

FICIL Position Paper No. 6

Foreign Investors' Council in Latvia on Digitalisation

10 September 2020

Introduction



FICIL considers digitalisation to be the most effective way to resolve the current top issues affecting Latvian business environment. First, digital transformation is in line with the EU aims of becoming more competitive on the global scale, and at the same time reaching EU green targets. Second, digitalisation provides room for mitigating labour shortages in the public and in the private sector. Finally, it is the single most important practical tool for reducing grey economy and uncovering the remaining part of the tax base, while maintaining the overall tax system competitiveness of Latvia. Altogether, digitalisation contains the leapfrog effect on competitiveness and solving the income gap vs the EU (which in turn is the main reason behind the demography issues). COVID-19 has established social distancing as the new norm facilitating remote and digitalised ways of working. Latvia's small and compact economy has accepted this challenge and has to utilise the opportunity to be the front runner in digitalisation in post-COVID economy.

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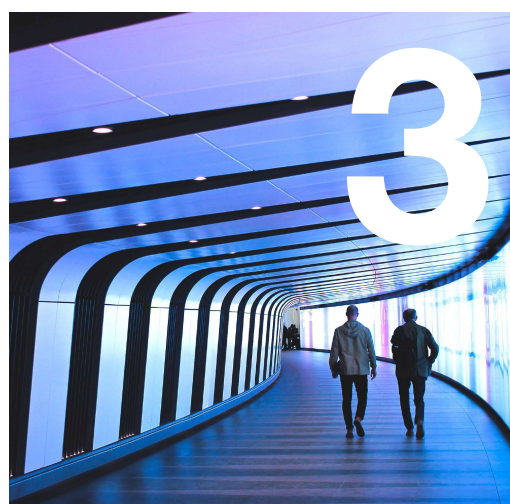
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Recommendations

Establish Chief Information Officer (CIO) role on government level

The first recommendation is to establish CIO role on the government level. The CIO role is necessary to get the sense of urgency, priority for resources and necessary alignment across the entire public sector. Clearly the role can change over time, for example, there is an office of the Minister for Digitalisation both in Norway (one of the top digital countries according to the DESI index and willing to stay on the top) and in Ukraine, with a different starting point and extensive transformation agenda ahead. The primary tasks of the CIO are described in the next section.

Develop qualified electronic identification operable across the EU

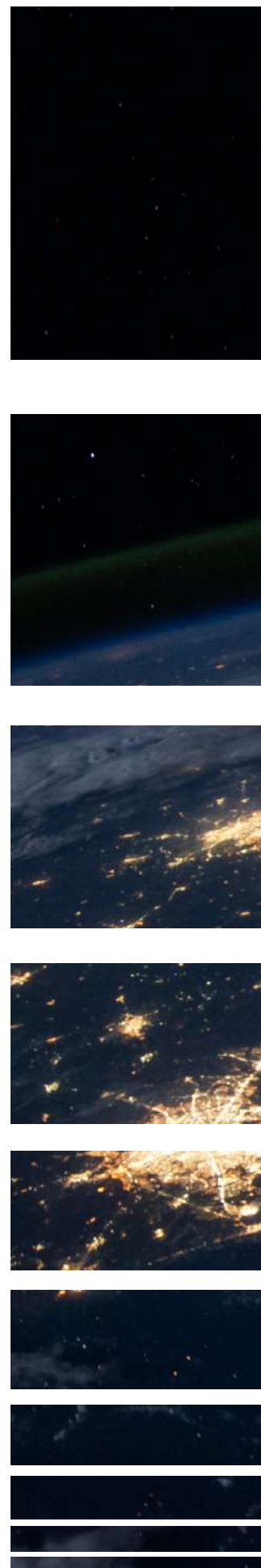
FICILs next recommendation, one that is kept from last year, is to develop qualified electronic identification operable across the EU. Digital identity and authentication is a precondition for most digitalisation initiatives starting from e-address, e-voting, business contracts enforceability etc. The COVID-19 crisis has substantially exemplified this need. Without delay, the government should proliferate free of charge eID with unlimited signatures, e-mobile signature, accepting other qualified digital signing tools for all citizens. We also suggest using the principle “digital first” in e-address and e-voting projects and restarting them immediately. The digitally ready part of the society should not suffer because of the remaining minority who experience difficulties with digital skills.

