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Observatory of
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Innovation

Building the Innovative Capacity of the Public Sector of Latvia

EXECUTIVE HIGHLIGHTS

This document provides a high-level summary of the key findings and insights from the assessment of Latvia's innovative capacity.

This work aims at supporting the use of innovation to improve the **impact and effectiveness** of the Latvian government. The project aims to provide an **evidence-based strategy and action plan** to equip the public sector with the tools and resources needed to deliver in innovative and effective ways to citizens.

Innovating for impact in Latvia

Working in new and novel ways to design and deliver effective public services

OVERVIEW

Latvia's public sector innovation journey is at an important crossroads. To date, innovations have primarily focused on prioritising efficiency and cost saving approaches - innovation aimed at producing transformative impact has not yet been matched with the same urgency. Steps in this direction, including innovative efforts on **improving the impact and effectiveness of government** using design thinking approaches, shifting strategic planning and increasing evaluation in budgetary decision and policy design are gradually being introduced. Despite this, an **emphasis on innovation to find cost savings remains**, often **hinders the potential for more transformative, impactful and future-looking innovative efforts**.

The **low levels of trust in the Latvian Government** (currently only 29.5%), paired with an **increasingly complex governance context** (security threats, healthcare crises, aging) point to a **need for innovation across the public sector** in order to deliver effective services to citizens and to rebuild public confidence in government.

This will require deliberate investments in innovation that go beyond cost reduction and adaptations to ensure the operating environment of government is more conducive to working in new ways.

CAPTURING THE CONTEXT

Latvia is at a turning point where transformation is at its fingertips. Latvia's **National Recovery and Resilience Plan** will bring in an influx of 1.8 billion euros to **stimulate economic growth, development and innovation in the public sector and beyond**. In particular, the priority areas of the Public Administration **Modernisation Plan 2023 – 2027** are key to **reinforcing** and **driving** the **innovation** agenda. These include:

- **United and efficient public administration:** use of innovative project teams, improving cross-sectoral cooperation, horizontal issue management.
- Development of **human resources:** equipping public servants with the skills and knowledge needed to work in innovative and more effective ways.
- **Quality of policy and regulation:** improving policy planning, reducing admin burden.
- **Centralisation of support functions:** improving interoperability, shared services.
- **Smart work:** new approaches to work organisation, co-working, rural opportunities.
- **Development of innovation:** developing and implementing a systemic approach to innovation, dedicating resources to innovation.
- **Digital transformation** of public administration: improving data management and sharing, service delivery and effectiveness, improving efficiency and effectiveness of government processes through the use of digital platforms and tools.

Capturing this opportunity will be key for transformation in Latvia. But, **the work must continue beyond 2027 with integration of innovation into the daily work, priorities and budgets of the national government.**

“There is no high-level vision, strategy, or direction for innovation and where to go. We need this centrally and then to have conduits for efforts of ministries to plug into this.”

- Interviewee from this project

A view of the Latvian public sector's capacity to innovate

Based on engagement with over 1300 stakeholders (through surveys, interviews and focus groups), the below insights reflect the key opportunities and challenges impacting the public sector's capacity to innovate for impact. Efforts to enhance Latvia's innovative capacity include the introduction of an innovation lab, innovation network, modernisation plan and innovative components of strategic planning. While we can see small shoots of progress, these efforts are yet delivering transformative results. The below insights captures the key factors impacting the public sector's capacity to innovate. It is intended that these insights will support the development of the forthcoming National Public Sector Innovation Strategy.



DRIVERS AND MOTIVATORS OF INNOVATION (PURPOSE)

Public servants are often motivated to innovate through personal motivations to improve citizens' lives, improve trust, respond to key national and global challenges and key government priorities. However, further innovation could be encouraged through establishing explicit performance incentives for innovation, paired with strategic cohesion.



In 91% of cases, public servants are motivated by individual satisfaction to innovate in their daily work, including finding **efficiencies** and **produce increased impact on citizen lives**.



Increases in energy prices, security threats and an aging population produces pressures on public sector spending (which is already lower than global average as shared of GDP). This necessitates the public sector to be **innovative and resourceful and deliver under pressure**.



The **Modernisation Plan** paves the way for a more innovative public sector. The target of 70% of state institutions carrying out innovative initiatives provides a clear goal for innovation. However, at times, multiple **overlapping/related strategies** and **innovative initiatives** often produce a lack of alignment, duplication and fragmentation of efforts.



INNOVATION IN THE PUBLIC SECTOR OPERATING ENVIRONMENT (POTENTIAL)

The public sector of Latvia is not naturally conducive to innovation – limited time, fear of failure, difficulty navigating regulatory, procurement and budget frameworks in an often understaffed workforce can make it difficult to find the courage and time to challenge the status quo. Creating explicit and safe spaces to prototype and test new approaches could help empower and equip public servants to innovate to create more effective public services.



Emphasis on **cost savings**, while sometimes **driving innovation**, can **strain the functioning of the government** and **hinder** the capacity to invest in **future-focused innovative efforts** and increased **resilience**.



Team and organisational environments are **key enablers of innovation** in Latvia (including managerial support, collaboration and teamwork). However, the desire for efficiency often results in **an understaffed workforce** and **lack of time** which make it difficult to find time and space to **challenge the status quo**, attempt innovations or attend training to enhance skills.



It is often challenging to navigate how to innovate within **the complex rules-based administrative system** (e.g. strict inflexible procurement, regulatory and budget frameworks).



The **increased coordination power** of the **State Chancellery** can help ensure innovation is a key horizontal priority of the government. Leveraging this capacity will be key to the implementation of an innovation strategy.



