

# FINANCING *Higher* ED

**Towards Sustainable and Equitable Financing of Higher Education in Bosnia and Herzegovina, Montenegro and Serbia**



## **WP5. INSTITUTIONAL FUNDING STRATEGY**

**Report from the Working Group in the  
Republic of Srpska**

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## Part I INTRODUCTION

### I.1. Context

In today's world all HEIs are faced with increased demand for higher education together with development of the new objectives and roles and followed by a decrease of the public funds and exploitation of the new models of the institutional funding. It is inevitable that the role of the government is crucial not just in the financing of the HEIs but also in developing, strengthening and managing of the higher education system.

Barr (1998) identifies four types of state interventions in the economy:

1. Regulation,
2. Finance,
3. Public production,
4. Income transfers.

These instruments are used to govern the higher education system to fit well in the overall economic and societal context and produce desired output and outcomes. Public funding is a means for keeping quality of academic standards, equity of accession to higher education, freedom of thought and speech and many other democratic values. But in the time of a decrease of the public funds all countries track for more efficient model of financing higher education.

This means that even though state funding enables stable financing of higher education institutions mechanisms of distribution do not allow HEIs to achieve a high quality, efficiency, effectiveness and equity of the higher education. It is out of great importance to introduce changes which will lead to development of the higher education system. Once reforms of the financing of higher education system are introduced adjustment of the institutional funding need to be set in place. Without proactive role of all stakeholders and joint work of HEIs and government it is hard to perceive possibility for the system improvement. So, this is responsibility of all included in the higher education system. Overcoming all the gaps between HEIs and social-economic needs is one the greatest challenges in the governance of the higher education system.

Changes introduced with the Bologna process and followed by the significant increase of people involved in the higher education system (students and staff) brought completely new challenges to all stakeholders, especially governments and HEIs. Altbach, Reisberg and Rumbley (2009) point out that higher education systems have undergone wide and deep structural changes related to both horizontal and vertical increase of higher education systems. The massification process has amplified the complexity of higher education governance and financing. Which means that financing model needs to go through change as well, so that it could help in facing with the new challenges.

As a side effect of the massification of the higher education are tuition fees. In the Republic of Srpska tuition fees are formed based on the gained public funds and decision of the government how much state budget allows to be social oriented. This just led to completely

dissatisfaction of the HEIs but also dissatisfaction of the students with the quality, because HEIs could just operate within the given funds. Of course, that there is possibility for HEIs in the area of the own income, but with destroyed and very weak economy there are also limitations and with smaller number of staff there are human restrictions to be competitive with in the EU funds.

The case for the introduction of tuition fees and cost-sharing of study-related expenditure burden (Johnstone, 2004; Johnstone & Marcucci, 2010) is based on the private benefits of higher education. The graduates have a better chance for employment and can expect higher income and life-time earnings in comparison to citizens without a higher education degree (Psacharopoulos & Patrinos, 2004). Still tuition fees are just one fragment and the main responsibility lies on the state.

On the other hand, direct government support remains the most important source of revenue for public universities in Europe (Estermann and Pruvot 2011) but, in the light of the recent developments in economy and the fact that governments face difficulties in providing adequate financial support for high quality education in the light of national austerity measures, the idea of full public funding of higher education in Europe is under question. Which bring us back to the tuition fees and that this is going to be an increasingly important income source for HEIs. This could have negative side effect to the request for higher education. By statistic data of the Bureau of Statistics of the Republic of Srpska in 2010/11 academic year 10.258 students have been enrolled for the first time in some HEIs in RS and in 2014/15 academic year 7.856 students have been enrolled. Tuition fees did not changed in the last 10 years. These facts ask for new system of higher education funding with special attention being paid to the fact of decreasing number of students. This is the most important input factor that makes far-reaching consequences to the system of higher education in the Republic of Srpska.

In the Republic of Srpska the main source of public higher education institutions are public funds, for example the University of Banja Luka relies the most on government funding (73,57% of the budget was obtained from public sources)<sup>1</sup>. It is obvious that there is a need for diversification of the incomes, regardless all mentioned obstacles.

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<sup>1</sup> Comparative Report on the Institutional Funding in Higher Education in Bosnia and Herzegovina, Montenegro and Serbia, FINHED Tempus project

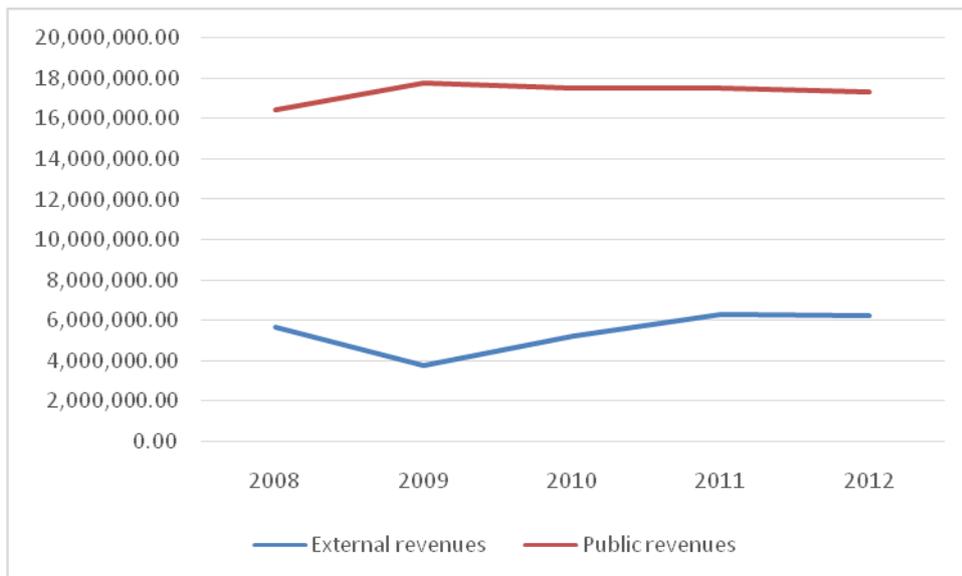


Figure 1: Public and private revenues of the University of Banja Luka (in EUR)<sup>2</sup>

All the described activities caused a situation in which managing institutional endowments requires more financial responsibility and long term planning capacity (Jongbloed, 2003, p. 26), while creation and development of science parks and spin-off companies requires adequate internal support by university management and faculty (Estermann and Pruvot, 2011). To be able to succeed in diversification of the incomes HEIs need to have larger possibility to manage given funds, but also in the matters of student numbers and tuition fees.

