FICIL

Position Paper No. 3

FOREIGN INVESTORS'
COUNCIL IN LATVIA
**POSITION PAPER
ON FUTURE PUBLIC
ADMINISTRATION**

02.11.2023

EXECUTIVE SUMMARY

FICIL has highlighted the role that an effective public sector plays in the development of the economy for several years now, and last year proposed a concrete set of recommendations. Cooperation with the State Chancellery over the last year has been constructive and FICIL greatly appreciates the cooperation that has taken place. It is understandable that implementing meaningful changes takes time, but there are still several aspects that would hinder even the most well thought out reforms. In general, this includes a lack of accountability and measurable, not just process-oriented, key performance indicators (KPIs). The same can be said about the overlapping functions of various public sector institutions which mean an ineffective use of resources and no clear responsibility. Another concern covers the way public funds are allocated to specific functions and activities, and how efficiency is measured in this regard.

The Public Sector Modernisation Plan 2023-2027[1] covered some of the issues discussed regarding the effectiveness of the state administration, such as the centralisation of support functions. Nevertheless, further action must be taken to see meaningful results. FICIL highlights that the risks in the current plan are the same as outlined in the State Audit Office's report on the previous public sector reform[2]:

(I) lack of mandate;

(II) lack of result-oriented actions;

(III) lack of coordination, cooperation among institutions and lack of process reviews. FICIL believes it is necessary to thoroughly address these issues and employ greater use of digitalisation to achieve a public administration truly ready for the future, able to deal with all contemporary challenges.

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1   https://www.mk.gov.lv/lv/valsts-parvaldes-modernizacijas-plans
2   https://www.lrvk.gov.lv/lv/getrevisionfile/29503-2AUhLznqlrVyEDa94OM3Y7F7vBQTOBB1.pdf

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RECOMMENDATIONS

Improve efficiency through digitalisation

▌ Establish an Office of the Chief Information Officer (CIO) with an explicit and concrete horizontal mandate, supported by a centralised Centre of Excellence (CoE) which provides support to multiple public sector institutions in data standardisation and analysis, among other areas.

▌ Create a clear framework for data standardisation for public sector institutions and establish a single one-stop-shop for companies to submit data.

▌ Prioritise the State Revenue Service (SRS) being onboarded to the DAGR (Data Distribution and Management) platform.

▌ Assign responsibility and accountability to one ministry/entity to work on suggestions for the "responsible use" of AI framework.

Modernise public administration

▌ Increased accountability for results and actions from the public sector representative's side. This includes specific, measurable KPIs and consequences when not achieved – there is a need to review the current KPIs and accountability system or lack thereof. Accountability and actions must be closely aligned and monitored in line with planning documents and economic policy goals.

▌ Comprehensive review and analysis of 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.

▌ Implementation of a performance-based budgeting approach, linking the funding of programmes and activities to their results and performance. This requires outlining concrete and measurable objectives[3] and indicators for each activity, and then allocating and adjusting resources based on their achievement.

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3   Hence first recommendation

RATIONALE FOR RECOMMENDATIONS

Improve synergy through digitalisation

The 2022 DESI index highlights the explicit need for Latvia to speed up the digitalisation progress, as Latvia is underperforming. In other words, it has improved its DESI score over the last 5 years at a much slower pace. This has an impact on the overall DESI index, in which Latvia still falls behind its neighbours Lithuania and Estonia[4].

At the core of any improvement is a need for clear ownership. As such, **FICIL continues to advocate for the government to introduce a high-level, mandated CIO that is responsible for implementing centralised digital transformation and assuming strategic leadership for the digital transformation of the entire state.** While the Ministry of Environmental Protection and Regional Development has taken on the role, it is evident to FICIL that, considering the vast amount of other competencies that the ministry has, there is a lack of a mandate to ensure an effective centralised digital transformation. A CIO must have a sufficient mandate to make decisions: without such power it would be difficult to enforce standards, streamline operations and ensure the legality of decision-making. For Latvia, FICIL continues recommending that the CIO be directly subordinated to the principal minister of the state, which in Latvia is the prime minister.