Become a digital economy

The third recommendation is to focus on becoming a digital economy. Clear leadership, which FICIL has recommended previously, will serve as an enabler for the digital transformation of the economy. As this is an ever evolving ambition, FICIL will provide a non-exhaustive list of the necessary improvements. However, the key principle is to build digitalisation as a regular way of working in each area of the public sector and merge digital transformation into business by promoting industry specific digital upskilling, ensuring that digital transformation leadership stays with business in Latvia. Ideally, the modern way of thinking would reside in each specific sector/ministry and the CIO office could move from the initial catalyst role to alignment of initiatives and long-term issues.

Improve E-governance

FICIL supports the E-Governance Law being backed by a group of Members of Parliament. The Law is necessary; it is a valuable starting point for sustainable e-government and a small step towards digital transformation in Latvia. Whether this Law will serve as a back-bone of the digital transformation in Latvia depends on further efforts. Innovation policy must be introduced while having digitalisation as the key tool using the same principles of responsibility of ICT investments and maintenance and non-overlapping functions as set out in the Law..



Rationale for Recommendations



Establish Chief Information Officer (CIO) role on government level

The first task for the **CIO role is to instigate the sense of urgency** on all levels of the public sector. It can be achieved by a clear mandate and bringing the best digitalisation practices from other countries and the private sector, and ensuring common policies, the ability to make centralised decisions (where necessary and applicable), ensuring the alignment of developments across state institutions, re-use of resources among state institutions, as well ensuring tools (e.g. budget) to drive common digital policies.

While e-government in Latvia has significantly progressed and is comparatively developed, the results in the digital transformation of the economy are lagging. At the same time, the centralisation of IT resources and their re-use could yield resource savings (currently each state institution has their own IT systems, e.g. document management, etc.) and attract IT specialists to a more dynamic organisation with growth possibilities. In parallel wage differences with the private IT industry should be mitigated. The CIO competence shall cover all public institutions, digital policies and derived public bodies within scope provided by proposed E-Governance law.

The proposed model could be a partially centralised IT governance model, where:

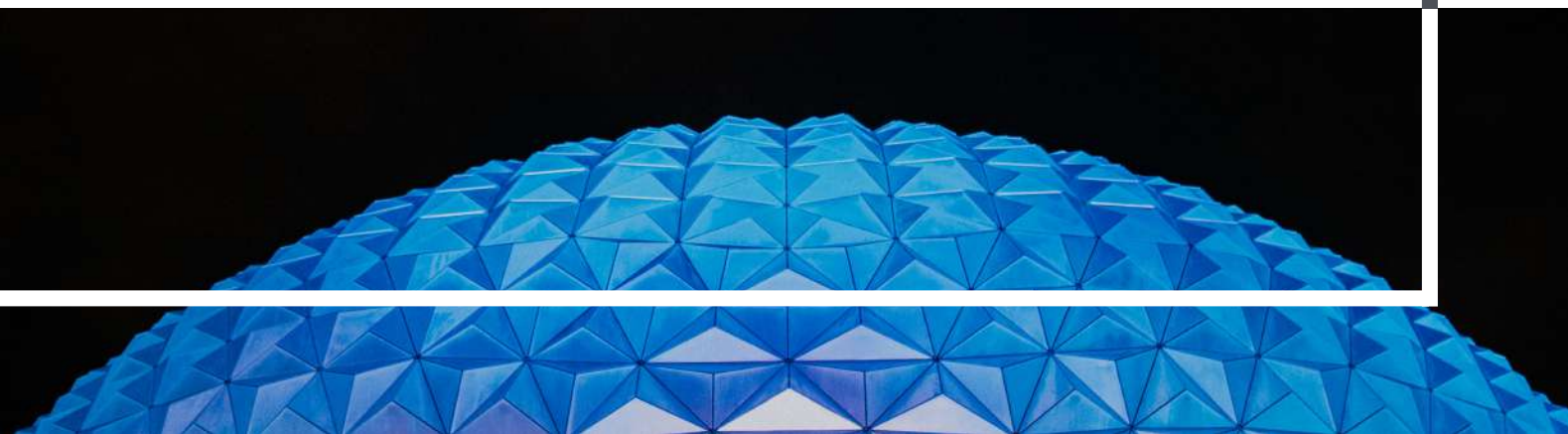
- CIO office is centrally responsible for the development of a state-level ICT vision, strategy, policies, regulations, specific centrally managed ICT developments, common architecture governance, and other functions ensured by VARAM and VRAA and, in addition, for centralised digital transformation policy and its execution, Project Management Office (PMO) function (large IT project governance and IT project management resources), ICT development prioritisation across state institutions and alignment.
- Developments in specific areas should be conducted at institutions that are the owners of the processes and policies, and that have the specific knowledge (e.g. SPKC, etc.).