Taking into consideration all challenges that higher education system is facing out of crucial importance is to explore the most suitable model for financing of higher education but also the most suitable institutional model for HEIs in the Republic of Srpska.

<sup>2</sup>Until 2010 tuition fees were regarded as revenues for the budget of the republic (although some percentage remains for the institution). Since 2011 they became once again the university's revenue, and the organisational units that realised them, increasing the total amount of private revenues.

## I.2. Composition of the Working Group

After the consultations in December 2015, the Working Group consisted of the following representatives, who took active role in working activities and, later, in the writing of the Report.

Ministry of Education and Culture  
of the Republic of Srpska

Ms. **Radmila Pejic**, Deputy Minister for Higher Education

Mr. **Vlado Davidovic**, Senior Associate for the Financing of Higher Education

University of Banja Luka

Prof. dr. **Simo Jokanovic**, Vice-Rector for Teaching and Student Affairs

MA **Jelena Rozic**, Senior Associate for International and Inter-University Cooperation

Mr. **Dusko Lazic**, Financial director

### I.3. Report goal and structure

In this report overview of the HEIs funding will be presented with regards of the implementation of the provisions in the Law on Higher Education of the Republic of Srpska but also explore possibilities of the new HEIs funding model. In the draft Strategy of education of the Republic of Srpska for period 2016-2021 as strategic goal is emphasized establishment of more efficient higher education funding system which had to be reached through the measurements listed below:

1. Creation of the more efficient mechanisms of the public funds use
2. Increase of the studying efficiency
3. More efficient use of the information systems
4. Strengthening of the project-scientific activity in HEIs
5. Increase of the investments in higher education and control of the investments effectiveness.

Some of the significant suggested changes are: different amount of tuition fees for different study programs, self-financed students' category, indicators for measurement of the HEIs efficiency and establishment of the additional models for financing of the higher education system. It is obvious that emphasis is given to the efficiency. Besides that, social dimension of the higher education funding is also emphasized through the next targets:

- Development of comprehensive analysis of the socioeconomic status of students,
- Increase the number of students who are entitled to accommodation in student dormitories,
- Amend regulations on the allocation of students' scholarships,
- Implement procedures for the award of scholarships to students that need aid, students with disabilities, students from category of the others, as well as those who study abroad.

In the Republic of Srpska there are 4 public HEIs, 2 integrated universities and 2 colleges. Faculties and other units in the organizational structure do not possess legal entity. The most important revenue sources for the faculties are funds from tuition. But at each public HEIs there are adopted rules and regulations on distribution of the own revenues and some percent of different incomes is distributed between organizational units (faculties, academies, institutes, centers) and the university.

Currently there is significant financial instability of the higher education system especially having in mind decrease of the funds (when comparing growth of the public funds and growth of the higher education system) and maybe even important decrease of the number of enrolled students. This is the crossroad for HEIs and government to work more closely and to find the model which will optimize all available resources. For HEIs is out of crucial importance to go more into different professional sectors in the industry and economy in general and to become one of the leading partners within targeted sectors.

In this report working group will present the new mechanisms and models for allocation of the public funds and own revenues at HEIs in the Republic of Srpska with suggestion on the funds diversification.

This report is composed out of four parts. In the first part are presented context, working group composition and structure of the report. In the second part distribution of financial resources for higher education institutions is presented. Following part refers to the legal framework for budgetary financing of higher educational institutions in the Republic of Srpska. And in the last part concluding remarks and suggestions are presented.

## **Part II DISTRIBUTION OF FINANCIAL RESOURCES FOR HIGHER EDUCATION INSTITUTIONS IN THE REPUBLIC OF SRPSKA**

### **II.1. Institutional funding and distribution of financial resources in the Republic of Srpska**

Higher education institutional financing went through transformation in last 50 years in the most developed countries, as the higher education system was changing. In the Republic of Srpska the oldest university is University of Banja Luka which was established in 1975. During the first period of the University existence, as the state was organized as a socialist-federal republic, financing of higher education was input based model with just public, state universities. During the 90's nothing was changed in any area due to circumstances in Bosnia and Herzegovina (B&H). But B&H has signed the Bologna declaration in 2003, the first Law on Higher Education of the Republic of Srpska was adopted in 2006, still the same model of financing higher education system stayed. There have been some attempts during 2007/2008 to introduce different model of financing higher education institutions, but those attempts haven't been successful.

Model of financing of higher education in the Republic of Srpska is input based model. Through the last two decades the same model is used with some changes. Public HEIs in the Republic of Srpska produce a three year budget plan, which is developed by HEIs and sent for approval to the Ministry of Education and Culture of the Republic of Srpska. Annual budget of HEIs is made on the basis of the approved mid-term financial plan. The funds from a state budget awarded to HEIs are determined and are for staff salaries (academic and administrative) and for maintenance. Public HEIs also do not need to ask for the approval from the Government to spend their own revenues, but distribution of own revenues is regulated by institutional regulations. Since only public universities/colleges have a legal entity status and the academic and financial autonomy of these institutions is defined by the statute of the university, public HEIs regardless of their internal organize have just one joint bank account that is on the Treasury of the Republic of Srpska. Public universities have several organizational units: faculties, academies, and research institutes and each organizational unit have its sub-account to manage its own revenues to some extent. This

allocation mechanism doesn't support development and quality. Input-based models do not provide high quality incentives for educational institutions and fail to deliver desired outputs and outcomes (Hanushek, 2003).

Financial autonomy of the HEIs is questionable in the system where the government decides on the allocation of the public funds.

Public funding is transferred directly to the universities as integrated institutions. After adoption of the university budget, organizational units (faculties, institutes, centers etc.) are proposing their own financial plans to the universities governing board, who decides on internal allocation of funds, based on the same input indicators that were used to define the overall budget of the institution.

