



European
Commission

Study on the state and effectiveness of national funding systems of higher education to support the European Universities Initiative

Executive Summary

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Policy Studies



This study focuses on the state and effectiveness of national funding systems of Higher Education to support the European Universities Initiative. Its focus lies on the mechanisms employed by Member States for the core funding of higher education institutions, in particular the mechanisms that include performance elements. More specifically, the study reviews the rationale of Member States' Performance Based Funding (PBF) systems and the evidence on their impact on various dimensions of higher education performance.

The types of funding mechanisms and their degree of performance orientation are compared across Member States, and contextualised information on positive and negative effects of Performance Based Funding over the period 2010-2020 is collected and analysed. In addition, information is collected on the type and extent of the Members States' financial contributions to the transnational university alliances funded as part of the European Universities Initiative.

The study provides a set of conclusions on effectively implementing national and EU policy priorities through PBF in higher education. From the qualitative and quantitative evidence generated from this study, a series of recommendations related to various aspects of national higher education funding mechanisms are put forward for Member States to consider, including on the suitability of PBF systems to support transnational university alliances under the European Universities Initiative.

EUROPEAN COMMISSION

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Directorate-General for Education, Youth, Sport and Culture
Youth, Education and Erasmus+

AUTHORS' NOTE

The data collection for this study was completed in December 2021 and the manuscript was finalised in December 2022. Some countries may in this period have changed their higher education funding system and/or the methods and amounts of their national contributions to the European Universities Initiative.

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FOREWORD



Today, more than ever, our society needs its higher education institutions to face multiple challenges – climate, digital, demographic, geo-political, health and their social and economic consequences. Demands for the higher education sector are ever growing, in line with these challenges, calling for an

optimisation of resources allocation to ensure that the higher education system achieves its many goals across all missions of education, research, innovation and service to society.

EU Member States have sought to respond to this demand by linking funding with performance on key policy objectives, with diverse higher education funding reforms entailing a large variety of funding approaches and policy objectives taking root across Europe in the past decade.

The European Universities initiative, one of the main flagship initiatives of the European Education Area, set up in response to the EU leaders' call in the Conclusions of the European Council of 14 December 2017, has acted as a catalyst for accelerating national reforms and transformation of the sector as whole. This can explain why almost all Member States are currently financing their national higher education institutions involved in the initiative to support alliances to achieve their full potential.

This study provides on the one hand, a relevant **mapping of performance-based funding mechanisms in higher education across EU countries** and an assessment of their effectiveness, and on the other hand a **mapping of the national funding supporting the higher education institutions participating in the European Universities initiative**.

In the context of the mid-term review of the programmes under the Multiannual Financial Framework 2021-2027, the study identifies good practices of national policy and funding reforms, and provides an important contribution to the debate on better supporting transnational higher education cooperation through a joint mobilisation of EU and national sources of funding. In line with the recent Council Recommendation on building bridges for effective European higher education cooperation¹, adopted on 5 April 2022, the study results will also feed into the development of an investment pathway for the European Universities initiative for the post 2027 financial period, aiming to support alliances holistically across their different missions, by blending European, national and regional funding.

Mariya Gabriel

Commissioner for Innovation, Research, Culture, Education and Youth

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022H0413%2801%29>

Executive Summary

The study

This study on the state and effectiveness of national funding systems of higher education to support the European Universities Initiative has two goals. First, it analyses the implementation of performance-based funding (PBF) systems in the 27 EU Member States and evaluates their impact. Second, it seeks to understand how and to what extent national (PBF) funding schemes can be used to support transnational university alliances, as initiated under the European Commission's European Universities Initiative (EUI) in 2019.

The study therefore addresses the following three research questions:

1. Do Member States make use of PBF models and what have the key trends been over the past 10 years?
2. To which extent do PBF models provide incentives for achieving the policy goals of inclusion and innovation in teaching and learning?
3. Do the national funding mechanisms support (or can they support) transnational university Alliances, such as those initiated under the European Universities Initiative?

The findings of this study are based on:

- a mapping of 29 EU higher education funding systems (25 national systems, the two regions of Belgium and two states in Germany),
- in-depth case studies of eight national funding systems (Austria, Bulgaria, Denmark, Finland, Germany (Berlin), Italy, the Netherlands and Poland),
- two case studies of European Universities alliances: the European Consortium of Innovative Universities (ECIU) and the European University for Smart Urban Coastal Sustainability (EU-Conexus), and
- a webinar with more than 20 experts to validate the study's conclusions.

Main findings

Funding mechanisms in EU higher education systems

PBF has become a widespread mechanism used by European higher education systems to distribute core funding to higher education institutions (HEIs). Twenty-one higher education systems use some form of PBF for allocating core public funding, through performance elements included in a funding formula, a performance agreement, or a combination of the two.

