

Higher Education Finance and Cost-Sharing in Latvia

I. A brief description of the Latvian higher education system

Tremendous changes have taken place in the higher education sector in Latvia since the beginning of the 1990s. A two-tier degree system has been introduced; the quality assurance system is being strengthened; the higher education private sector is developing; cost sharing is taking place, and many students are acquiring loans to cover their study expenses. Some of reforms are part of the Bologna process that is currently shaping the changes in Latvian higher education as part of the overall stream of higher education reforms in Europe (Rauhvagers, 2003). However, many fundamental changes in Latvia were introduced before the Bologna process even started in 1999.

The adoption of the Education Law in 1991 was a turning point in Latvia's higher education. This law was adopted as a framework document that outlined changes and new principles including the granting of more autonomy to higher education institutions, the division of higher education into academic and professional programs, the introduction of bachelor and master academic degrees, and the permitting of private higher educational institutions. This law legalized dual track tuition, meaning that a certain number of the highest scoring students on the entrance exam would be admitted to public educational institutions with state financing, while others would have to pay tuition.¹

In 1995 the Law on Higher Education Establishments was adopted. It further strengthened the two-tier bachelor-master degree structure in Latvia's academic higher education. However, it did not abolish the binary line – the huge split between the academic and professional higher education. The professional higher education institutions were not allowed to carry out bachelor or master programs.

Recent educational policy documents, however, foresee a reduction in the split between academic and professional higher education in Latvia. Currently the Law on Higher Educational Establishments, amended in 2000, provides for the awarding of professional bachelors (if total duration of a program is no less than 4 years) and masters (if total duration of a program is no less than 5 years) degree. The country is moving towards a two-tier higher education system with the two kinds of bachelors and masters degrees – those with an academic and those with a professional orientation. Holders of both types of bachelor degrees would be eligible for admission to master studies and both types of master degrees would be eligible for doctoral studies.

Admission to doctoral studies, which lasts 3 to 4 years, requires a Master's degree (or equivalent).² The program includes advanced study of the relevant subject as well as a research towards the doctoral thesis. Publication in internationally quoted scientific journals is required before the defense of the doctoral thesis (AIC, 2002).

¹ There are some exceptions to this situation. For example, there are no tuition-sponsored slots in the National Academy of Defense, while students to a publicly owned Banking Institution of Higher Education are admitted on tuition bases only.

² Bachelors and Master's degrees are not applied in study programs of medicine and dentistry, which require 6 and 5 years respectively. Degrees in medicine and dentistry, however, are considered equal to Master.

Since 1990 the number of higher education institutions in Latvia has been growing. Both public and private higher education institutions have been established. By the year 2004 there were 20 public and 15 private higher educational institutions compared to 10 public and 2 private higher educational institutions in 1990/91 (Ministry of Education and Science, 2003).

There has been a tremendous increase in student numbers as well. From 1990/91 to 2003/04 enrolment in higher educational institutions has almost tripled from 46 000 to 126 756.³ Since 1995/95 there has been an increase in the number of part time students as well. The majority of all the students in Latvia are enrolled in public institutions. However, since 2000/01 the annual increase of enrollment in private higher educational institutions has exceeded the annual enrollment increase in fee-paying places at public institutions. The number of state financed slots in public higher educational institutions has been decreasing. In 2003/04 only 24 percent of students were admitted to publicly funded places in higher educational institutions compared to 68 percent in 1995/95 (Ministry of Education and Science, 2003).

Table 1. State and tuition sponsored students in Latvia (%)

	1995/96	96/97	97/98	98/99	99/00	2000/01	01/02	02/03	03/04
Fee paying	32	44	51	57	64	67	70	73	76
State sponsored	68	56	49	43	36	33	30	27	24

Source: Data obtained from Ministry of Education and Science (2001, 2002, 2003).