Other states have increasingly adopted a state level Office of the CIO at various levels, such as Norway, Estonia, Finland, Ukraine, and Australia. Although the CIO's role varies, it should generally focus on:

- Data governance.
- Development of government services, for example, to ensure that all future government services are checked for AI application.
- Replacing the "legacy" systems used by public sector institutions.
- Strategic leadership on implementing government policy and shared ICT and digital public sector services, including sourcing and capability development.

- Providing advice to government agencies on ICT and digital investment proposals.
- Overseeing significant technology investments and the government's digital portfolio.
- Playing a significant role in the build-up of digital skills, both in society and at public sector level.

▌ Moreover, **FICIL recommends creating a centralised Centre of Excellence that can provide support to multiple public sector institutions.** The proposed Centre of Excellence would fall under a designated CIO and assist in the centralisation of ICT competencies, with the purpose of:

- Centralising data science and analytics.
- Ensuring a united digital Project Management Office.
- Ensuring data availability and accessibility standards[5].
- Centralising data anonymisation standards.
- Standardising data privacy and interpretation.

Creating a Centre of Excellence should foster a sense of belonging and shared purpose among existing public sector workers, allowing them to learn from one another and progress. The common impact of specialists leaving could be reduced with the ability to welcome new members into a more comprehensive and skilled team. By enhancing this with market-competitive remuneration, the Centre of Excellence should make the operational running of the data governance value chain more feasible and enhance the public sector.

FICIL continues to maintain that there is a need to implement a centralised data governance framework and administration of all public data within the public sector. However, before this can even be achieved, there is a need to effectively standardise data via a centralised operating model, to ensure that all public sector institutions have the same standard capabilities and use the same tools. In conjunction with sufficient legislation, this should also greatly improve the data sharing capabilities between public sector institutions.

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4   The Digital Economy and Society Index (DESI) 2022 "Latvia country profile"
5   Including the centralisation of data anonymisation standards.

FICIL sees that in the public sector a lack of high-quality usable data is the primary issue that stems from a lack of standardised data collection, a non-effective data exchange policy and practice. This is a consequence of a lack of the same or at least similar standard capabilities and available tools. However, to truly centralise operations around data, it's vital for the government to make data available, practical, and actionable across all levels. This involves integrating data from various sources into a single platform, with appropriate measures taken to ensure its security and protection[6]. In particular, for future effectiveness, it is important to standardise data and build data dictionaries. This begins with the practitioners who are at the start of the data lifecycle. Building data literacy via introductory courses is one of the ways this can be achieved.

As part of this, **FICIL calls for the introduction of a one-stop-shop for data collection in the public sector** which would result in a reduced administrative burden for companies. Such an approach is organised and provides benefits for users and businesses, although it requires a strict and direct approach from the government to be established[7]. Apart from being a legislative solution, it would allow users and businesses to inform a specified public agency if they identify an institution that is asking for the same data that is already published elsewhere, thereby preventing data duplication.

◢ Prioritise the State Revenue Service (SRS) being onboarded to the DAGR platform.

The DAGR platform aims to improve an exchange of information and interoperability in public administration, as well as ensuring the availability of data with guaranteed access. The project aims to enable public administration bodies to collate data from potentially all public authorities into one single data dissemination platform, which data consumers will have access to in order to retrieve real-time data from source systems. FICIL believes such a project was a step in the right direction, but it should also onboard one of the largest data collecting institutions, the SRS.

Cabinet Order No. 178, published on 30th March 2023, requested that selected representatives of non-governmental sectors and ministries develop a draft plan to curb the shadow economy for 2023-2025[8]. The plan notes that the direction of priority actions according to its point 2.2.1. is "construction - construction of buildings, civil engineering, specialised construction works", and point 2.2.2.

"health and social care". The SRS is responsible for support in providing analytical data that is relevant to the defined sectors. At the core of such a request is data quality and being able to retrieve real-time data from the source systems. As such, to allow the Ministry of Finance to execute actions defined in the Shadow Economy Combatting Plan 2024-2027, **FICIL recommends prioritising the SRS connecting their information systems to the DAGR platform.** This will allow all other public authorities to receive and analyse available data and come up with suggestions and concrete actions that lead to identification of risks of the shadow economy in their core business processes.

