



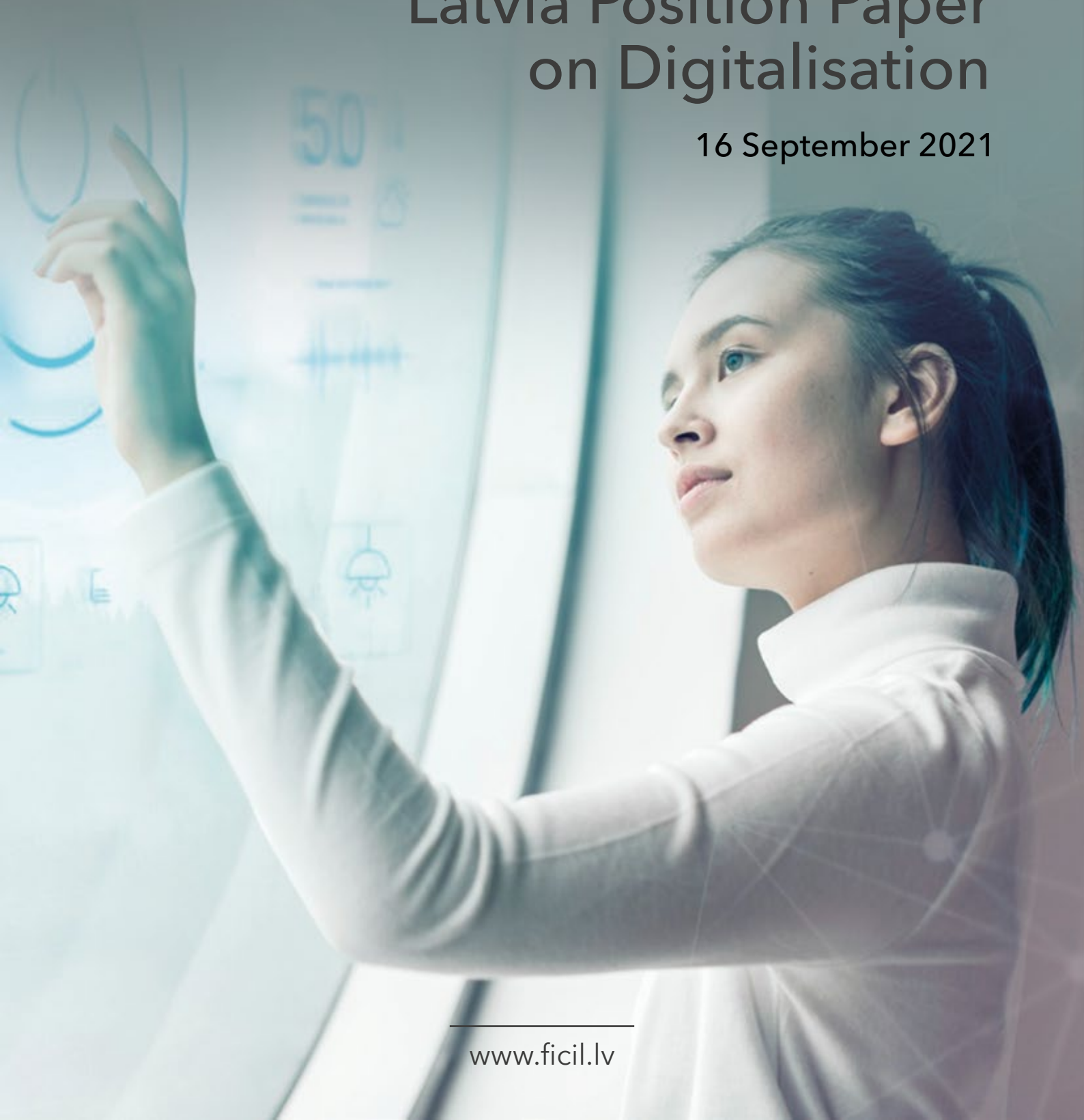
FICIL
RAISE THE BAR!



Position Paper No. 3

Foreign Investors' Council in Latvia Position Paper on Digitalisation

16 September 2021



Executive Summary

The Foreign Investors' Council in Latvia (hereinafter – FICIL) believes digital transformation to be one of the spearheads for mitigating the impacts of COVID-19 and contributing to the economic recovery of Latvia. Digital development can play an important role in increasing the competitiveness of the country, hence the need for a smart long-term strategy. This is a particularly important subject taking into account the plans of the European Union (EU) and Latvia in respect of investments within the framework of the Recovery and Resilience Facility (RRF).