Financing higher education in Latvia

Overall since 1995/96 there has been an increase in financial resources devoted to higher education. However, non-governmental resources spent on higher education have mainly fostered this increase. The share of state budget resources allocated to higher education has been decreasing, although public funds still provide the greatest share of revenue to the higher education sector. The second greatest source of revenue for the sector is private funds. In 2002 tuition fees at public higher educational institutions were the second largest source of income accounting for 31 percent of all the revenues (Ministry of Education and Science, 2003).

All students in private educational institutions must pay a tuition fee. At public higher educational institutions, however, there is a dual track tuition system in place. Tuition fees are charged to those students who meet the higher educational institutions entrance requirements but fail to be admitted to the state-financed places. The Council of Higher Education suggests the number of state-funded study places in each field of studies. When planning the number of state-financed slots the Council of Higher Education takes into account the needs of economy.⁴ Nevertheless, the final number of state financed

³ There was a decrease in the number of students from 1992/1993 to 1995/1996, when a steady increase in student numbers in Latvia resumed.

⁴ Public officials, academics, professional organizations, and students are represented in The Council of Higher Education.

study slots at public institutions are determined by the Minister of Education, according to the annual amount of government funding allocated to higher education. The amount of the government's allocation to public higher educational institutions is determined on the basis of a formula that considers the number of publicly funded students at the institution (Kasa & Loza, 2001).

Dual track tuition policy at public institutions is merit-based. Some public higher educational institutions implement the "rotation" of students, depending on their performance on the exams at the end of each semester. Students in state funded slots who have lower results have to give their tuition-free place up for students who paid tuition initially but scored better on the exams at the end of the semester.

Both private and public institutions determine the total number of students admitted and the tuition charged. Tuition fees in different higher educational institutions and study programs differ to a very large extent. There is no strict correlation between the actual study program expenses and tuition fees. The amount of tuition is mainly determined by the number of students competing for a place in a certain study program (Ministry of Education and Science, 2002). In most cases tuition fees in higher educational institutions in the capital city of Riga are considerably higher than those for the same program in other cities. Nevertheless, the majority of students acquire higher education in Riga. In 2001/02 only 20 percent of all students attended higher educational institutions in other cities. This means that absolute majority of students who study in Riga need considerable funds to pay tuition and cover living costs (Kasa, 2003). Tuition at private institutions tends to be higher than in public higher educational institutions.

Student Financial Support

There is a student financial support policy in place in Latvia. Student aid is provided in the form of grants and loans. Government grants are available to students who win a publicly funded spots at public higher educational institutions and who do not work and excel academically. Due to insufficient funds, only about 16 percent of publicly funded students receive these funds. There is also a special grant policy for doctoral students. They can apply for an additional monthly grant if they are working on a dissertation in a field identified by the Ministry of Education and Science. Allocation of this grant is subject to a separate agreement. If a student has failed to fulfill the requirements of the agreement within five years, he/she must repay the grant.

Student Loan Program

Another source of student aid in Latvia is the student loan program. In 1997, the government began to provide loans to cover student living costs and in 1999, to cover tuition. In 2001, the policy of providing state guaranteed student loans through commercial banks was implemented. There are two categories of student loans in Latvia that are designed as conventional or mortgage-type loans. One category (study loans) covers tuition, while the other (student loans) covers the students' daily living expenses.

Students enrolled in private as well as public higher educational institutions are eligible for both loans. In order to receive a loan a student must have a successful academic track record and study in a state accredited full time or part time study program. Student loans

are available only to full time students, while study loans are available to both full time and part time students. A study loan in the amount that does not exceed the tuition fee a student has to pay can be obtained from a state guaranteed loan program for consecutive acquisition of no more than one Bachelor, Master, and Doctoral degree or higher professional education. The length of study may not exceed the time designated for study in a respective program. There are loans available from this government co-sponsored program to students who apply to study abroad as well.