The priority of the common ICT governance and digital transformation of the economy should be reflected through the formal authority of the CIO role: a high-level political role such as a deputy Prime Minister.

Rationale for Recommendations

The following aspects should also be considered.

- CIO office must serve as the central competence point for digitalisation-related principles - new business models, artificial intelligence, block chain, etc. - for policy makers in all other policy making areas to ensure the implementation of the digital principles into policies (justice, regional development, healthcare etc.) as much as possible. CIO must ensure that the digitalisation blends into well-functioning horizontal cooperation among government institutions.
- To ensure the stakeholder involvement, the CIO Office governance structure should involve stakeholders from all major state institutions that are related to ICT.
- Tools for centralised policy and decision implementation should be ensured.
- The development of ICT services among state institutions/competence centres should involve the development of various service levels and a cost attribution model.
- IT competence development for state institution employees and management should be set as a priority.
- State CIO should address the problem of the lack of digital skills in society. Latvia is among the lowest rated EU countries when it comes to the ratio of society members with basic and advanced digital skills. This contributes to the inability of the private sector, especially SMEs, and of the economy in general to execute digital transformation and implement innovative business models based on digital tools and data. State CIO should work with all levels of the education sector, from basic to lifelong learning, to define a vision and strategy for improving digital skills, and to facilitate their implementation through regulatory initiatives and resource allocation.
- Need to review ICT budget planning approach so that budgets for state ICT priorities are not based on currently applied *surplus-principle* - being subordinate to other budgetary needs.
- A closely related task is to ensure the independence of ICT financing from EU funding and project-based funding in order to have continuity and maintenance/upgrades of existing systems.



Rationale for Recommendations

ICT optimisation and governance

The CIO office should address the current fragmentation of ICT competence and infrastructure. The State Audit Office released a report in 2019 regarding the efficient use of ICT infrastructure in public administration. The report concluded that the public sector has the potential for ICT optimisation. However, there are no outlined plans at the moment, even though this is a common goal across the public sector. The State Audit Office believes that concrete actions to optimise ICT are lost in the everyday routines. Policy planning documents that include ICT infrastructure usually have digital goals in “design” form without specific results and criteria to be achieved and without any means to identify progress.

Competence centres

Competence centres falling under the realm of the CIO must be created, such as: data usage and data protection, design thinking or infrastructure management, PMO and, of course, robotics, automation and artificial intelligence when used in the public sector. For example, currently the business community is facing divergent data protection interpretations by several public agencies. A uniform GDPR interpretation is one of the key factors in achieving the current government’s resolution to increase data openness.

Open data and data protection

Data protection and data openness is a balancing act that should be carried out with utmost care. As there are different levels of readiness for the digital economy in the society, public trust should be built that the benefits of a more open society are compatible with security and individual rights.¹

FICIL acknowledges the public sectors’ progress in publishing sets of new data in the open data portal. It might be even more of a success if the data sets were prioritised in consultations with the private sector. That would make innovative business models possible faster.



Rationale for Recommendations

There are several other benefits that could be driven by independent and customer oriented coordinating roles. As an example, the Norwegian Digitalisation Ministry is using customer orientation to select the most frequent life events and then rework and simplify them into digital processes. It is a different approach to digitising current, 'paper&stamp' based processes. Another example: Norwegians also discovered that there is room for simplifying definitions of income used in different areas public sectors.