Opportunities provided by the digital transformation are multifaceted. Firstly, it means improved efficiency of processes both in the private and public sectors. Secondly, the development of digitalisation and data availability also lead to better policy planning in other areas, such as the green economy. Thirdly, a country that is developed in terms of digitalisation allows its companies to develop new products and services,

attract qualified labour force which corresponds to modern day requirements, and also promotes the possibilities of cooperation between companies and scientific institutions.

In this document, FICIL reiterates the need for establishing a centralised national digitalisation policy. This should be a task for a specially established centre of competence – the Office of the Chief Information Officer (hereinafter – the CIO) that is responsible for centralised digital development. The report also contains recommendations for raising people's digital skills. FICIL also believes that the pace and success of the digital transformation largely depends on the digitalisation of companies, hence it is crucial to ensure targeted State aid which corresponds to the maturity of a company and the sector in order to promote digitalisation. The last group of recommendations refers to data based decision-making and open data issues.



Content

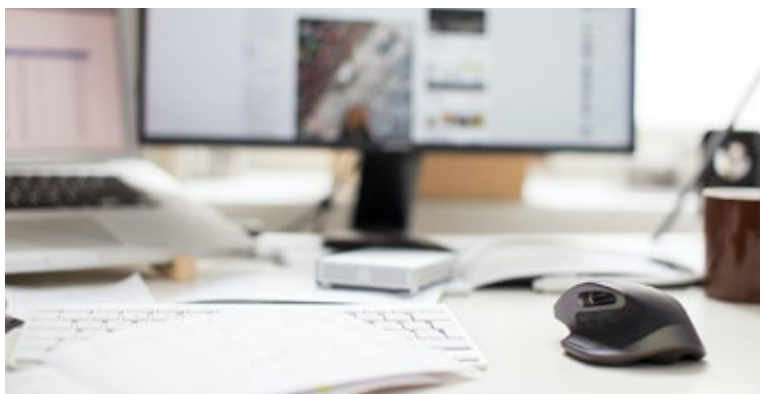
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Recommendations

State CIO

FICIL's first recommendation is to designate at government level an authority responsible for information technologies in the country (the State CIO). This position is necessary in order to create a sense of urgency in the whole public sector, prioritise resources, and identify the enforcement activities required. It is evident that the situation and development level may change over time. For example, both Norway (one of the countries at the forefront of digitalisation on the basis of the Digital Economy and Society Index (DESI) that wishes to maintain the leadership) and Ukraine where the starting point is different and a wide transformation programme lies ahead, have a Minister for Digitalisation. The major tasks of the CIO are described in the next section.

Digital skills

The lack of people's digital skills is a significant barrier to strengthening the investment environment and increasing labour supply in Latvia, therefore, a pragmatic and systematic approach to the improvement of people's digital skills is required. The Recovery and Resilience Facility (RRF) plan includes a target of increasing the proportion of residents who have at least basic digital skills to 70 % in 2027.

FICIL calls for the creation of a detailed plan for reaching these targets, clearly allocating the responsibilities and activities to be carried out. Firstly, it is necessary to centralise responsibility for the policy in respect of the development of digital skills by setting out a future vision and a strategy for the improvement of digital skills. Secondly, the priority skills and optimal ways of raising specific skills should be identified.

Digitalisation of companies

The necessary digitalisation activities for companies depend on the sector in which a company operates, as well as the digital maturity of the company. In supporting digitalisation of companies and taking care of the protection of investments, the State should ensure targeted support. FICIL recommends establishing a support programme for the assessment of the digitalisation maturity of small and medium-sized enterprises (hereinafter - SMEs) and the determination of recommended direction and amount of investments. This recommendation seeks to achieve a higher average digitalisation level of companies, including identification of the digital skills required.

If companies have employees whose knowledge allows the application of more complex digital technologies, such as artificial intelligence, data analysis, the Internet of things, blockchain technologies, they should be provided with the infrastructure and data availability for the development of new products and services, improvement of operating efficiency, and the State should ensure effective access of companies, including SMEs, to such knowledge and technologies.

FICIL recommends the following lines of development:

1. Ensuring the opening of meaningful data sets, primarily in RIS3 areas, including data held by public capital companies in such areas;
2. Improving cooperation between companies and scientific institutions in the field of digital innovations supporting digital innovation centres.