There is a 5 percent annual interest rate applied to both types of student loans in Latvia. The government subsidizes the difference between the interest rate charged by the commercial bank servicing the student loan program and the interest rate paid by the student.⁵ The interest rate for a *study loan* does not accumulate during the study period and there is a yearlong grace period after which the interest starts to compound. Interest for a *student loan* starts to compound as soon as a student receives a loan. If a student drops out of school he or she has to repay the amount borrowed with an interest rate set by the bank. The state does not subsidize the interest in this case.

To receive a loan a student must have a co-signatory or a guarantee from a local municipality, or in the absence of a guarantor must pledge real estate or securities himself or herself. One person can act as a guarantor for multiple students if they are his or her children. In all of these cases, the government stands as a 90% secondary guarantor in the event that the co-signatory or other primary guarantee provision is insufficient. Orphans receive the loan without additional security, fully guaranteed by the government.

There is a yearlong grace period after a student graduates and starts repaying the loan. A student loan may be forgiven if the borrowers become employed in a public sector, relevant to their academic or professional degree, that meets the government's and local municipalities manpower needs. The government approves the list of these occupations. For each year worked full time in a respective occupation the borrower gets 10 percent of his/her loan forgiven. Those who work part time get 5 percent of their loans forgiven annually. Graduates are becoming more and more interested in this loan repayment option. This trend can be explained by a higher level of awareness among students and the increasing number of students who receive loans.

A student loan debt may be also reduced if children are born in a family where spouses have student loans. In this case 30 percent of the outstanding loan debt is forgiven for every child borne. Yet this condition applies only to student loans of one of the spouses. If both parents have student loans, they must decide who will use the opportunity to have the loan reduced. The same conditions apply to adoption cases.

A student loan may also be forgiven for those students who, while studying or after graduation, have acquired a lieutenant's rank at the National Academy of Defense and signed an employment agreement with the professional military service for at least five years. If a graduate, after obtaining a lieutenant's rank, moves into the military reserve,

⁵ Commercial banks servicing student loan program are chosen every year in a tender procedure.

10 percent of his or her student loan debt is forgiven annually. The student loan is fully forgiven if a borrower becomes disabled or dies.

The government's co-sponsored student loan program is the most extensive student loan program in Latvia. Nevertheless, private sector student lending has also developed. Some commercial banks have started issuing student loans on their own initiative. These loans are treated as conventional commercial loans. Some higher educational institutions make agreements with the financial sector for lending to their students (Kasa, 2003).

II. Estimated Expenses of Higher Education in Latvia

Higher Education Expenses Borne by Parents and Students First Degree, Academic Year 2003/2004

[National currency (Lati) converted to \$US by [0.55] purchasing power parity estimate \$1 = 0.21 LVL]

		Public			Private	
		<i>Low Public</i>	<i>Moderate Public</i>	<i>High Public</i>	<i>Low Private</i>	<i>High Private</i>
<i>Instructional Expenses</i>	Tuition	0	LVL 350 USD 1,666	(LVL 2,120 USD 10,095)	LVL 300 USD 1,429	LVL 3,500 USD 16,667
	Other Fees	LVL 5 USD 71	LVL 10 USD 48	LVL 20 USD 95
	Books & Other Educational Expenses	LVL 5 USD 24	LVL 7 USD 33	LVL 11 USD 52	LVL 7 USD 33	LVL 20 USD 95
	Subtotal Expenses of Instruction	USD 95	USD 1,747	USD 4,002	USD 1,462	USD 16,762
<i>Student Living Expenses</i>	Lodging	0	LVL 200 USD 952	LVL 2,400 USD 11,428	LVL 600 USD 2,857	LVL 2,400 USD 11,428
	Food	LVL 420 USD 2,000	LVL 600 USD 2,857	LVL 1,800 USD 8,571	LVL 840 USD 4,000	LVL 1,800 USD 8,571
	Transportation	LVL 156 USD 743	LVL 360 USD 1714	LVL 960 USD 4,571	LVL 156 USD 743	LVL 1,440 USD 6,857
	Other Personal Expenses	LVL 480 USD 2,286	LVL 600 USD 2,857	LVL 1,416 USD 6,743	LVL 1,416 USD 6743	LVL 2,400 USD 11,428
	Subtotal Expenses of Student Living	USD 5,449	USD 8,380	USD 32,213	USD 14,343	USD 38,284
Total Cost to Parent & Student		USD 5,544	USD 10,127	USD 36,215	USD 15,805	USD 55,046

Low Public: enrolled in a state financed slot, living with parents.