By the Statute of the University of Banja Luka own revenues can be acquired from: realization of the scientific/art programs, international and national projects, realization of vocational education and training, fees paid by students, income from publishing and informative activities, income from copyrights and patents, income from the management of land and buildings in their ownership, gifts and bequests and other sources arising from the activities under special contracts.

By the Regulations on acquisition, distribution and use of own revenues and revenues from grants of the University of Banja Luka, depending of the category of the revenue distribution between the University and organizational unit is different. So, when it comes to tuition fees and income from lease 80% is revenue of the organizational unit and 20% is the revenue for the joint needs of the University. Then administrative fees are divided 50-50%, income from realization of vocational education and training is divided 90% for the organizational unit and 10% for the joint needs of the University. Grants belong in total to the unit that acquired it, as well as incomes from organization of the scientific-professional conferences and artistic creative work, publishing and diploma equivalence. Other categories are divided between organizational units-University in the amount of 95% for the unit and 5% to the University: income from the realization of scientific-research projects, from development of professional studies and projects, providing supervision and other professional services, developing the software's, consultancy, provision of certified laboratories. Joint needs of the University are joint operating expenses of the University spent by annual financial plan which on the suggestion of the rector adopt Steering Board.

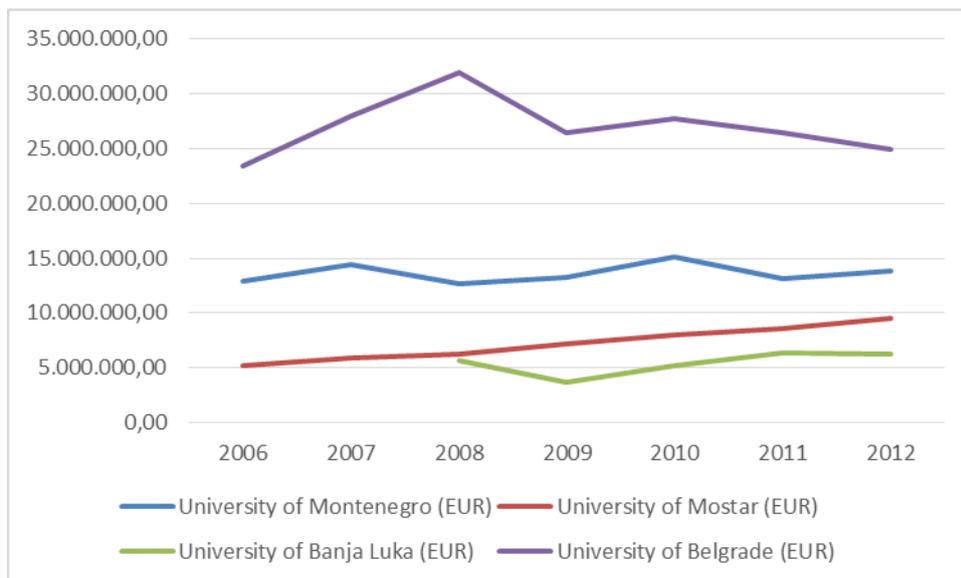


Figure 2: Private revenues of higher education institutions (in EUR)<sup>3, 4, 5</sup>

One of the important aspects in considering position and status of the HE is position of the science within it. But in Bosnia and Herzegovina, the same as for education area, scientific area is complex, divided between state/entity/cantonal/district authorities. Beside this division one need to be aware of a different organization of the scientific area, so for example in the Republic of Srpska entity there are separate ministries for education and science: Ministry of Education and Culture and Ministry of Science and Technology that have jurisdiction over the area in the entity while on the other side there is one Federal Ministry of Education and Science. Also, one of the challenges within research system is information deficit, since Agency for Statistic of Bosnia and Herzegovina and Agency for Statistic of Federation of Bosnia and Herzegovina don't publish data on research area and Agency for Statistic of the Republic of Srpska started with collecting data in 2009.

Comprehensive reforms of the higher education system in the Republic of Srpska started ten years ago. But these reforms haven't been followed by reforms in the financing of higher education system. So, to be able to provide efficient and effective implementation of the introduced reforms there is need for change of the financial mechanisms and model in higher education. Current input based model should be upgraded to contract based model which take into account performance and social dimension.

Contract based funding would need to be supported with changes in internal management of budgetary funds. This means that formula should be developed which will consist of input

<sup>3</sup> The University of Banja Luka did not report the amount of external revenues for the years 2006 and 2007, because in this period revenues from private sources were obtained by the individual faculties.

<sup>4</sup> Data for the University of Belgrade does not include all the faculties.

<sup>5</sup> Comparative Report on the Institutional Funding in Higher Education in Bosnia and Herzegovina, Montenegro and Serbia, TEMPUS FINHED project, page 22

and output indicators for budget calculation. Formula should be performance based as well as social oriented. Indicators need to be precisely defined to avoid misinterpreting but also to protect the system from fluctuations that could be produced by HEIs with regard to demands for higher education. Within formula based financing it is expected higher efficiency and effectiveness of HEIs.

Beside input and output indicators formula should consist of 4 different elements:

1. basic (salaries, new entrants, and maintenance)
2. education (bachelor's degrees, master's degrees, no. of students who obtained a certain number of ECTS, employed graduates, student mobility)
3. science (PhD degrees, scientific publications, competed research funding, international teaching and research personnel)
4. societal services (open access, students from vulnerable groups, and students with disabilities).

All indicators and elements in the formula for financing higher education institutions should have different percent in the total amount of the grant that would be allocated to HEIs. This percent could be changed in a period of three years upon analyses and strategy for higher education.

The same formula that would be used for the allocation of the funds from the government to the HEIs would be used for the allocation of the funds within one HEI and its units (e.g. faculties, academies, institutes, centers).

