher education. Direct expenses are usually considered salaries of lecturers and other staff related with the studies, expenses for goods and services related to the studies, expenses for organizing the cultural, sports, public activities of the students (for example, Art. 76.3 of the Law of Science and Studies of Republic of Lithuania30). The method of financing of the service receiver can be applied together with other models of state financing of higher education institutions. For example, resources of institutions of science and studies in Lithuania are comprised of basic state financing funds, which are allocated to scientific research, administrations and economics, also funds from the state budget for studies (which are allocated by way of the student “pouch”), state investment and project resources, income from competitive scientific research financing (Art. 67 of the Law of Science and Studies of the Republic of Lithuania).

The size of the student “pouch” can be the same to all those who are being financed, but it may also differ depending on the study program selected. Therefore, it can be stated that combination of several methods of state financing can be applied, however, that essential difference between the program and the service receiver financing methods is that in a student does not select a certain study program, the resources would not be allocated, as opposed to the program method (when the resources are allocated by determining the number of students beforehand).

An alternative instrument of financing of higher education utilized by the state can also be a loan system, when a state issues preferential loans to cover tuition fees or, if the state is incapable to provide sufficient funding for state loans, a state can guarantee the paying back of the loans issues by private institutions or compensate the interest of the loan. The loans are usually returned after completion of the studies or when the income of the former student reaches a certain level set by the state. Another, less popular, but nevertheless applicable (for example in Belgium, Austria, Portugal and others) method of financial support for students is support for families that have member who are enrolled as students. The state support is usually related to tax benefits, yet it is notable that it is used in combination with other instruments of financing of higher education.

Conclusions

The detailed analysis of the scientific and legal documents provides the conception that the higher education system may be financed by certain ways of financing, which are chosen on the basis of the targets of the state and of the society in the field of higher education. The concept of the bureaucratic financing model of higher education is a full assignment of tertiary institutions’ budgets from state resources. In this case the state directly influences all spheres of activity of higher education institution by way of legal and financial means. The collegial model implicates activity of the tertiary education institutions subsidized by the state, the right of the higher education institutions to attract private funds, and it also encompasses the right academic institutions to freely dispose the resources assigned to them. The market model foresees not only possibility and variety of alternative financial resources, but also obligates to cooperate the work of all the participants of the system of higher education. As international experience confirms, the state should not rely on a single source of funding in the higher education system. The growing diversity of funding resources is an effective response to the mismatch between globalization, massification processes and possibility of access and quality of higher education. Variety of state financing allocation mechanisms help to achieve the objectives which the countries seek for their higher education systems. It should be also explored innovative ways of allocation methods to improve equity and availability of the tertiary education. The system of higher education cannot be ensured with quality and effectiveness solely based on state resources, that’s why in all models of higher education an opportunity to earn and attract private resources is given to the institutions of higher education, sources of which may vary. Applying different state financing methods determines positive as well as negative outcomes. Funding formulas appear to be good instruments for allocation core resources but they are not always able to ensure the rewarding quality or to stimulate greater equity in higher education. Indirect financing mechanisms (student-based approach), financing the recurrent expenses of institutions indirectly through vouchers provided to the students, often are better in promoting access and equity, but they not always reliable reaching long-term goals of higher education. There are various methods of state financing methods of higher education and their application depends on goals of the state, related to higher education, priorities of the system of higher education of the state management scope, and other aspects. The states should not stress the correlation between chosen financing method and studies’ quality control mechanisms, the funding allocation must not be practiced upon reducing higher education institutional autonomy and increasing state regulation and control.

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AUKŠTOJO MOKSLO SISTEMOS FINANSAVIMO METODAI

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Santrauka. Aukštojo mokslo studijų finansavimo sistema yra vienas iš esminių veiksninių, nulemiančių visą aukštojo mokslo sistemą – ir institucinių, ir kokybinį, ir prieinamumą, ir kitais lygmenimis. Aukštajam mokslui tampant masiniu reiškiniu, įgyvendinant mokymosi visą gyvenimą, nenuosekliai studijų ir kitas programas, bet kiekvieną aukštojo mokslo sistemos aspektu susiduria su finansinėmis problemomis. Kad ir kokio finansinių pajėgų būtų valstybė, akivaizdu, jog finansinių ištekių klausimas visada išliks viena iš aktualiausių probleminių aukštojo mokslo veiklos sričių. Todėl aukštojo mokslo institucijoms ir valstybei neišvengiamai kyla keletas esminių strateginių klausimų: kaip paskirstyti ribotus valstybės išteklius, skirtus aukštajam mokslui; kokie finansiniai bei teisiniai mechnizmai yra optimalūs, siekiant maksimalaus aukštojo mokslo prieinamumo, studijų kokybės ir nacionalinių aukštojo mokslo mokymų konkurencingumo globalizacijos sąlygomis. Remiantis mokslininkų darbais, straipsnyje analizuojami keli aukštojo mokslo finansavimo modeliai:
Birutė Pranevičienė, Aurelija Pūraitė. The Financing Methods of Higher Education System


Reikšminiai žodžiai: aukštojo mokslo institucijos, finansavimo modeliai, valstybinio finansavimo metodai, valstybinis reguliavimas.


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