An important aspect to consider is the growing emphasis on green direction in all aspects of public life. For example, the European Commission has indicated that in 2050, most of the populations will live in smart cities,² which means that a lot more pressure will be put on the need for resources (energy, water, mobility, etc.). Innovation and technology will play a huge role in streamlining the future regarding green targets. It is important for policymakers to understand that digitalisation can act as both a further catalyst for sustainability efforts as well as an impediment to the process towards reaching sustainability targets.³

In sum, the CIO office should also control the innovation strategy with key aspects of digital transformation and define the road towards digital economy. In the meantime, FICIL will provide its current recommendations on the digital economy.



Rationale for Recommendations

Latvia must develop into a digital economy

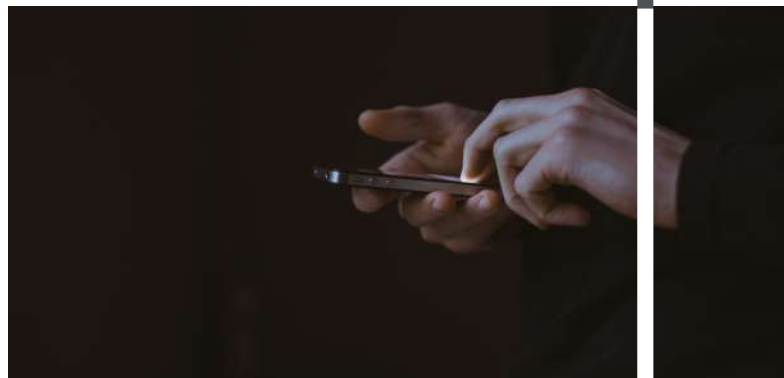
One of the European Commission's 6 priority areas deals with EU fit for the digital age. This means being aware of the digital transformation, which continuously influences every aspect of the economy and society. The European Commission has set being able to utilise the fullest potential of the digital age (innovation capacity, strategic autonomy, technological leadership) as one of its priorities. European institutions have also emphasised the use of digital transformation to boost economic growth, which means policies focusing on developing digital skills, innovation in society and entrepreneurship.

Developing digital economy must be a government priority, especially for innovative business models using the 4G/5G network and artificial intelligence. The government should play an active role as an information resource holder for the smart city platforms and ensure the availability of relevant data sets in line with EU Directive 2019/1024 on open data and the re-use of public sector information to foster the development of innovative businesses. There should also be appropriate laws for the new business models to operate legally, knowledge of digitalisation policy principles must be clearly identified and available for all policy makers.

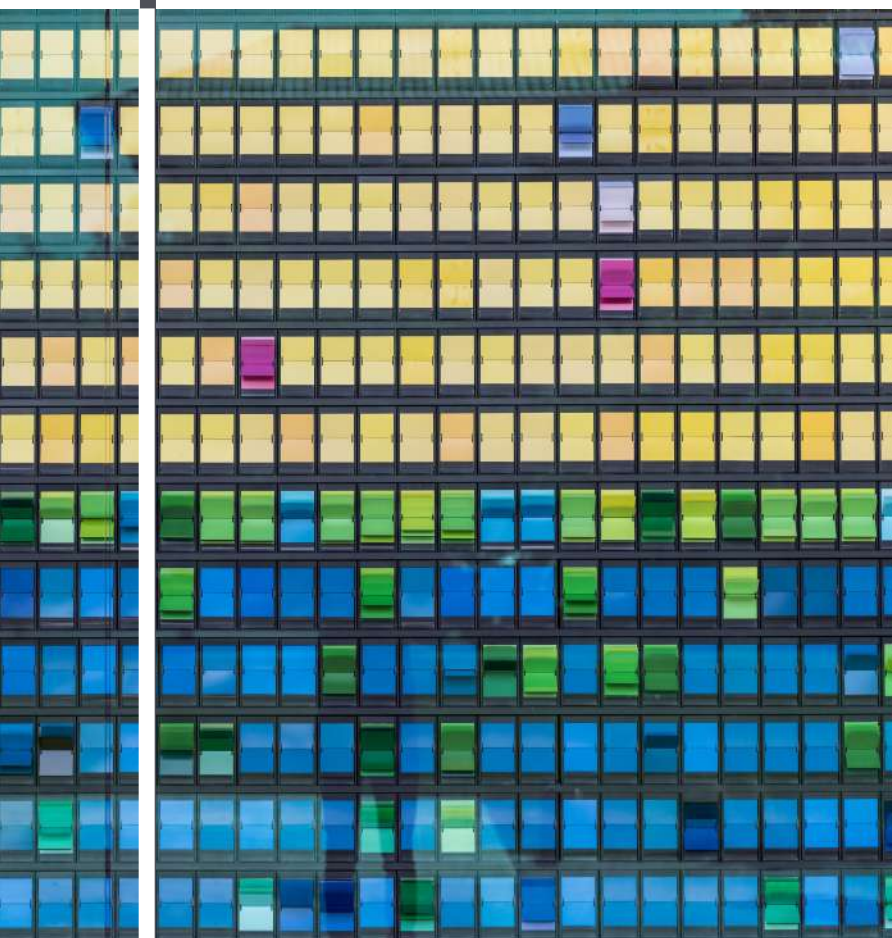
OECD sees three scenarios for developing the digital economy in Latvia: (1) support collaboration of the innovative communities; (2) government supports platforms where business can collaborate and develop their services; (3) government uses business platforms for their functions. FICIL is not in a position to evaluate the most appropriate scenario. This has to be a function and the key task for the State CIO addressed in the innovation strategy.