◢ Assign responsibility and accountability to one ministry/entity to work on suggestions for the "responsible use" of AI framework.

AI can create many benefits, such as better healthcare, safer and cleaner transport, more efficient manufacturing, and cheaper, more sustainable energy[9]. According to the 2023 KPMG Generative AI Survey, 76% of business leaders "expect Generative AI to have the largest impact on broader society out of all emerging technologies, and 66% "predict Generative AI to have a high/very high impact on their firm in the next 3-5 years"[10]. As AI continues developing, questions have been raised about the potential risks it could pose to people's privacy, security, and rights. Even though there are certain concerns about generative AI around Data Privacy and Confidentiality; Model and Output Bias; Intellectual Property (IP) and Copyright Risks; Cyber Fraud Risks and Consumer Protection Risks[11], AI has the potential to contribute positively to society by providing solutions to global challenges and helping platforms tackle misinformation. It is essential to formulate ethical policies and establish governance frameworks to lessen the likelihood of harm and ascertain that technological advancement is aligned with conscientious utilisation[12]. A multi-stakeholder approach would help to advance governance frameworks and standards, by bringing together different types of stakeholders from the AI community including civil society, academics, researchers, industry, and policymakers.

While adaptation of AI is increasing it is important that governments around the world set out plans to regulate artificial intelligence using well thought out new guidelines. In April 2021, the European Commission proposed the first EU regulatory framework for AI. While the discussions about the final shape of the law with EU countries in the Council

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6   UN "E-Government Survey 2022: The Future of Digital Government", p. 176..
7   OECD (2020) "One-Stop Shops for Citizens and Business".
8   Par Ēnu ekonomikas ierobežošanas plāna 2023.–2025. gadam izstrādi (likumi.lv)
9   Artificial intelligence: threats and opportunities | News | European Parliament (europa.eu)
10   2023 KPMG Generative AI Survey
11   Gartner Identifies Six ChatGPT Risks Legal and Compliance Leaders Must Evaluate
12   World Economic Forum "Top 10 Emerging Technologies of 2023: Flagship Report"

are ongoing, a final agreement will probably not be reached sooner than by the end of this year[13].

While the EU regulatory framework for AI is being developed, it will still be a while until it is enforced in Latvia. Since technology is moving at a rapid pace, FICIL recommends that the government **assigns responsibility and accountability to a single ministry/ entity** to work on suggestions for the government that will **ensure Latvia has a clear position to regulate artificial intelligence.** For example, the UK government wants existing regulators to come up with their own approaches that suit the way AI is actually being used in their sectors[14]. This is just one example; the key here is having a clear strategy in place for setting up any potential regulation or develop guidelines for use of artificial intelligence.

/ Increase effectiveness and accountability of public administration

Increased accountability and measurable KPIs

Accountability in relation to specific sector's goals— which go beyond just pure service delivery (that concern cost and quality) but also encompass the influence of policies on the relevant community or even society at large (such as policy outcomes or value for tax dollars)—are a part of public sector governance. Governance includes various types of mechanisms, particularly structures that clarify the responsibilities of the various stakeholders as regards the organisation, approaches that foster the capabilities for meeting these responsibilities, and tools such as systems for internal control and external accountability.

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 must be result (output and outcome) oriented, not always process (input) oriented. This also means that achieving KPIs would mean achieving the overall goals of the institutions in question.**

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. The State Civil Service Law lays out instances in which a civil servant can be dismissed,[15] however, there is a distinct lack of a concrete link between job performance and job retention. There needs to be a more thorough discussion on issues pertaining to the firing and hiring of civil servants, looking at the main reasons why civil servants are currently dismissed, and whether any of these are linked with performance and set KPIs. The reasons for increased job protection for civil servants are understandable in some cases, 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.** 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 the reasons identified through an evaluation process. If these reasons come from the inaction of a civil servant – steps need to be taken to remedy the situation, otherwise, the State Audit Office reports follow one another, but no specific actions follow as a result. This begs the question, what, if any, accountability is evident at political level for the implementation of State Audit Office recommendations? It seems that certain tools and instruments are already in existence to ensure the effective working of the public sector, but there is no use for these instruments if civil servants or politicians have the option to simply ignore aspects they choose to.

