



7 June, 2018

The FICIL's Position Paper on Digitalisation

1. Executive Summary

Digitalisation is the integration of digital technologies into business processes and into the way people work, interact and communicate in their everyday life. The transition to data-based digital economy will profoundly affect all economies, including Latvia. At the same time, digitalization in business, public services and private activity is also arguably the fastest and the most inexpensive way to fight shadow economy and improve the competitiveness of the Latvian economy, thus attracting (smart) labor and capital.

According to European Commission's Digital Economy and Society Index (DESI) 2017¹, Latvia is ranked 19th among the EU countries when it comes to digital development. The performance is particularly discouraging when it comes to the integration of digital technology in business (the use of a business software for electronic information sharing, sending electronic invoices or using social media to engage with customers and partners), where it is in the 27th position among EU Member States.

Successful transition to digital economy will require efforts by individual businesses but, importantly, also a government level vision and strategy of Latvia as digital society as well as appropriate policy support in a variety of areas – from education system (how to ensure citizens have necessary skills to be productive members of a digital economy), to the right investment conditions (to ensure sufficient investments in infrastructure as the foundation for the digital eco-system), to taxation (as digital transformation is blurring lines between various economic sectors) and competition (for example, to address algorithms challenging traditional competition notions).

In this context, setting out a clear, coherent vision by the Latvian government of the role and economic opportunities digitalization offers for Latvia is paramount for creating the right digital framework and eco-system.

Side by side with this broader consideration, there are a number of other issues related to digitalization that have been identified by FICIL (see Figure 1).

¹European Commission, “*Digital Economy and Society Index 2017 - Latvia*”, available: http://ec.europa.eu/newsroom/document.cfm?doc_id=43023

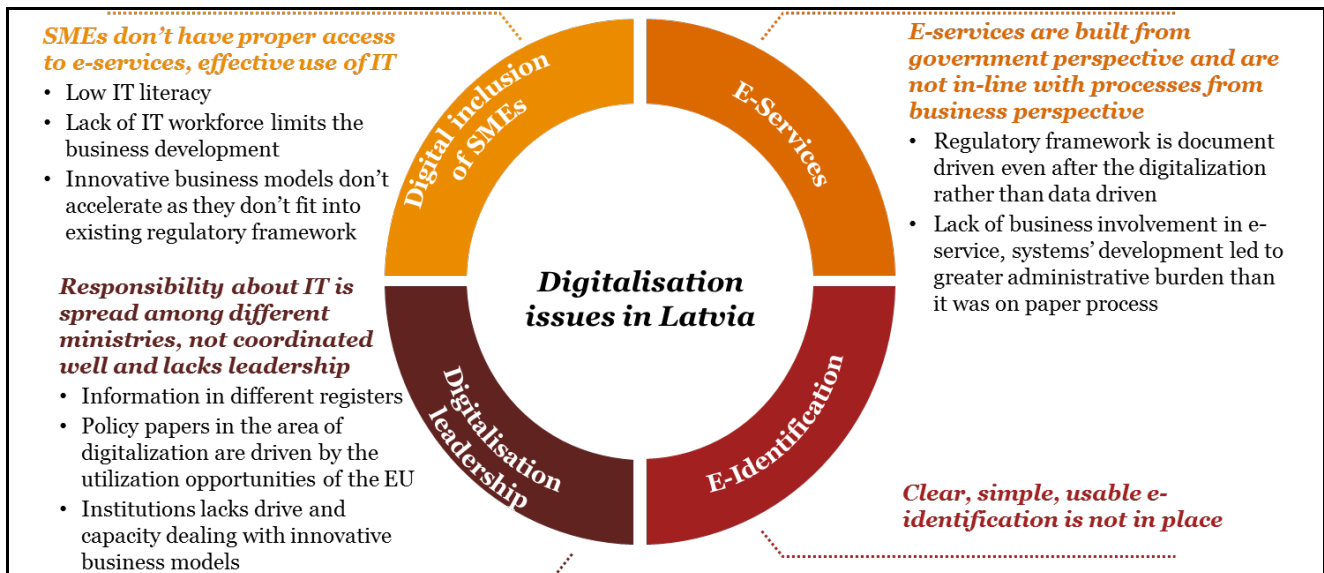


Figure 1. Digitalization issues for business identified by FICIL members

Responsibility for digital industry and IT issues is spread amongst different ministries/agencies of the government, making both the coordinated approach to policy-making and IT procurement difficult. Centralisation of IT procurements and data centres, use of public sector cloud, can bring efficiencies of scale for the sector.