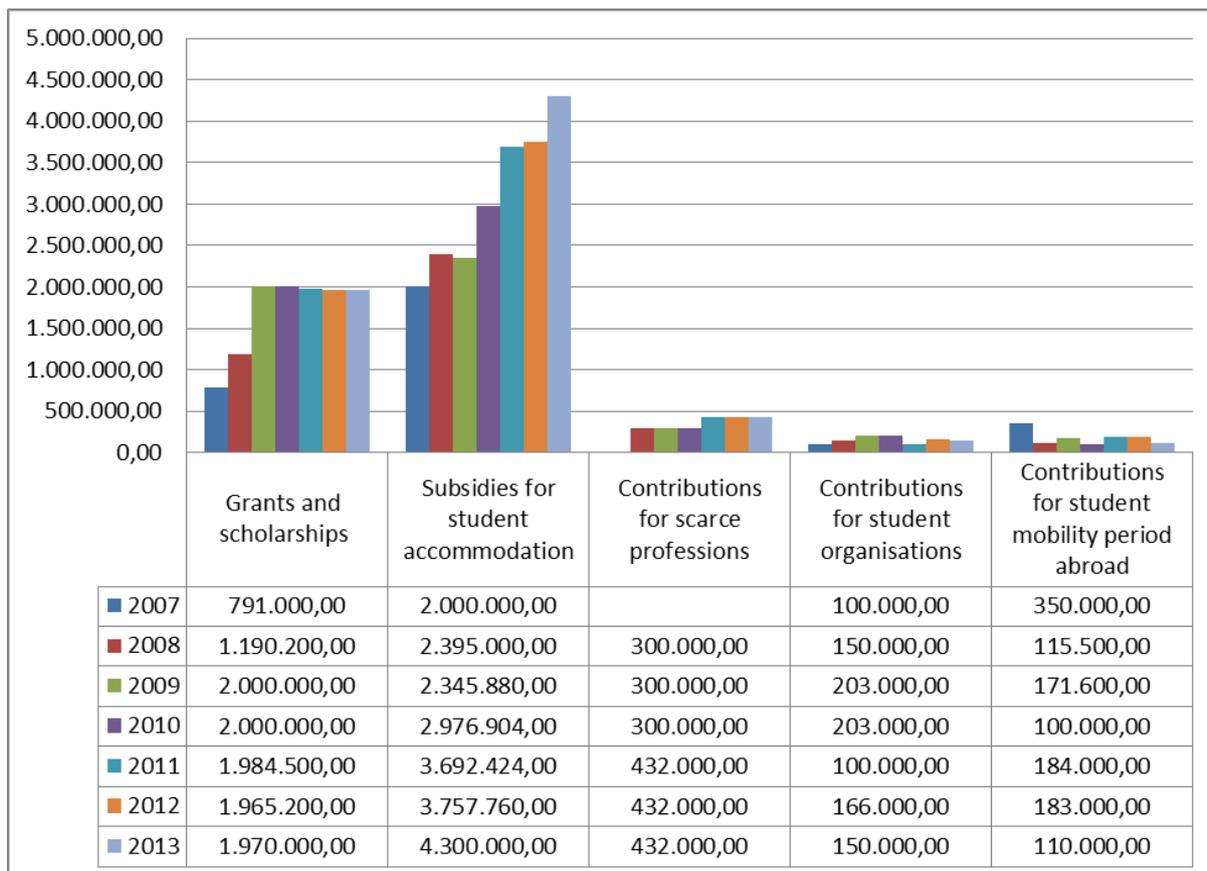
Beside, input based and contract based funding of HEIs there are two more possible models: cost –based and vouchers based models. Since these two models are completely output oriented, for them to be properly implemented a lot of different elements in the system, not just higher education system, need to be changed. So, for the current system development the best solution is to have balanced formula based funding, where the balance refers to input and output indicators.

In the Republic of Srpska support to student standard is given through the scholarship scheme. One of the possible improvements could be merging of the different scholarship funds. They are currently separated in three funds: one of the Ministry of Education and Culture of RS, one of the Ministry of Science and Technology of RS and Fund Dr. Milan Jelić. Also local municipalities provide scholarships.

There are five different categories of students' scholarships in the Republic of Srpska: successful students, students that are studying abroad, student with disabilities, students from undeveloped municipalities and other students. Category of other students cover: socially vulnerable students, students that are civil war victims, children of the fallen soldiers and children of war invalids from I to VI category, students without one or both parents, students from families with two or more students, students who were placed in children's homes or with foster families, students with disabilities who are not entitled to the allowance for aid and care of another person. So, scholarship scheme for students in the Republic of Srpska is to some extent socially oriented.

But in the Republic of Srpska there are no student loans. So, student loans scheme need to be developed because it could provide additional support to students' standard.

Figure 3. Government allocation for the student support system (in KM)



Source: The Ministry of education and culture of the Republic of Srpska

Tuition fees did not increase in the Republic of Srpska in the last 10 years. Almost equal tuition for different study programs means that co-financing of the studies by the students isn't based on the real costs of the programs and that benefit can't be expected after graduation.

Table 1. The tuition fees at public HEIs on study programs at first cycle

Subject	Tuition fee (KM)	
	First cycle	Second cycle
Drama arts: Movie, TV, and Animated Movie and Production	1.500,00	3.000,00
Drama arts: the Production	1.000,00	
Other drama arts	660,00	
Music arts and Painting	660,00	1.500,00
Medicine	660,00	880,00
All other study programs	440,00	

By the new Law on Higher Education in the Republic of Srpska, which is in the preparation phase, introduce two very important novelties:

1. one more category of students – fully funded (beside two existing: students that are fully funded by the state and students that are co-financing their studies). But the number of these students will be as for two other categories launched by the government and will depend primarily on human and material resources for having those students at each study program.
2. different tuition for different study programs based on the real costs.

## **Part III FRAMEWORK OF HIGHER EDUCATION FUNDING IN THE REPUBLIC OF SRPSKA**

### **III.1. Higher education system and institutional funding framework in the Republic of Srpska**

The framework for higher education funding in the Republic of Srpska consists of the following documents:

1. Law on Higher Education of the Republic of Srpska,
2. Rulebook on standards and norms for financing higher education institutions,
3. Law on salaries of employees in the field of education and culture of the Republic of Srpska.

These three documents are supplemented with two documents which prescribe the rules for planning and usage of budget funds:

1. Law of the budgeting system of the Republic of Srpska and
2. Law on the execution of the budget of the Republic of Srpska.

The last document is of limited duration – it is to be adopted for each calendar year. The list is not exhausted. There are even more documents that are touching the issues of higher education financing, but in a smaller scale.

