



Position Paper No. 6

FOREIGN INVESTORS' COUNCIL IN LATVIA POSITION PAPER ON PUBLIC SECTOR REFORM

08.09.2022



Executive summary

Increasingly, over the last few years, the Foreign Investors Council in Latvia (hereinafter – FICIL) has emphasised the need for clear responsibility and horizontal cooperation among public sector institutions, for example concerning the Green Deal, digitalisation, labour force issues etc. There has been slow progress or, in some cases – no progress – when it comes to vital matters in order for the country to foster economic growth. The State Audit Office of the Republic of Latvia published an audit report¹ in 2022, outlining that the public sector reforms in recent years have taken place on paper only, however, not much has been realised to achieve the goal of improving the efficiency of the public sector as such. Public sector modernisation is no longer an option, but a necessity.

As the OECD (Organisation for Economic Cooperation and Development) has outlined – open, effective and accountable institutions can make a real difference for citizens, economies, and societies. Without effective and inclusive public sector governance and institutions, development finance may be wasted and the prospects for economic transformation compromised². Enhancing the competence of state institutions and their responsiveness to citizens’ needs is necessary for more efficient and inclusive public sector governance and trust in public sector institutions and representatives. Public sector governance aims to ensure that all citizens enjoy a full spectrum

of civil and human rights. It also aims to reinforce fundamental state activities (such as public finance and public procurement). To strengthen institutions, a comprehensive strategy should be adopted for collaboration not just with the Government, but also the media, civic society, the commercial sector, independent institutions (such as the Supreme Audit Institutions), and parliament.

FICIL highly appreciates the work of the State Audit Office of the Republic of Latvia year after year bringing attention to various issues/inefficiencies in the work of the public sector, however currently the bigger issues lie within the general set-up of the public sector – ministries, other institutions and agencies and topics/responsibilities that are allocated to each of these entities, as well as measurable KPIs. According to the Cabinet of Ministers website, the Prime Minister heads at least 17 councils/work groups, many of these concerning cross-sectoral issues.³ The efficiency of several of these councils has already been discussed, for example concerning climate change and combatting the shadow economy. How effective is the current set-up with the division of responsibility and cross-sectoral cooperation? Looking at the set-up of public administration, it is also important to note the need to centralise various functions to further ensure efficiency and predictability of tasks carried out by different institutions.

1 <https://www.lrvk.gov.lv/lv/getrevisionfile/29503-2AUhLznqlrVyEDa94OM3Y7F7vBQTOBB1.pdf>

2 <https://www.oecd.org/dac/accountable-effective-institutions/eag.htm>

3 <https://www.mk.gov.lv/lv/ministru-prezidenta-vaditas-padomes-un-darba-grupas>



Table of contents

Executive summary **02**

Recommendations **04**

Rationale for recommendations **05**

Recommendations

1. Perform a holistic analysis of the functions and set up of public sector institutions, including municipality institutions. This is needed to determine the best legal and institutional framework, competency overlap, knowledge gaps to align the public sector operating model with the future economic, social and geopolitical challenges.
2. Centralise various public sector back-office functions to reduce inefficiency.
3. Review and update current goals and objectives, as well as the related key performance indicators (KPIs) for state institutions employees and evaluation of work from these KPIs.
4. Institute a clear system of accountability of public sector representatives when it comes to achieving or not achieving goals set out in the strategic plans or policy planning documents of institutions.





Rationale for recommendations

Holistic set up and function review of public sector institutions and centralisation of functions

The main questions that arise from a fragmented public sector set-up relate to specific functions that each ministry, institutions and agency has to carry out – both at state level and municipal level. Function overlap causes ineffective and duplicated work being carried out by public sector officials. Latvia, as well as other EU countries, is facing various challenges in the upcoming decades, that will mean many reforms in the country. Firstly, the main concern lies with the ability and competence in the current system set-up to deal with many of the upcoming challenges. Secondly – the many reforms ahead will need to be financed somehow. It is not to say that the current public sector is not competent when it comes to various issues, however it is only logical that people cannot be experts in many different fields and there will be a need for a deep understanding of questions relating to climate change, energy sector modernisation etc. This is one of the reasons why a function audit is necessary, to establish a baseline for necessary changes and outline the weaker links of the public sector work, and to define the target operating model of the public sector.

To review progress, a clear starting point needs to be defined. This can be done in cooperation with the European Union Directorate-General for Structural Reform Support (DG REFORM) that among other topics focuses on coordination of public sector reform. The EU has also outlined five major challenges that the public sector will have to adapt to in the upcoming years⁴:

- the unprecedented speed of technological change,
- the impact of demographic changes and the increasing skills shortage,
- the increasing complexity of managing policy issues,
- the impact and importance of the green transition,
- the increasing competition for limited public funds.

This will greatly affect the work of the public sector, therefore reforms of the public administration are unavoidable. But to know what steps need to be taken it is vital that an independent audit takes place of the entire public sector. For example, when looking at the cooperation system in place to deal with labour force issues in the country, the Ministry of Economics has published research where many different stakeholders are outlined when looking at the system.⁵ This is another reason why detailed and comprehensive audit needs to be carried out, because in this case it wouldn't be efficient to only audit the functions of one ministry or institution concerning workforce issues – the overlapping functions might not be visible.