Government institutions lack technical capacity and knowledge to reflect properly innovative business solutions in the regulatory and policy framework (sharing economy, decentralised business models (blockchain), artificial intelligence). In combination with a tendency to block innovative, technology driven business development instead of 'consult first' approach, this raises barriers for start-ups entering the Latvian market.

Many e-government services are available for businesses, however they are built from government perspective and are not in-line with processes from a business perspective or are too complex for practical use (for instance, electronic sick leaves). Availability of e-government services in Latvian also prevents foreign investors from doing business in Latvia.

Simple and usable e-identification is a precondition for most digital services. Current e-signature is technically complex, therefore, with very low usage in economy. Latvian authorities have a chance to build top-class remote and digital e-identification/authentication system framework following eIDAS EU Regulation. In the meanwhile, bank authorisation tools are bridging the gap.

SMEs, as the majority of Latvian businesses, face many challenges in the digital space. The lack of IT literacy of employees leads to insufficient use of IT systems and digital information exchange by these businesses. SMEs also face difficulties to access the IT workforce, thereby limiting their development.

FICIL sees, that the issues above requires systematic approach. FICIL would like to see clear digital agenda for Latvia for the next 5 years, which addresses key objectives and quantitative as well as qualitative KPIs to measure their achievement. The objectives must go beyond 'hygienic' needs of public authorities and bring business in Latvia on the new level of digital technologies. FICIL sees the potential for Latvia to be among the leading EU Member States with digitally literate people and SMEs, where innovative business models are encouraged and government-to-business (G2B) interactions are effective. These capabilities have to be unlocked.

2. Recommendations

FICIL sees the following as the first steps towards the vision:

1. **Digitalisation agenda must be established at the government level and CIO role on the government level has to be introduced.** Innovation and digitalization must be facilitated as the integral part of the country's political agenda (like in Estonia, Scandinavia). This political agenda must include objectives related to data driven decision making to improve efficiency in the public sector and G2B relationships, approach to innovative business models (decentralized business models (blockchain, for instance), crowd financing etc.) and encouragement and support to SMEs in digital transformation. This agenda must be based on concrete objectives and quantitative and qualitative KPIs rolled down to organisation level, with their realization monitored at the leadership level. FICIL recommends introduction of CIO role on the government level to deal with the abovementioned tasks. Special attention has to be paid to encourage SMEs digital transformation, use of innovative business models.
2. FICIL recommends significant **improvement of G2B interactions.** This includes full review of the available G2B e-government services from SMEs perspective, followed by reengineering of the e-services using 'user experience' and 'once only' principles and providing multilingual public services on-line. Significant effort should be devoted to open meaningful public government data, especially Citizen register and Register of invalid documents. FICIL will use courts, construction and tax system as measurement of improved G2B interaction, as they involve the most of the administrative burden despite the massive efforts to move to digital G2B interactions.
3. FICIL highly appreciates the latest mobile signature and authentication developments in Latvia. However, **further development of e-Identification solutions is crucial**, in order to make e-identification a main tool to speed up implementation and adoption of other e-services. Likewise, further efforts are needed to simplify the access to e-identification tools by businesses and citizens (e-identification must be free of charge). Government should adopt legislation to address innovative e-identification in a timely manner (video on-boarding, for instance).

FICIL believes that realizing the recommendations above will improve Latvia's position on the digital map of EU. FICIL will monitor the progress of these recommendations by reviewing the performance of Latvia in the DESI index, especially dimensions of the integration of digital technology in businesses, as well as improvements in World Bank's Doing business ranking, where such improvements are achieved through digitalization (e.g. obtaining construction permits, setting up electricity service, etc.).