European PBF systems vary widely. They differ notably in the mixes between formula-based and negotiations-based (agreements) systems, the performance indicators and criteria used, and the shares of funding linked to performance. In addition, what is considered performance vary between national contexts: it depends on the system's objectives and perception of performance.

Out of the 21 European higher education systems that include performance in their core funding, 13 have a moderate degree of performance orientation, distributing 15 to 60 percent of their core funding based on performance. Only six systems have a high level of performance orientation (>60%). In the past decade, the share of performance-based funding has increased in seventeen of these higher education systems.

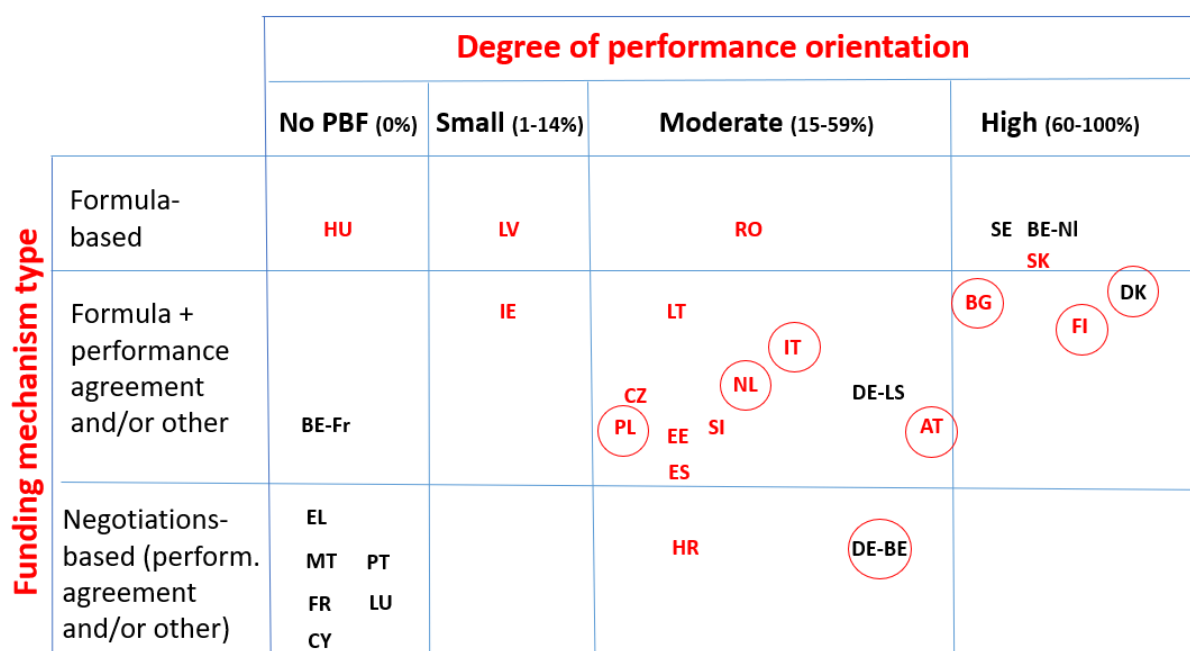
Many systems in the EU implement performance-based funding through their funding formulas. Frequently used education-related performance indicators in funding formulas are the number of degrees provided by an institution and its graduation rates. As far as research is concerned, the most frequent performance indicators are external research funds and the number of doctorates awarded.

However, in the past decade EU higher education systems have moved from formula/indicator-based approaches to more dialogue-based funding systems, including in particular the linking of core funds to performance agreements. These performance agreements support the strengthening of HEIs' institutional profiles and strategic management processes, encourage strategic dialogues between HEIs and funding authorities or Ministries, and foster accountability and transparency about the HEI's achievements. The most frequent education objectives in performance agreements are addressing student demands and labour market needs, internationalising, and encouraging diversity and study success. The most frequent research targets are the generation of competitive research revenue, internationalisation, and excellence in research.

Since 2010, there have been key funding reforms in almost all EU systems. PBF approaches have regularly been revised through the introduction of new indicators and funding criteria.

The graph below sums up the diversity of approaches in the EU and the degree of performance orientation in the Member States' core funding systems.

Types of funding mechanisms and their degree of performance orientation in EU Member States



Source: ICF/CHEPS

Note: In the countries/states shown in red, the share of PBF has increased over the period 2010-2020. The circled countries/states (8 in total) were selected as case studies for our study's evaluation phase. For country codes, see [here](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Country_codes). [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Country_codes]

Impacts of performance-based funding

The general conclusion that emerges from the eight European case studies, the experiences of other systems and the insights from the expert webinar is that the impacts of PBF systems depend on their type, design and implementation as well as the national contexts and traditions in which they function. The large differences between higher education systems in that respect – also in terms of their systems of higher education governance, accreditation, student finance and research grants – limit, however, the generalisability of our findings.