Moderate Public: moderate public tuition, living in dormitory.

High Public: high public tuition, living "independent adult."

Low Private: low private tuition, living in shared apartment.

High Private: high private tuition, living "independent adult".

References

Academic Information Centre. (2002). *Higher Education in Latvia*. Retrieved in April 15, 2004 from <http://www.aic.lv/ENIC/en/enic/default.htm>

Government Regulations Nr.220. (2001, 19.05). *Regulations on how state guaranteed study and student loan issued by commercial banks are being allocated, repaid, and forgiven*. Retrieved in April 27, 2004 from www.sf.gov.lv (Text in Latvian)

Higher Education Council. (2001). *National conception on the development of Latvian higher education and higher educational institutions for the period until 2010*. Riga: Higher Education Council. Retrieved in April 25, 2004 from <http://www.aip.lv> (Text in Latvian)

Haug, Guy. (1999). *Visions of a European Future: Bologna and Beyond*. Geneva, 11th EAIE Conference.

Kasa, Rita. (2003). Student Loans and Access to Higher Education in Latvia. In I. Dedze, S. Heyneman & G. Catlaks (Eds.), *Education in Latvia's Transition: The Challenge of Management. Report on Education in Latvia 2001/2002*. Riga: Providus. (also accessible on <http://www.policy.lv/index.php?id=101679&lang=en>)

Kasa, Rita & Loza, Zane. (2001). State Financing for Higher Education – Financial Flow Mechanisms. In G. Catlaks, S. Heyneman & K. Kreslins (Eds.), *A Passport to Social Cohesion and Economic Prosperity. Report on Education in Latvia 2000*. Riga: SFL. (also accessible on <http://www.policy.lv/index.php?id=101679&lang=en>)

_____. (1995, 02.11). *Law on Higher Education Establishments*. Retrieved in April 25, 2004 from <http://www.likumi.lv> (Text in Latvian)

_____. (1991, 19.06). *Law on Education*. Retrieved in April 25, 2004 from <http://www.likumi.lv> (Text in Latvian)

Rauhvagers, Andrejs. (2003). *Latvia in Bologna process: Report on the reforms in Latvia's higher education on the way towards European Higher Education Area*. Retrieved in April 25, 2004 from http://www.bologna-berlin2003.de/en/main_documents/index.htm

SKDS. (2001). *Social Status of Students and their Living Conditions in Latvia*. Retrieved in April 26, 2004 from <http://www.politika.lv/index.php?id=102565&lang=lv> (Text in Latvian)

The Ministry of Education and Science. (2003). *Survey on Higher Education Institutions in Latvia in the Year 2003: Numbers, Facts, and Tendencies*. Riga: The Ministry of Higher Education. Retrieved in April 15, 2004 from <http://www.izm.gov.lv/lv/default.htm> (Text in Latvian)

The Ministry of Education and Science. (2002). *Survey on Higher Education Institutions in Latvia in the Year 2002*. Retrieved in April 15, 2004 from <http://www.izm.gov.lv/lv/default.htm> (Text in Latvian)

The Ministry of Education and Science. (2001). *Survey on Higher Education Institutions in Latvia in the Year 2001*. Riga: The Ministry of Higher Education. Retrieved in April 15, 2004 from <http://www.izm.gov.lv/lv/default.htm> (Text in Latvian)

University of Latvia <http://www.lu.lv>