Data based decisions

FICIL's fourth recommendation envisages implementing data based decision-making in all areas of public administration. It has become especially important during the pandemic when both the private and public sectors have had to take fast and accurate decisions. It is data based decisions such as decisions on mobility, economic activity, spread of the pandemic etc. that have turned out to be the most effective. Data based decisions are based on a compatible data infrastructure. FICIL also calls for the public sector to offer access to data sets to the private sector and the academic environment, thus providing opportunities to develop new services and/or save economic resources.

Rationale for recommendations

State CIO

In order for the digital transformation to be successful in Latvia, this topic should be taken to a higher level. The Chief Information Officer (CIO) or the authority responsible for centralised digital development should be directly subordinated to the Prime Minister and have an appropriate action mandate.

The Digital Transformation Guidelines for 2021-2027 determine a digital transformation policy of Latvia, the lines of action and the challenges of the digital transformation policy. However, in order to implement these plans successfully, it is necessary to approve this document and set specific deadlines for each of the fields. The RRF is a great opportunity to attain the stated objectives and achieve a digital breakthrough of Latvia. We see careful management of the digital transformation as a precondition for a fully successful implementation of investment plans.

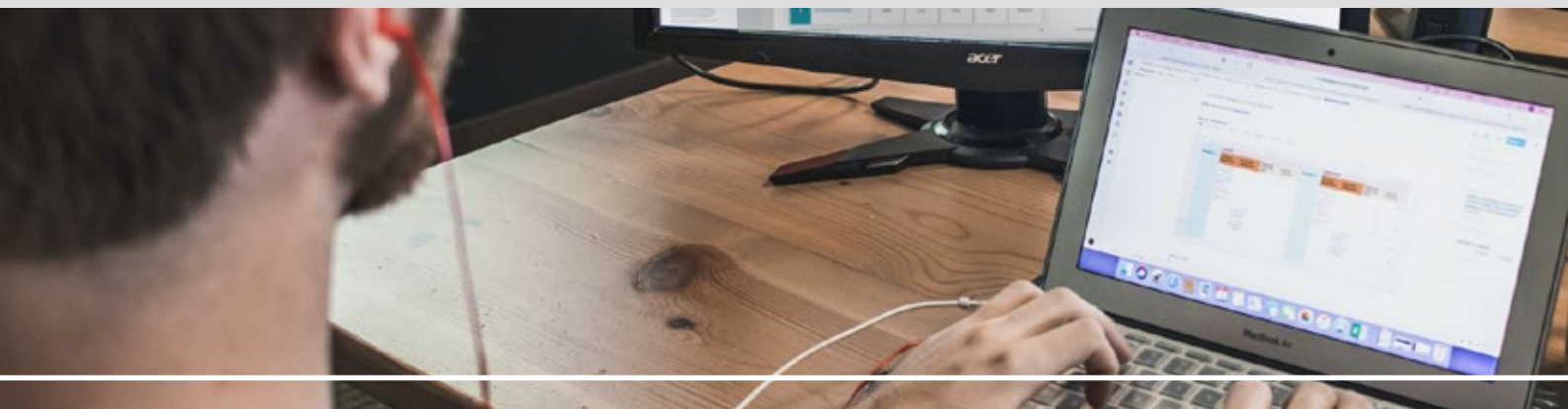
The first task of the CIO is to promote a sense of urgency at all levels of the general government sector. This may be achieved with a clear mandate and through a combination of the best digitalisation practices of the public and private sectors of other countries, ensuring a common policy and the ability to take centralised decisions (where necessary and applicable), ensuring the coordination of development among public institutions and the reuse of resources among public institutions, and also providing tools (for example, a budget) which drive the common digital policy.

The E-government in Latvia has made significant progress, yet its fragmentation entails costs for the country that may be optimised. For example, costs could

be reduced through centralisation of IT resources (at the moment each public institution has its own IT system, such as document management etc.). However, one of the greatest challenges for public institutions is to attract employees with IT competencies due to the large difference in salaries with the IT sector. The relevant public institutions, the digital policy, and derived public bodies intended in the suggested E-government Law would fall within the competence of the CIO.