Additionally, the performance of the higher education sector is impacted by many external factors - such as the share of performance-based funding versus that of competitive (project-based) funding, other incentives originating from the HEIs' environment, and/or other changes in higher education policies. This makes it difficult to assess the effectiveness of (changes in) performance-based funding on specific performance dimensions of higher education systems.

Despite these difficulties, the findings of this study point to the following impacts of PBF:

- increased study completion rates
- reductions in time-to-degree and increased study progress
- improved teaching and learning quality
- greater focus on student guidance and mentoring
- improved research quality
- increase in PhD outputs
- improvement in internationalisation

More generally, performance-based funding systems:

- incentivise the performance-orientation in HEIs and help reach the results at which they aim;
- provide legitimacy for the public funds allocated to the higher education sector;
- offer a transparent way to distribute core funding to HEIs; and
- support the strategic dialogue between HEIs and their funding authorities or Ministries.

However, PBF systems also risk producing unintended consequences for the system, including, among others:

- some HEIs tend to experience a disadvantage compared to other HEIs due to their size, their regional location, and/or their disciplinary profile/specialisation, which may be due to an inadequate fit between the performance-funding indicators included in the PBF system and the missions of the HEIs;
- HEIs may perceive the performance criteria as conflicting with their institutional autonomy;
- the tendency of bibliometric indicators to modify researchers' publication patterns and;
- a higher administrative burden for institutions and staff, due to increased reporting requirements and the complexity of the funding system's arrangements.

The funding of European Universities alliances

Member States allocate funding to the alliances in two ways: 1) targeted funds that are awarded as a one-off contribution or for a particular period, and/or 2) funds integrated in the HEI's core funding, where the systems in place benefit specifically the national higher education institutions that are part of a European University alliance.

In 21 European higher education systems, targeted national funding is provided to the higher education institutions that are part of an alliance; while seven systems do not provide targeted national funding². The types and amounts of targeted national subsidies vary substantially. In six cases, the national funding provides a compensation for the 20% mandatory co-funding of the alliance institution; in eleven others the national subsidy is a fixed amount.

Instead of, or in addition to, targeted national support for alliances' institutions, 17 systems (including five of the seven systems above that do not provide targeted funding) support the alliances by rewarding internationalisation in the core funding of HEIs – in a funding formula (12 systems) and/or a performance agreement (eight systems). In all these cases, the country's financial support for internationalisation directly or indirectly incentivises the activities undertaken by institutions that are part of an alliance. The core funding systems of three Member States refer explicitly to alliances.

² At the close of the data collection for this study, targeted funding was foreseen for three out of these seven countries.

In 11 higher education systems, there is a combination of funding through targeted support and core funding.

Alliances raised the following points regarding their financial sustainability:

- The full cost of the alliance's activities exceeds the combined support from EU and national sources, the difference being covered by HEIs own resources. This reflects the high ambitions of the alliances and the strategic importance HEIs attach to their European University.
- The financial sustainability of the alliances in the future will continue to depend heavily on EU grants and targeted national contributions.
- The legal status of an alliance and its funding opportunities are interlinked and, as our case-studies clearly indicate, this affects an alliance's ability to engage in long-term financial commitments.

Recommendations on Performance-Based Funding

Based on our findings, we have issued the following recommendations:

- Before implementing or reforming a PBF system, responsible authorities should set out the broad goals it aims to achieve with PBF.
- Performance-based funding systems need to be based on smart *performance measurement* systems.
- PBF systems require a *co-design* with the higher education sector to increase their effectiveness.
- To minimise the risk of unintended consequences of using PBF, funding authorities should carefully assess the attribution of a relatively high share of core funding to measures of performance.
- HEIs should have some degree of choice and flexibility within the PBF system.
- Performance-based funding is best established in the context of increasing (i.e. extra) higher education funding.

Recommendations on the funding of the European Universities Initiative

- Alliances should seek to diversify their revenue sources and develop sustainable business models exploiting synergies and complementarities between European, national/regional, and alliance-induced income streams. The latter could be generated through, for instance, fees for online and blended micro-credential certificates and joint research projects.
- The degree of transparency of the use of higher education institutions' own resources within alliances could be improved further.
- Regulatory obstacles to realise the full potential of the European Universities Initiative should be removed by means of a combined effort of the European Commission, Member States and the alliances.
- In line with the Commission's recent European strategy for universities, two non-mutually exclusive options could be considered for national authorities to fund European Universities alliances:

Option 1: For Member States that choose to allocate financial support to their national HEIs' participation in transnational university alliances, performance agreements could provide a feasible way to support the European Universities.

Option 2: Member States that choose to financially support their national HEIs' participation in transnational university alliances can do so through targeted national funding provided for a number of years, and allocated separately from core funding.

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