Besides these regulations of the highest level, given in form of laws or state regulations, there is institutional regulation that deals with finances, as well. For topic of this chapter the most relevant is

- Regulation on the criteria for the distribution of an institution's own revenues.

On the first sight, from the list of legislation, one can see which budget line is under the responsibility of a HEI – it is the institution's own revenues line. Each HEIs needs to adopt a kind of document that regulate spending of that kind of funds.

Two more documents that shape higher education space are:

- Regulation on criteria for the foundation of higher education institutions and for beginning of their work and the procedure for assessment of the criteria fulfillment,
- Law on scientific-research activities.

However they are not directly related to the policy of higher education financing.

## 1. Law on Higher Education in the Republic of Srpska

The Law on Higher Education addresses issues of higher education financing in a separate chapter. The chapter contains a number of statements on purpose and status of budget funds. The most relevant are articles 136 and 137. The article 136 clearly states that „Budgetary **higher education funds are earmarked for salaries and reimbursement of employees ...**“. There is no any other HE item with such an explicit claim on financing. In fact the article addresses some more items, the most important among them being: (a) energy, materials and services and (b) scientific and research activities, but declares that these activities are only **co-financed**. In addition, the share of these co-finances is not declared in advance.

Article 137 lists the own revenues an institution can acquire additional finances throughout. Besides well-known revenues acquired through research and business projects, LLL courses, expert and laboratory services, **student's tuition fee represents the own revenue and have the same status as other types of own revenues**. It belongs to the institution as well as to the organization units that collected it. It was clear that neither Government nor institution itself can manage that funding line. The main responsibility was given to departments i.e. the faculties and academies of arts that deliver study programs and work with students. The institution leadership can dispose with only part of that budget line according to internal regulation as will be explained later in this chapter.

According to this Law decision on the number of students that will be enrolled to different study programs, is in the Government responsibility. Also, Government decides on the number of the students by categories: budget financed, co-financed and part-time students. Only full time students can apply for student dormitory where they have access to subsidized meals, also only full time students can apply for scholarships.

## 2. Rulebook on standards and norms for financing higher education institutions

First of all, in this rulebook, min-max number of students in a single teaching group is defined for a particular subject area. It means a course cannot be delivered with a group of students under the minimum number defined, while large groups are to be split into two or more groups of standard size. Based on number of students and these criteria the number of teaching hours can be computed. The crown of this normative job is the norm of teacher's workload. There is a rule for teacher to take minimum of 6 hours of lectures a week, whilst in the case of teaching assistant it is 10 hours a week. From all these numbers the number of needed teaching staff or workload of current teaching crew may be computed. Assuming distinctive salaries of teaching staff the cost of teaching process, that makes the greatest part of budgetary funds, might be determined. But, in practice it is not estimated that way. The budget is the matter of negotiation, previous year experience and kind of assessment.

### **3. Law on salaries of employees in the field of education and culture of the Republic of Srpska**

This Law regulates the salaries of HE staff, academic as well as administrative ones. As for academic staff the salaries are determined for each teaching position that is, in fact, linked to academic title. Since number of staff as well as the titles of each teacher is well known main purpose part of HE budget can be easily calculated.

It follows there may be two modes for main purpose part of budget calculation:

- a) according to teachers' workload
- b) based on the number of teachers.

The real situation is in between.

### **4. Law of the budgeting system of the Republic of Srpska**

The Law of the budgeting system prescribes the budget planning procedure. The procedure is initiated by the Ministry of Finance. The Ministry delivers an instruction for preparing budget proposals. It is a document that contains basic economic indicators and predictions for the next fiscal year. It also contains an approximate proposal of amount of funds for each HE institution as well as for other users of budgetary funds. The institutions are requested to review the document and prepare their own requests for:

- c) basic budgetary spending according to on-going activities and
- d) additional budgetary funds for introduction of new activities, with rationale.

The requests from HEIs are being considered by relevant ministries. The procedure usually includes a number of consultations with the institution representatives. Final amount that enters the draft public budget is a matter of negotiation between institutional leadership and ministerial authorities. Both, the draft and the final budget have to be adopted by the Parliament.

It depends on negotiated budget how much fund will be available for other, non-salary institutional costs, material, maintenance and services. It is about monthly difference between the projected budget and spending for salaries. Experience shows it is not about remarkable amount of money. It is under 10% of the whole institutional public budget.

### **5. Law on the execution of the budget of the Republic of Srpska**

This is final document in the list of legislation most relevant for financing higher education in the Republic of Srpska. This law defines procedures and dynamics of transferring the money for users of budget funds. It is about quarterly plan-reports approach. Shortly before the beginning of each quarter Ministry of Finances of RS informs budgetary users of funds which is on its disposal for the next quarter. The quarterly funds are determined on the bases of the adopted institution's budget and assessment of budgetary incomes for that period.

More relevant for the issue of higher education financing are provisions stated in the article 15 of this Law. It states the **salaries and other personal incomes are transferred directly to the employee personal accounts**. Of course it is to be done based on the accounting reports made by the institution, but the institution hardly sees the money that ordinarily represents

more than 90% of the whole public budget for higher education. May this allocation mechanism support development and quality? The salaries are guaranteed! May it bring enough motivation for hard and dedicated work? On the other hand, disposing lump sum institutions would have more interest to establish performance based salary approach as it could bring new values to it. Anyway, it is not only the teaching activity a university professor is assumed to do. According to the document 2, on page 14, the teaching makes 40% of teacher workload. 20% is assumed he needs for preparatory and administrative activities and 40% is reserved for his scientific and research activities. Lump sum would represent opportunity to differentiate well performers against those that are not. All in all it is necessary to introduce the evaluation of research performance of a university teacher as the part of his full-time workload.

### III.2. Distribution of financial resources for higher education institutions in the Republic of Srpska

The total budget for public higher education institutions in the Republic of Srpska is shown in the next table. The table informs well on structure of the budget. Fund 01 represents budgetary funds, but what is in common seen as public budget is the only item that is here named “Primary budget”, even though capital investment may be remarkable from time to time.

Fund 02 contains institutional own income acquired through research and business projects, LLL courses, laboratory testing services, publications, studies and expertise, renting. Besides that, student tuition and other fees also belong here.