One great example is to use digital solutions to make the administrative reform seamless. For example, if most services are available digitally, the private sector and citizens bear no additional costs in receiving the service from either the previous or the new municipality wherever it is located.

Latvia is positioned high in the government sector evaluation in the DESI index. We propose to build on this strength further. In Latvia and other EU countries, the public sector is a data-intensive sector. In the EU, open data market is an important building block of the comprehensive EU data economy. Open data can spur economic growth, contribute to innovation, and enhance evidence-based decision making in the public sector.



Rationale for Recommendations



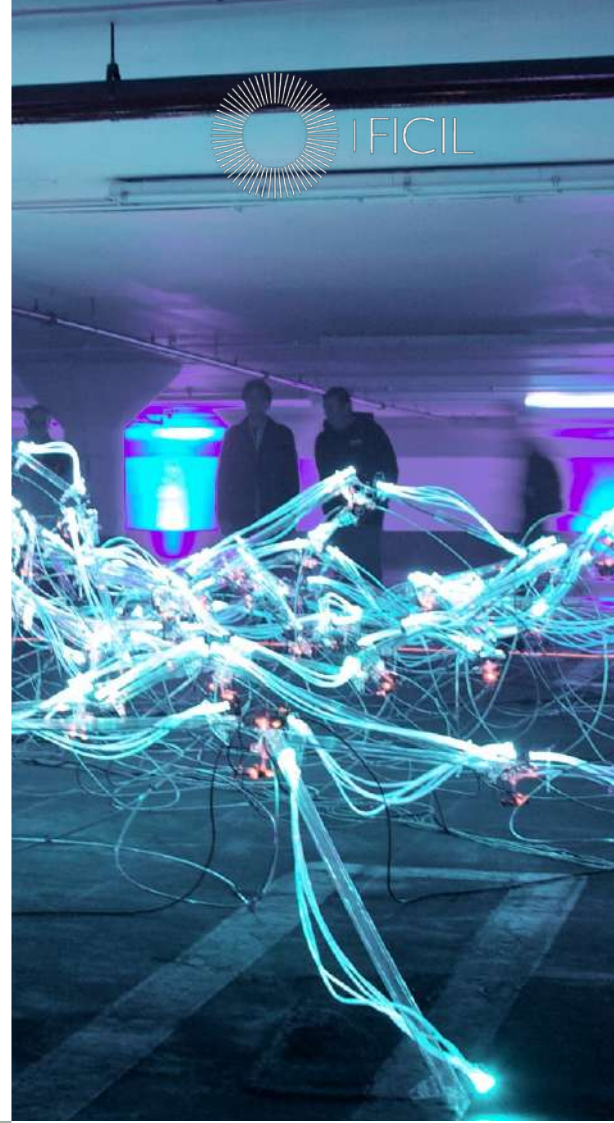
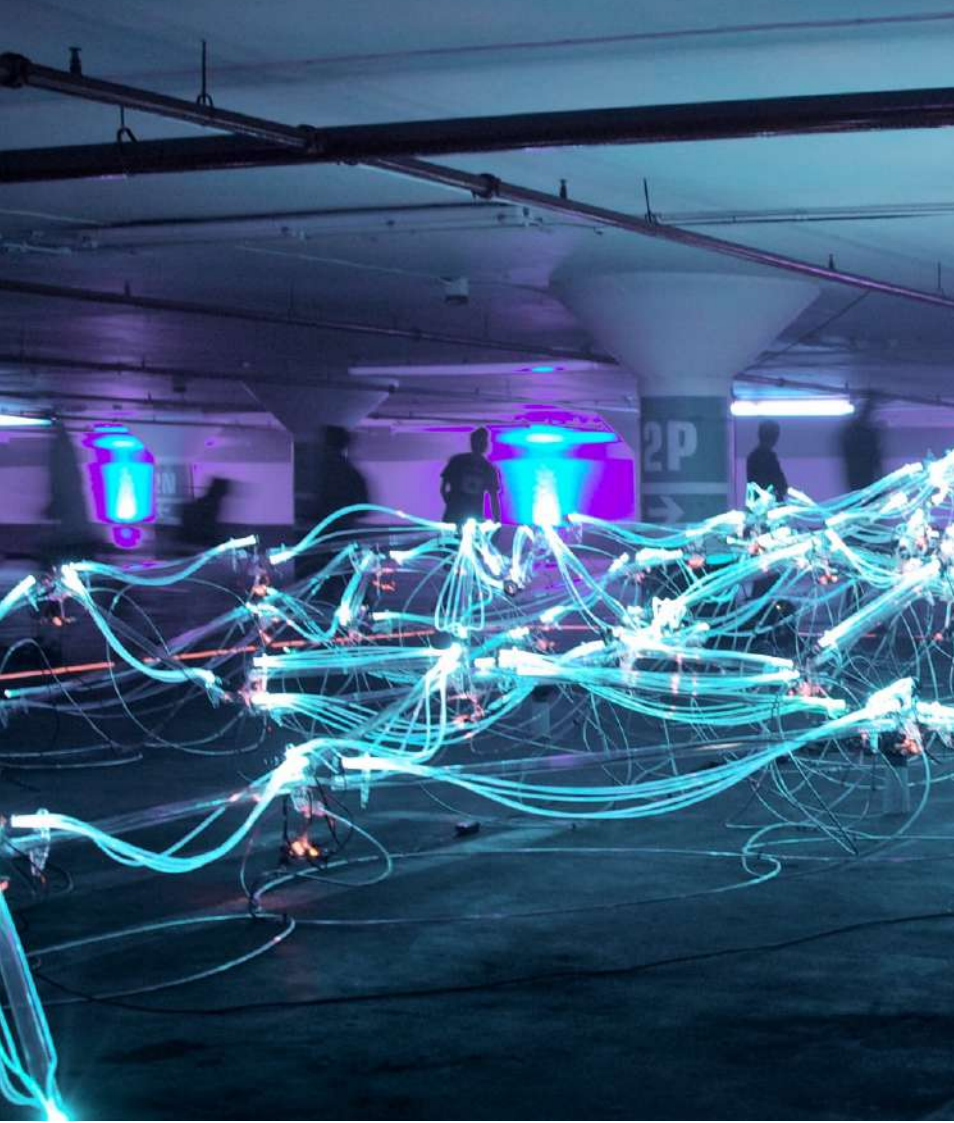
While building the digital economy, efficiency should be a top priority. FICIL proposes to evaluate whether the government should always keep the front-end service design and end-to-end project management for, e.g., e-health, e-school projects. Alternative is to outsource that to the private sector and keep only the policy and service requirements on the government agencies side. A framework can be built for public-private-partnership in designing high quality public services.

As acknowledged in the OECD report *Going Digital in Latvia*, the output gap in the ICT graduates needs to be addressed. And most probably the answer is both in facilitating more graduates locally and in importing the necessary competences.

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- 3 <https://www.dandc.eu/en/article/what-needs-be-done-so-digitalisation-will-drive-not-thwart-transformation-sustainability>





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FICIL is a non-governmental organisation that unites 37 largest foreign capital companies from various industries, 10 foreign chambers of commerce in Latvia, French Foreign Trade Advisers and Stockholm School of Economics in Riga. The goal of FICIL is to improve Latvia's business environment and overall competitiveness in attracting foreign investment, using the experience and knowledge of its members to provide recommendations to Government and state institutions.