The model proposed could be a partly centralised IT management model where:

- ▶ The office of the CIO has central responsibility for the future vision of national ICT, strategy, policy, regulations, special ICT processes managed centrally, common architecture management, and other functions currently ensured by the Ministry of Environmental Protection and Regional Development and the State Regional Development Agency, and takes additional responsibility for the centralised digital transformation policy and its implementation, functioning of the Project Management Office (PMO) (management of large IT projects and IT project management resources), ICT development prioritisation and coordination with public institutions. Digitalisation should be a national priority.
- ▶ Developments should be ensured in special areas within institutions that are responsible for processes and policies and have special knowledge (for example, the Centre for Disease Prevention and Control).



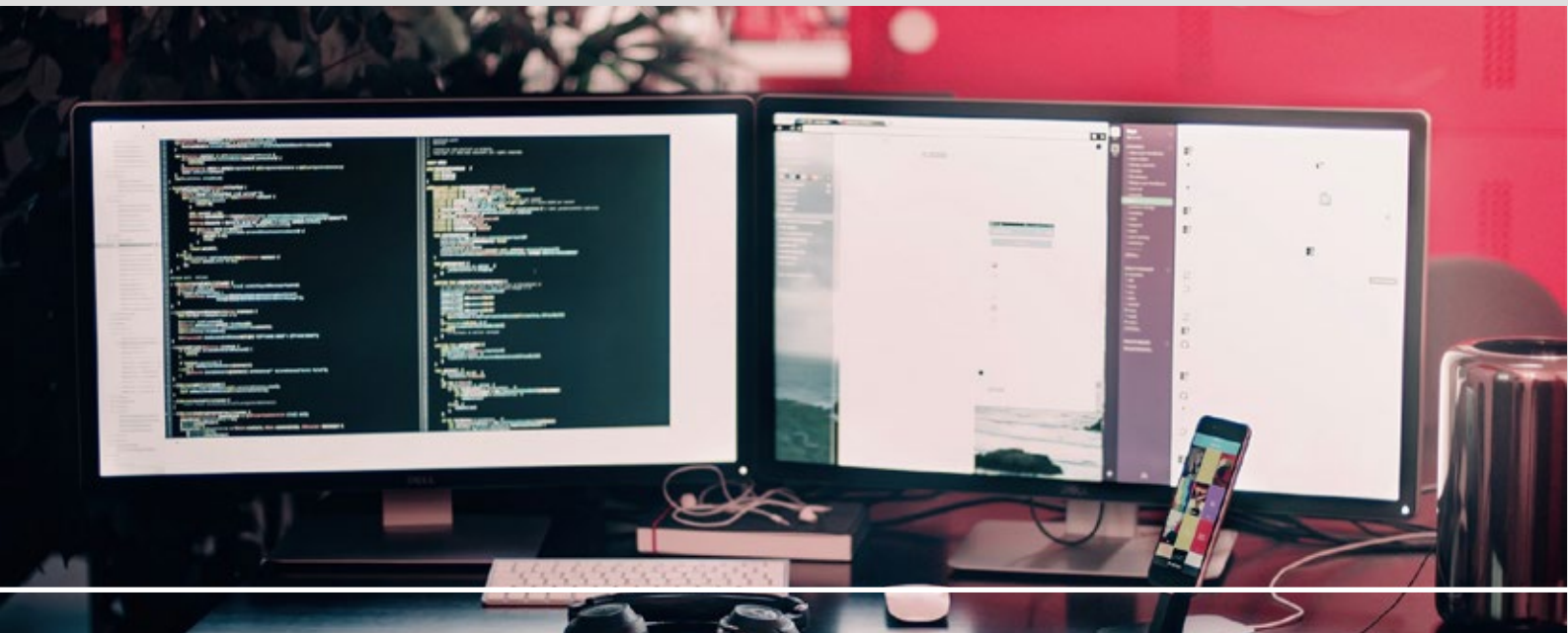
The priority of common ICT management and digital transformation of the economy should be reflected by using the formal authority of the CIO and granting the Office of the CIO sufficient powers to guide central decisions and demand results in the areas of the central responsibility. The following aspects should also be taken into consideration:

- ▶ The Office of the CIO should become a central point of competence in the issues related to digitalisation (new business models, artificial intelligence, blockchains etc.). The Office should support policy-makers in all the other policy areas in order to ensure the introduction of digital principles into the policy as much as possible (rule of law, regional development, health care etc.). The CIO should ensure that digitalisation is integrated into well-functioning horizontal cooperation between public institutions.
- ▶ Stakeholders from all the largest public institutions related to the ICT should be involved in the management structure of the Office of the CIO.
- ▶ Tools should be provided for a centralised implementation of policies and decisions.
- ▶ The State CIO should deal with the lack of digital skills among the public. The State CIO should also work with all levels of education, from primary education to lifelong learning, in order to define a future vision and strategy for the improvement of digital skills and facilitate their implementation by using legislative initiatives and allocation of resources.
- ▶ A review of the approach to the ICT budgetary planning is needed, so that the budget for the national ICT priorities is not based only on the current principle of surplus and is not subject to other budgetary needs.
- ▶ Ensuring independence of ICT financing from EU funding and project-based financing is a closely related task, in order to cater for continuity and the maintenance/improvement of the existing systems.
- ▶ Development of ICT services in public institutions/ centres of competence should include the creation of a model of different service levels and cost allocation.
- ▶ Priority should be given to improving IT competencies among employees and management of public institutions.
- ▶ The Office of the CIO should pay attention to the current fragmentation of ICT competence and infrastructure. In 2019, the State Audit Office issued a report on efficient use of the ICT infrastructure in the public administration. The report concludes that the public sector has the potential for ICT optimisation. However, there are no detailed plans at the moment, although this is a common objective throughout the public sector. The State Audit Office considers that specific activities for ICT optimisation disappear in the daily routine. Policy planning documents covering ICT infrastructure usually contain digital objectives in a form of "design" without specific results to be achieved and criteria, and with no means to measure progress.
- ▶ Centres of competence should be established operating within the scope of the CIO, such as the use of data and data protection, design thinking, or infrastructure management, PMO, and certainly robotics, automation, and artificial intelligence, if such are used in the public sector. For example, at the moment companies face different interpretations of data protection by many State agencies. Single interpretation of the GDPR is one of the major factors in implementing the decision of the current government to increase transparency of data.

During the digitalisation of the public sector, effectiveness should be maintained. FICIL suggests considering whether the government should always preserve full-cycle project management for projects such as e-health and e-school. An alternative would be to outsource them to the private sector leaving the government agencies only with the responsibility for laying down policies and service requirements. FICIL

recommends establishing a framework for public-private partnerships in order to develop high quality public services.

The public service sector is at the forefront of the ICT development, and Latvia ranks high in this specific DESI area. We call on the government to continue this development.



Digital skills

Based on the DESI data, only 43 % of the Latvian residents aged 16 to 74 years have at least basic digital skills. Latvia is significantly lagging behind the EU averages in terms of both basic and higher levels of skills. It is welcomed that both the Education, Culture and Science Committee of the Saeima and the Ministry of Environmental Protection and Regional Development have paid increased attention to this problem over the last year. However, a systematic approach is required in order to achieve the aims set by the government.

The lack of centralised responsibility leads to complex and ineffective management impeding the creation of a common understanding of the tasks to be carried out and the measuring of progress. A centralised structure for responsibility would allow for clear identification of tasks and the responsibility of each ministry and agency involved in respect of certain performance criteria. We believe this is one of the functions which should be performed by the State CIO.

Currently, employers expect their potential employees to have basic digital skills when they take up employment, which means that primary and secondary education systems play a significant role in the development of skills. It is also important to understand what basic digital skills actually are. It can be observed that politicians, ministries, public institutions, and the public in general have a comparatively different understanding of this

concept. Defining the basic digital skills and the priority skills to be developed would be one of the competences of the State CIO.

In light of the digital transformation trends worldwide, not only do the basic skills of people need improving, but also the development of higher-level skills should be promoted in order to safeguard the competitiveness of Latvia. The ICT sector has been mentioned as one of the priority lines of specialisation in the National Industrial Policy Guidelines 2021-2027¹. The emphasised sub-categories – smart city, quantum technologies, and artificial intelligence – require qualified specialists that the existing system is not able to ensure in sufficient numbers.

In addition to ICT programmes at higher education institutions, it is also important to raise the quality and capacity of lifelong training programmes. It is possible to promote the development of skills, for example, by subsidising internships in international ICT companies, attracting foreign lecturers for the training of local teachers and trainers, and also imposing an obligation for the public sector officials to raise their qualification once a year by taking a training course from a pre-defined list.