Fund 03 has to be spend under specific conditions of donating organizations. There is some governmental money in this item too. It is the funds won through scientific-research projects governed by Ministry of Science and Technology of RS. International education or research projects also belong here.

Table 2. The budget of public HEIs in the Republic of Srpska (KM)

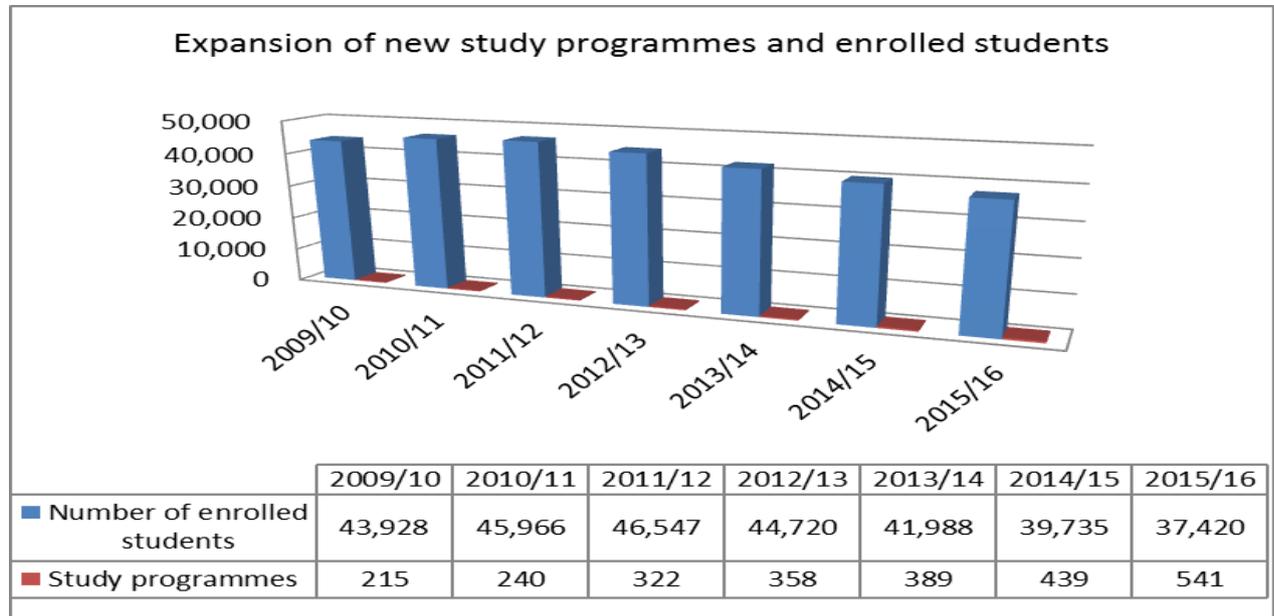
	BUDGETARY FUNDS (01)				Own incomes (02)	Grants (03)
	Primary budget		Capital investment			
	Employees' salaries and reimbursement	Goods and services	Accounting type expenditures	Investment		
2011	58,554,621	3,843,223	5.273.254	150,000	21,666,379	4,221,798
2012	57,558,109	4,125,943	5.184.505	35,000	21,041,269	3,867,052
2013	55,750,146	4,330,514	7.366.032	333,000	17,703,419	3,625,421
2014	56.453.700	3.966.900	10.524.473	18.965.642	17.227.489	2.575.599

Source: The Ministry of Education and Culture of the Republic of Srpska

From this table one can easily see that primary budget was not raised up in last four years. Nevertheless higher education institutions have launched big number of new study

programs, from 215 in year 2009 to 541 in 2015. That was one among the reasons for increasing the costs and complexity of their overall performing.

Figure 4. Expansion of new study programmes<sup>6</sup> while decreasing number of enrolled students



From this table one can easily see the institutional own income, that is the income generated through tuition fees and non-teaching activities, is as high as 30%-35% higher education public budget. The main part of fund 03 is also generated through research projects that institutions won at domestic or international project proposal calls. Only small part is a pure donation.

All budget lines are book kept at Treasury of the Republic of Srpska and distributed from there. The payment that third parties pay for institutional services is also to be done to the Common Treasure Account. These finances are on disposal of the institution and organization unit that acquired them.

To each organization unit the so-called sub-account is assigned and income is somehow registered to that sub-account. From the sub account faculties can use their own revenues for purchasing equipment, paying material and services, and for reimbursing the staff that performed activities. Again, the money is transferred from the sub-account to the personal accounts of employee. Ministry does not interfere in the process; it only makes the transactions according to institution's instruction.

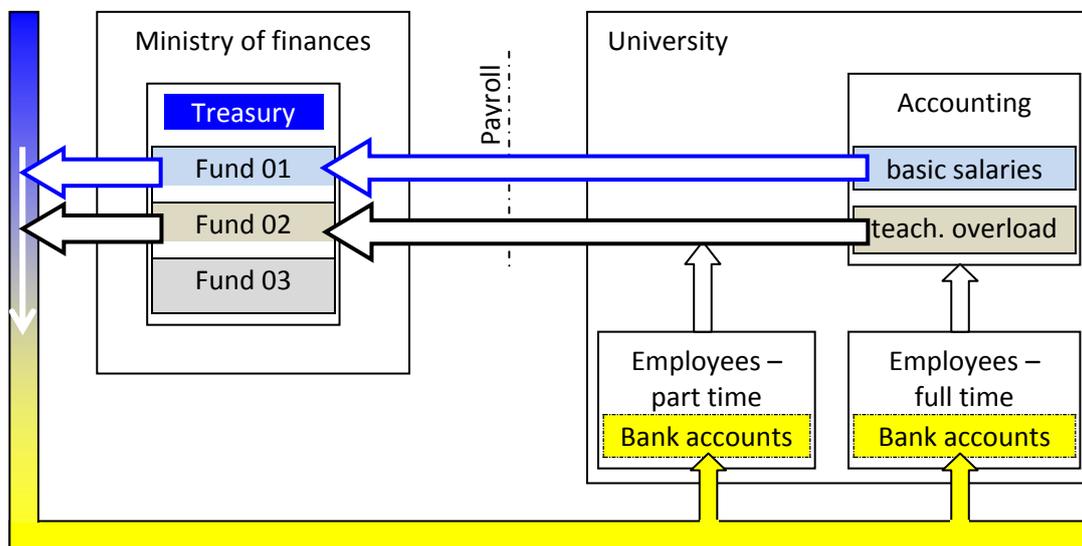
The own income has to be spent according to internal legislation on distribution of own revenues and to the Law on public procurement, of course. That is the Law request towards HEIs to adopt such a kind of document. According to the Law, the freedom in disposal with its own revenues is to be transferred to institution's organization units as well. To some extent, faculties of a university are allowed to spend their own revenues with no asking