Public sector functions

Discussions surrounding the capacity of the public sector are nothing new. The most recent OECD "Government at a Glance" report's data shows that Latvia has had one of the highest increases in general government employment compared to total employment among OECD countries[16]. When covering the necessary improvements in the work of the public sector, we have to pose an important question: are public sector employees carrying the right tasks?

FICIL agrees that simply looking at the number of employees in the public sector does not give an accurate representation of its effectiveness. But in a fast-paced environment, the setup of the public sector also needs to adapt to the changing circumstances – meaning is there a clear view of the functions that the public sector should and shouldn't

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13   EU AI Act: first regulation on artificial intelligence | News | European Parliament (europa.eu)
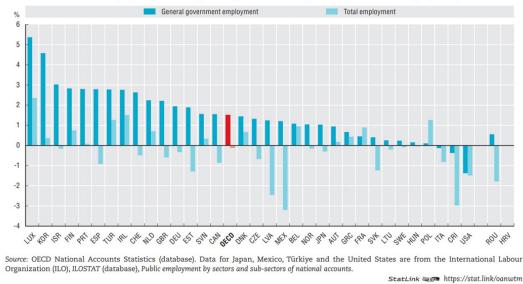14   UK rules out new AI regulator - BBC News
15   https://likumi.lv/ta/en/en/id/10944-state-civil-service-law
16   https://www.oecd-ilibrary.org/docserver/3d5c5d31-en.pdf?expires=1692794343&id=id&accname=guest&check-sum=2D8605202AAD2AFDE4FA626BEBEF27BB

12.2. Annual average growth rate of general government employment and total employment, 2019-21

Source: OECD National Accounts Statistics (database). Data for Japan, Mexico, Türkiye and the United States are from the International Labour Organization (ILO), ILOSTAT (database), Public employment by sectors and sub-sectors of national accounts.

StatLink 🔗 https://stat.link/oanwtm

be carrying out? When looking at implementation of certain policies or the services that the public sector provides to society, we keep hearing that there is a lack of human capital and lack of knowledge to successfully fulfil these obligations. Any reform the public sector implements can only be as good as the people and instruments to realise it.

FICIL did highlight the need for a better understanding of which functions are necessary, which are obsolete, and which overlap in different institutions, be they state or municipal institutions. Function overlap causes ineffective and duplicated work being carried out by public sector officials. Latvia, as well as other EU countries, face various challenges in the upcoming decades that will mean many reforms. Firstly, the main concern lies with the ability and competence in the current system setup 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 weakest links of the public sector's work, and to define the target operating model of the public sector.**

Performance-based budgeting

Information regarding state administration performance can meet the public's need to be in the know and can show that governments provide value for money through their actions. During decision-making in budgeting, the focus shifts from inputs (how much money can we get?) to measurable results (what can I achieve with this money?). Performance-based budgeting reforms have been linked to larger reforms within the public sector regarding expenditure and efficiency. Moving towards a performance-based budget requires clear strategic planning and a reduced number of process-oriented development documents that overlap and minimise accountability for achieving a specific result.

Estonia fully adopted performance-based budgeting in 2020, with the focus on achieving "more effective and efficient implementation of public functions, higher quality of public services, reduction of general government expenditure and staff costs, and more flexible and less bureaucratic management of the government sector."[17]

To guarantee the quality and accessibility of public services, serious consideration must be given to development goals and financial decisions. Since it is doubtful that the government will be able to provide more funding for the delivery of public services in the foreseeable future, it must focus

17 https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy/performance-based-budgeting

on increasing efficiency. Increasing the efficiency of service delivery requires measuring its costs, which calls for better monitoring and assessment of the outputs and results of activities, as well as the connection of resources with their associated activities. The emphasis in strengthening strategic and financial management is on enhancing cooperation between government departments, boosting budget planning transparency, and what it is spent on.

This type of change would go hand in hand with strengthening accountability over certain KPIs, which in turn could drive real change and development. When it comes to implementing performance-based budgeting, all government institutions in charge of running these programmes set performance goals to be attained while providing services. A designated manager can then follow up to assess whether the projected outcome was accomplished. Heads of institutions are responsible for achieving expected results while keeping within the allocated budget.

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