¹ <https://likumi.lv/ta/id/321037-par-nacionalas-industrialas-politikas-pamatnostadnem-20212027-gadam>

Digitalisation of companies

Targeted programmes are used in Latvia for digitalisation activities, which support training for employees, participation of companies in international trading platforms, and digital innovations². FICIL supports such activities for the companies that have understood and chosen their line of digitalisation. FICIL, however, wishes to see an increase in the average level of digitalisation in companies and an increase in the integration of digital technology indicators in DESI, where Latvia currently ranks only 23rd³. This can be achieved both by increasing the digital skills of employees and supporting the raising of the overall level of digitalisation in companies. Investments in the raising of the overall level of digitalisation in companies, in particular SMEs, can be risky due to their amount, complexity, and uncertainty. Therefore, State aid should be targeted as much as possible creating a support programme to determine the digitalisation maturity in companies and to substantiate the necessary investments. Similar programmes have been used and work in the UK⁴, Estonia⁵ and elsewhere. Existence of such support will enable the SMEs to plan their investments in digitalisation in a more targeted manner, and also to select the most appropriate support programme for digitalisation.

The State has identified RIS3 priority areas in the smart specialisation strategy. In order to ensure opportunities for companies to attract foreign investments in smart technologies, the companies should have access to infrastructure and knowledge on the development of products and services in such areas. The State has already ensured the availability of a technical infrastructure (in 2020, DESI ranked Latvia 4th in the EU in terms of broadband connectivity), but we are missing data availability for development of products and services (as well as testing them in the local market), and access to knowledge of the use of innovative technologies (Internet of things, artificial intelligence etc.). FICIL reiterates its previous position that it is necessary for the State to ensure meaningful open data sets, primarily in RIS3 areas, including data held by public capital companies in such areas. Data should be mainly opened by appropriate ministries: the Ministry of Economics in smart energy, the Ministry of Health in biomedicine. The State CIO would have to play a coordinating role, while the Ministry of Education and Science would also play an important role in keeping the overall open data initiative high on the agenda of the government⁶. The overall cooperation possibilities should also be improved among companies and scientific institutions supporting digital innovation centres.

² <https://www.em.gov.lv/lv/digitalizacija>

³ https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=66919

⁴ <https://www.digitalmarketplace.service.gov.uk/g-cloud/services/874089362434559>

⁵ https://ec.europa.eu/information_society/newsroom/image/document/2019-32/country_report_-_estonia_-_final_2019_0D302D02-B893-2A15-1643CC2948ACF8F1_61203.pdf

⁶ https://ec.europa.eu/information_society/newsroom/image/document/2019-32/country_report_-_estonia_-_final_2019_0D302D02-B893-2A15-1643CC2948ACF8F1_61203.pdf

Data based decisions

FICIL suggests upgrading data based decision-making and open data issues that cannot be delayed further. If before the pandemic data availability was only an additional catalyst for economic growth, then now one of the lessons learned from overcoming the pandemic is that the ability to take fast and accurate decisions both in the public and private sectors is crucial and far-reaching.

FICIL calls for a focus on the benefits that would be brought by making data based decision-making as a priority in the public administration. Firstly, it requires to speed up the establishment of a single data exchange infrastructure, the process of which has already been started. Secondly, it asks to reconsider the quality of the current data, ways of submitting the data (Open Data Portal), authorities (the Central Statistical Bureau) in their move from historic compliance of data to usable and useful data. FICIL calls for the requests for data sets to be determined by prioritising them together with the private sector.

We would also like to emphasise just a couple of examples illustrating the benefits of data based decision-making.

Particular mention should be made of the pandemic situation where more socio-demographic data on the people infected and tested would have helped to find more accurate restrictions. Moreover, data based decisions can be better explained in the public communication and reduce the polarisation of public opinion.

The next forward-looking example is data that are currently missing but significantly necessary to measure factors affecting environmental sustainability and achievement of Latvia's targets in the European Union. This example refers to a very wide range of areas – transport, housing, agriculture etc.

FICIL also sees considerable benefits to urban planning if the private and academic sectors are offered traffic, water consumption, mobility and other data which are more accurate than a large part of surveys, declared or otherwise collected data on which decisions are currently based. It is also possible to reconfigure Riga into a more environmentally friendly city, presenting data based arguments to all stakeholders, including in respect of dynamic traffic regulation according to flow.



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FICIL is a non-governmental organisation that unites 38 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.

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