<sup>6</sup> Total number at public and private higher education institutions is given

rector's permit for that. For now it is the amount of 6.000,00 BAM under dean disposal. Spending higher amount, even of its own revenues, must be permitted by the rector of a university.

The next figure illustrates the flaws of finances in higher education system of the Republic of Srpska. It can be seen how only basic salaries belong to budgetary funds (fund 01). Besides that the salaries are transferred directly to employees' personal accounts, according to the Law on execution of the budget. Of course, it is to be done on the basis of the payroll made in institution's accounting department. But, there is nothing to calculate here as it is about basic salaries that are determined in the Law on salaries of employees in the field of education and culture of the Republic of Srpska (see Chapter III.1).

Figure 5. Higher education finances flows



**Fund 01** (Primary budget):  
Salaries (>90%), Operational costs (part of)

**Fund 02** (Own income):  
Tuition fees, registration fees, business projects

**Fund 03** (Grants):  
Government and International S&R projects

Reimbursement for teaching overload (teaching above normed hours), even being declared to present budgetary spending is usually not paid from the public budget. This spending as well as spending for part time teachers' salaries are covered by Fund 02, the Fund where student tuition and enrolment fees enters. Reimbursing the staff that performs project or service activities is also covered by that budget line.

In practice, paying salaries was not questionable for last ten years or more, but it was not always the truth for the reimbursement – for overloaded teaching. The basic salary is related to standard or normed workload of employee. The norms for teaching staff are regulated by the document "Rulebook on standards and norms for financing higher education institutions". The workload above the so called „norm“ should be reimbursed. But in practice, for lack of budgetary finances, that kind of spending is being transferred to institution's own revenues. If an institution suffers lack of its own finances the teaching overload is not reimbursed.

In summary this chapter seeks for answers to two questions:

1. The higher education budget is projected and managed in a way which ensures employees' salaries. The salaries are transferred directly to employees' bank accounts. May it bring enough motivation for hard and dedicated work?
2. Higher education institutions can acquire additional income through a number of activities. Institutions, as well as their organization units, are free in disposal of those resources. What extent can this funds influence a new model of financing?

In the Republic of Srpska the dominant source of students' income is parental support (almost 82%). Around 3,1% of students are financially independent. Support to students is given through scholarship schemes. The low share of public revenue (only 2.6%) in the sources of income of students in the Republic of Srpska indicates clearly inadequate system of scholarships and points the need of harmonization of the students' standards with the needs of students, especially the need to introduce the system student loan that does not exist in the Republic of Serbian. This finding, of course, confirms that it is necessary to change the system itself and the financing of higher education.<sup>7</sup>

So, there is evident need for change in the scheme of the government support to student standard. On the latest launched decisions of the University of Banja Luka is that student dormitories change the current status where they are separate public institutions and to become the part of the University. This request recently has been sent to the Ministry of Education and Culture RS. Rationale behind this is to optimize students' standard regarding accommodation and nutrition and to have holistic approach to the overall student life and experience.

### **III.3. Implications and suggestions for improvement**

More efficient model of financing will surely be one that motivates higher education institution to rationalize the use of its existing resources, and encourage it to perform better achieving more quality results. According to "Modernization agenda" [EC, 2006] many European universities move towards more autonomy - more accountability paradigm. This approach should unleash institution to improve its lower level activities that are very hard to manage outside. More autonomy assumes financial autonomy, in the first order and among the others. Financial autonomy refers to a university's ability to manage its funds independently. This approach will enable an institution to set and pursue its strategic roadmap free.

In the context of the primary budget both the "Law on higher education" and the "Law on the execution of the Budget" are not peculiarly motivating. They don't mobilize internal institutional resources to perform more efficiently.

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<sup>7</sup> The social dimension of studies in Bosnia and Herzegovina - EUROSTUDENT V - Report for the Republic of Srpska, FINHED TEMPUS project

If decides to pursue this model Republic of Srpska is to make changes in its higher education legal framework. The Law on higher education should be changed at provisions that refer finances in the sense to declare funding of (a) study programs running and (b) delivering appropriate results. Of course, for this model, the cost of each study program is to be established. Measuring second component – outcomes of education process - requires deep elaboration of indicators of performance. Changing these provisions may be very challenging as higher education staff is used to have its salaries assured like it is the case at other public sectors in the Republic of Srpska.

Changing the “Law on the execution of the Budget“ is not hard task as that law is being adopted each year again. Provision on transferring budgetary funds directly to employees’ bank accounts should be replaced with transferring the funds to HE institutions.

## **Part IV FINDINGS AND RECOMMENDATIONS FROM THE WORKING GROUP IN THE REPUBLIC OF SRPSKA**

### **IV.1. Report on the internal stakeholder consultations**

There are more facts that make significant influence to the condition and flow of the higher education system in the Republic of Srpska i.e. to its public HEIs. First, the public funds are limited, as well as the funds which students and their families input as tuition and registration fees, taxes and other costs. The other sources of higher education institutions’ income are limited too.

In 2014 allocation of the budget funds in RS for higher education was 0.80% of GDP, which is around the same level as in the neighboring countries: Croatia (0.72%), Serbia (0.90%) etc. The average in the EU countries is 1.30% of GDP. Also, HEIs are limited in revenues management because of the revenues structure: 75-85% of the public HEIs budget is spent on salaries and other incomes of the employees and this structure is even higher when looking only at the budget funds (95%). The rest of the public funds are overheads and material costs. Just small amount is for the costs related to the development and quality of the higher education system and HEIs. Existing structure of the HEIS revenues leaves a little space for advancement of the education and scientific-research processes, purchase of the educational materials and equipment, teachers training, promotion of the students and staff mobility etc. Based on this, two statements are repeating in discussions and considerations related to the financing of the higher education:

1. Higher education is underestimated and society doesn’t invest enough funds in it;
2. The total amount of the funds in the current scope that are invested in the higher education are not spent enough efficiently, rationally and transparently.