When discussing public sector modernisation, one of the main questions that needs to be addressed concerns the centralisation of various functions that most public sector institutions need to carry out. Centralised functions could include back-office functions, such as human resource management, information technology, data management, finance and accounting, procurement process management. This would allow public sector institutions to focus solely on policy implementation, while ensuring centralised, transparent, and predictable administration of other tasks. Centralising such functions would contribute to the resilience of public administration when looking at the EU outlined challenges and potentially opening different solution avenues for discussions on how to increase policymaking/ implementation quality of the country. Centralisation of functions could have a positive impact concerning the issue of limited public funds, as well as the complexity of managing policy issues.

Public sector institution set-up

When reviewing the functions and responsibilities of public sector institutions, the other issues that arise are with the current ministry set-up, which question whether challenges be handled effectively with the current division of institutions? For example, currently the Ministry of Environmental Protection and Regional Development is responsible for many different topics for which other countries have created separate ministries – digitalisation, climate

4 https://ec.europa.eu/info/departments/structural-reform-support/supporting-public-administrations-eu-member-states-deliver-reforms-and-prepare-future_en

5 https://www.em.gov.lv/sites/em/files/darbatirgus_gala20zinojums1.pdf



change, regional development. These are huge undertakings and need participation of experts and high-quality work to achieve results that would foster economic development. Many countries have digitalisation ministers or Chief Information Officers (CIO) that are responsible for the progress and development of digitalisation in a specific country. FICIL has also outlined the need for a CIO in Latvia in the Position Paper on Data.

Many countries have also designated ministers for energy matters. Latvia has historically reduced the number of ministries and in particular now, before the Saeima elections, new debates about the reduction of the public sector size have also arisen. However, FICIL urges focusing on functions and the quality of work coming out of any institution, rather than just focusing on the number of entities or people working there. Combining two ministries to reduce the overall number of ministries is not the most efficient way to ensure a high-quality public sector. It is repeatedly evident that cross-sectoral issues are handled poorly, which means very clear allocation of responsibility and competencies is necessary to move forward with the positive development of the country.

Key performance indicators in public sector institutions

There are many strategic and development plans in place for various industries and issues within the country, and public sector institutions are responsible for implementing these, usually in cooperation with other stakeholders. As each institution has specific functions, it is important that the respective institutions and their employees who carry out these functions have a clear set of KPIs that they are evaluated on. These KPIs have to be result (output and outcome) oriented not always process (input) oriented. This also means that achieving the KPIs would mean achieving the overall goals of the institutions in question. Where employees are evaluated highly for their performance and have achieved all of the outlined KPIs, but the institution/organisation or agency has not fulfilled outlined plans, this begs the question whether the actions have been set out accordingly or if the public sector employees are being evaluated according to set plans. Society wants to see a transparent public sector which clearly puts emphasis on the process, and is very unforgiving when public sector officials make mistakes – this in turn creates a vicious cycle of a more repressive system, which means there are

many process-oriented goals that do not reach the actual goals and there is the potential fear of making mistakes by the people who have to take action to achieve any real aims.

Accountability of public sector representatives

When creating specific KPIs that need to be achieved both by institutions and individuals, the main question concerns the issue of how the responsibility of achieving certain KPIs trickles down to employees who have to do the work to implement certain changes. For example, the Ministry of Economics published an evaluation report in 2021 which outlined how successfully or unsuccessfully the Guidelines on National Industrial Policy 2014-2020 were implemented, concluding that most of the goals have not been achieved.⁶ This should sound warning bells for both public sector officials as well as government and parliament representatives. What actions should follow; is it clear why this plan was not realised? If not, how can society be sure that the Guidelines on National Industrial Policy 2021-2027 will be achieved? In short, what then is the point of these plans and the actions taken?

The State Civil Service Law lays out instances in which a civil servant can be dismissed,⁷ however, there is a distinct lack of a concrete link between job performance and job retention, while the reasons for increased job protection for civil servants are understandable in some instances, for example where politicians “punish” the actions of a civil servant by dismissal. Political influence on the jobs of civil servants should be reduced to the absolute minimum, however civil servants should also bear responsibility for goals achieved and failures that take place. This goes hand in hand with the need for an effective public sector where each institution/position/employee has a certain role to play, certain goals to achieve and certain responsibilities. This also means there is a need for a clear mandate to foster cooperation to achieve these goals. The State Audit Office publishes many reports each year that highlight tasks achieved and failed by the public sector, however, there needs to be more follow-up on why certain goals were not achieved and through an evaluation process, certain reasons can be identified. If these reasons come from the inaction of a civil servant – steps need to be taken to remedy the situation. Otherwise, State Audit Office reports follow one another but no specific actions follow as a result.

⁶ <http://polsis.mk.gov.lv/documents/4391>

⁷ <https://likumi.lv/ta/en/en/id/10944-state-civil-service-law>



Position Paper No. 6

**FOREIGN INVESTORS'
COUNCIL IN LATVIA
POSITION PAPER
ON PUBLIC SECTOR
REFORM**

08.09.2022

www.ficil.lv