3. Rationale for recommendations

FICIL sees **political leadership on digitalization and introduction of state CIO role** as essential starting point, as digital transformation of economy requires a major cultural shift from existing practices:

1. Where innovative business models are already used, government should allow these models to operate while considering whether new legislation or regulation of such models is necessary (blockchain, crowd financing etc.).
2. Moving towards data-based economy requires opening more meaningful datasets – Citizen register, Register of invalid documents, geospatial data (roads, utilities' infrastructure, environmental data). FICIL believes, that free flow of data will ensure growth of businesses in Latvia. EU estimates that the use of open data by business can ensure growth of up to 4% of the EU GDP by 2020².
3. Digital inclusion of SMEs is important for Latvian economy, as they play a more important role in Latvia's non-financial economy than on average in the EU. The SME share of value added is 69.8% compared to the EU average of 56.8%. In terms of employment, the SME share is 79%, against the EU average of 66.6%³. SMEs look at G2B interactions in their entirety, often perceiving lack of integrity and logic in the structure of e-government services, while every government institution see G2B services from the perspective of its own functions. CIO has to concentrate on the digital agenda of SMEs (barriers of B2B relationship digitalisation, use of e-commerce) and address them effectively and timely. Bridging the gap between well-advanced public e-services and digitally lagging behind SMEs is essential to position Latvia among digitally advanced EU countries.

FICIL appreciates investments in digitalization of public services made using EU funding. However, FICIL recommends the **review of whole G2B interactions**, namely:

1. Company registration, changes in registration information, closing the company from A to Z in one place including obtaining tax payer number, announcement in 'Latvijas Vēstnesis', etc.
2. Provision of statistics by businesses to government authorities should be reviewed completely using 'once only' principle. Government has to produce statistics using the information already available from the State Revenue Service, the Enterprise Register, etc.
3. Transportation of goods must be paperless on the territory of Latvia following international practice having digital CMR.
4. Digital agenda for SMEs must be treated separately from the objective of 100% B2G digital communication. All services for SMEs must be reviewed from SME perspective (user story approach).
5. Reaching SMEs is challenging in G2B communication. However, it is important to make SMEs integral part of digital agenda, inform them about business opportunities provided by digital business models and importance of cyber security in their daily activities. G2B communication must be built from SME perspective avoiding long citations from legislation.
6. SME test recommended by the EU⁴ has to be applied to all significant e-government solutions, especially, E-Justice, Construction information system, Tax reform.

Continued growth of the usage of e-services is expected in the coming years. For instance, annual growth of e-commerce in CEE is forecasted ~10% till 2021⁵. Number of users in latvija.lv is growing as well, demonstrating increasing G2B and G2C (government to consumer) communication on-line. As the use of e-services grows, investment in their further development by applying 'user experience' principles is recommended. FICIL will monitor usability of any updated or new e-government services, as they are key in the digital economy and creating the perception of modern Latvian business environment. The improvements G2B e-services should in the first instance focus on the services, implementation or use of which requires the most time and/or money from businesses.

The Ministry of Regional Development and Environment Protection is monitoring user satisfaction with services and e-services. The latest research highlights improvements in user satisfaction with public services⁶. However, these surveys do not cover G2B services (e.g. tax audits, provision of statistics, etc.) creating the most of burden for business. Analysis of the G2B service quality, administrative burden, business satisfaction, practical application of the principle ‘consult first’ is recommended.

The EU funded project ‘Creation of a multilingual machine translation facility to ensure the multilingual availability of e-services’ was realised by the Cultural Information Systems agency (2012 – 2015). On-line translator ‘Hugo.lv’ was created providing e-services in English, Russian. However, only the text of e-services is translated, the information provided by the user has to be provided in Latvian. Hence, the issue with multi-lingual public services is solved only partially.

The understanding of legislation is essential for successful business. E-services can be used as a tool to explain legislation and support business. For instance, such services are popular in the Netherlands, Canada. The benefit from such e-services is twofold: (1) allows business understand the compliance processes, (2) structured and clear legislation can be structured in e-service.

²European open data portal, “*The economic benefits of Open Data*”, available: <https://www.europeandataportal.eu/en/highlights/economic-benefits-open-data>

³European Commission, Factsheet of Latvia, “*The Small Business Act for Europe*”, available: <https://ec.europa.eu/docsroom/documents/26562/attachments/17/translations>,

⁴European Commission, SME test, available: https://ec.europa.eu/info/sites/info/files/file_import/better-regulation-toolbox-22_en_0.pdf

⁵Forecast of annual growth of e-commerce in Central Eastern countries <https://bmo.bmiresearch.com/reports/view?productid=4580&issue=20170101>

⁶Cabinet of Ministers of Republic of Latvia, Opinion survey on satisfaction with state services, available: <https://mk.gov.lv/lv/aktualitates/iedzivotaji-pozitivi-verte-valsts-parvaldes-darbu-un-sniegto-pakalpojumu-kvalitati> (in Latvian only)