The truth is somewhere in the middle and we need to seek for the starting solutions in the cross-section of these two considerations. Having in mind current condition of the economy and society in whole and all the challenges that are looming in the future, it is not realistic to

expect in the coming period significant increase of the funds that are invested in the higher education, with objective limitations of all income resources of the public HEIs: budget of the RS; tuition fees, registration fees and other fees paid by students; domestic and foreign grants; business-technical cooperation with partners from economy sector, incomes from scientific-research activities etc.

Thus, potential solutions can be found in the change of the structure of total revenues through different approach of defining of the own revenues related to gathering, allocation and expenditure, as well as in the change of the structure of total HEIs revenues, through rationalization and restructuring of the ratio in total costs.

In order to create opportunities for change of the existing legislation and rooted behavior model acquired through years of practice and way of thinking of all participants in the higher education system, as well as all decision makers, it is necessary to create preconditions for changes through: introduction of the unique system of gathering data for all RS HEIs; raising of HEIs costs transparency and costs of studies through establishment of the reporting system on the studies cost per student for each licensed study program; analyzing and review of public expenditure per unit of output and the average of private costs of students and their families; introduction of medium-term planning of the new study programmes at the level of the entire system; rationalization of the study programmes in exchange for increase of their quality, competitiveness and flexibility, etc.

Once gained a comprehensive insight into the system of higher education and establish control over all key data and processes, as precondition for efficient management at the level of whole system of the higher education, and with it at the level of HEIs, conditions would be acquired for higher financial autonomy of HEIs and the redefinition of financing their organizational units. After it, for establishment of the scientific-research financing model and evaluation model of achieved results, establishment of the PhD financing model, further diversification of the scholarship scheme in direction of increase of its social sensibility and increase of studies efficiently, encouraging activities aimed at participation in EU projects for education, etc.

The existing model of higher education institution financing in the Republic of Srpska is organized in a way that salaries of teaching and administrative staff are **fully financed**, while scientific and research activities, costs of materials and services are **co-financed**. The share of that co-financing is not known in advance and in practice it's very restrictive as it amounts less than 10% of the whole public budget.

**Student tuition** and enrolment fees represent institutions' own income. Beside these funds, HEIs are free to acquire **additional revenues** through a number of activities such as: research or art projects, organization of events and scientific conferences, doing expertise and consultancy services, laboratory testing and certification services, LLL seminars, publications, renting etc. Data for last years shows the own revenues makes 30% to 35% (one third) of institutions' total budget.

Furthermore, funds for staff salaries are transferred form the Common Treasure Account of the Republic of Srpska to the employees' bank accounts directly. Institutions don't manage

that finances. It is just opposite with own income funds. Own revenues are on free disposal on the institution and its organizational unit that acquires income.

Even though this model exploits some properties of financial autonomy offering freedom in managing one third of its finances it doesn't seem to be stimulative enough. As salaries in a way are guaranteed teaching staff concentrate their effort to collect enough teaching classes and assure their salaries for a long time. The next consequence of such model is placing courses into the study program curricula in order to set more teaching opportunity even though they are not necessary or even don't fit well there.

New model, motivate to design more structured curriculum that guarantees quality learning outcomes and concentrate academic staff not only to teaching but to research activities as well. It is necessary to further regulate rules on the obligations of teachers regarding their teaching, research and other activities. In parallel, the rules of reporting on the work done in terms of above-mentioned formulas 40:40:20 has to be established too.

## IV.2. Recommendations of stakeholder consultations

The Working Group paid much attention to analyze existing model of financing and recover its deficiencies and places for possible improvements. The findings are described in detail in previous chapters. Main findings suggest new model with more institution autonomy in managing its finances. In proportion with larger autonomy an adequate accountability should be imposed upon the institutions in terms of equitable distribution as well as rational use of financial resources. Institutions need to prove their accountability by means of quality of their graduates as well as their research results.

Key changes from temporary to the model suggested can be summarized:

- Shifting from **salaries and reimbursement funding** to **funding of study program running**,
- Introduction of a separate fund for **promotion of quality of teaching and research deliverables**,
- Broader scope of student support

The first modification refers cost of “dry” running of study program, only. It represents **fix part of the salary**. The fund in second proposal is to be variable and serves to promote quality. The third measure would result in bigger number of students supported from public budget but with differentiated funds.

Suggested changes will enable more differentiation of staff according to their performance. Of course, this approach asks for establishment of cost of running particular study programs. The cost may be assessed based on spending along many years of running. Furthermore this approach would lead to more coherent study programs as it would cut down the costs of

running and raise the quality at the same time. Being motivated faculty staff would design more coherent and quality programs.

Besides motivation and incentives for more rational business running the institutions or departments need to take on even formal accountability in proportion to their autonomy. The accountability should be proved through quality of graduates at the labour market, through contribution to economic and social development, through scientific and research results, etc. Again, there must be system of indicators and their measures established.

Extra fund for quality promotion should be considered and managed as premiums for departments that are successful in bringing in external funding from private companies or competitive research projects. The departments that perform better should draw more finances from the fund. There may be departments that would not use the funds at all.

Sudden switching to the new model may be very risky as institutions and departments are not used to market-oriented business running. That's why gradual transition is advised. In the beginning fix part may be the same amount as it is in the current financing model and variable part may contain some affordable amount of funds. From year to year fix part should be lower to the only cost of study program running and variable part raising to support the best performers as high as possible.

In this new model the role of Government will represent the regulation on macro level. For a long time Ministry of Education and Culture of RS has been working on developing regulating instruments to establish equity financing. Negotiation process may still stay in place, until cost of study program is clearly defined. The Ministry should still run the process of licensing institutions and study programs in order to regulate the whole landscape of higher education system.

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