However, a **lack of political support** and engagement around innovation sometimes stands in the way of **transformative and future-focused innovative initiatives**.

Latvia has **adhered** to the **OECD Declaration on Public Sector Innovation**: demonstrating a clear will and commitment to innovating and agreeing to key principles on how innovation should be leveraged.



BUILDING CAPACITY FOR INNOVATION (CAPACITY)

The public sector workforce has strong innovative potential in Latvia, however, recruitment and retention challenges, paired with a lack of funding for salaries and training has often stood in the way of nurturing public sector talent and providing continuity in the workforce. Equipping the public service with innovative skills, complimented by efforts to steer a portfolio of innovative initiatives beyond efficiency-measures could help to ensure the public service is equipped to innovate around current and future challenges.



The **Innovation Laboratory** offers support to institutions through **innovation sprints to design new innovative solutions to challenges**. Inconsistent funding has hindered the capacity of the Lab to deliver a consistent and effective service offer. Providing **consistent resourcing** and **leadership endorsement** for the work of the Lab will be key to sustaining their efforts.



Developing capacities and a strategic approach to a **diversity of innovation activities** that go beyond efficiency (e.g. working with the future and tackling complex challenges) can help expand the impact of innovation. This will combine better organisation and investment of innovative initiatives and could include introducing **portfolio management** as well as creating an **innovation fund**.



An influx of **external funding** through the National Recovery and Resilience Plan (1.8 billion EUR), EU cohesion policy (15.5m EUR for municipal gov projects), and EC technical support instrument projects can help to support innovative initiatives. However, a **lack of domestic funding** and support for innovative initiatives could be a serious **blocker** for the **continuity of efforts** already in place and those that will be implemented as part of this project and the Modernisation Plan.



Training programmes through the **Latvian School of Public Administration** (such as on design thinking), have helped to enhance capacity for innovation in the public sector. However, a lack of consistent funding for the school may impact its capacity to deliver.



Enlarging the **competency criteria** of the public sector workforce could also help the public sector to recruit and retain talented professionals with innovative skillsets. However, to recruit and retain the best talent, the public sector needs to become an employer of choice (e.g. through culture, financial incentives, work environment etc.)



LEARNING, MEASUREMENT AND EVALUATION TO OPTIMISE IMPACT

Many measures exist within audit, budgeting and strategic planning cycles in Latvia to help understand the impact of policies: these measures can help understand where innovation is needed most. However, in some cases, public servants have minimal training in developing effective measures and in gathering and understanding user data throughout all stages of the policy cycle. Finally, creating safe spaces to discuss lessons learned from innovative activities, including failures, can help spread the innovative solutions that work, and provide space to learn from the ones that don't.



The **Innovation Network** provides a forum to share **lessons learned, best practices** and to **diffuse adoption of new approaches and methods**.



Use of **key performance indicators** in policy planning, strategy development and performance-based budgeting have **encouraged an emphasis on evaluating the impact of policies and services**. However, sometimes **skills gaps and fear of punishment** limit **measuring what really matters most to citizens and businesses**. Increased capacity and training on measuring impact and embedding user insights into the policy cycle can help optimize impact of innovation efforts.



Sharing insights and lessons learned from successful innovative initiatives such as the Riga Municipality Innovation Fund, Ministry of Welfare Innovation Pilot Projects, Participatory Budgeting and Planning projects (Cesis & Riga) can help enable **replicating and spreading innovation**.

Innovating across levels of government

A MUNICIPAL PERSPECTIVE

Municipal governments in Latvia are often at the forefront of service delivery, but similarly to their national counterparts, are often pushed to do so in an environment of scarce resources with a constant push to do more with less. Hence in this context as well innovation is often leveraged to create efficiencies and save time as well as cut costs. A number of findings are particularly important at the municipal level.

1 Innovation is occurring through fragmented initiatives.

There are many innovative initiatives occurring at the municipal level, examples include innovative solutions to housing, explicit innovation strategies, and democratic participation. However, the majority of initiatives are funded through external sources, and as such, end up being fragmented and risk lacking continuity.

2 Navigating procurement, human resource, audit and regulatory frameworks is often cumbersome and inhibiting of innovation at the municipal level.

Audits are often highly critical of new approaches and municipal public servants often do not know how innovation can fit within existing public governance frameworks.

3 A complex relationship between national and municipal governments often stands in the way of effective innovation.

Municipal governments often feel highly criticised by national government, rather than supported to work in new and more effective ways.



Ideas for improvement

A Equip the workforce

Municipal public servants could benefit from trainings and support from the innovation laboratory to gain the skills to design and implement innovative activities. Moreover, increasing HR management capacity to help embed new competency frameworks and workforce management approaches can help recruit and retain staff with specialised innovative skillsets.

B Strengthen networks and communication

Expand the innovation network to include municipal actors or, create a municipal branch of the innovation network to create a forum to share innovative ideas, lessons learned and projects in order to spread initiatives and collectively learn from experiences. Enhance relationships between municipal public servants, regulators, procurement and HR specialists to help navigate these complex frameworks.

C Empower municipalities to innovate

Innovation requires safe spaces to test and evaluate new solutions in controlled environments. Municipalities need to be supported with both financing for innovative activities (e.g. innovation fund) and safe forums (e.g. design sprints, innovation incubator programmes) to innovate.

Moving forward... from insights to action

STEERING TOWARDS AN INNOVATIVE AND IMPACTFUL PUBLIC SERVICE

This evidence-based assessment of the key barriers and enablers of innovation is only a starting point. Without deliberate action, innovation will remain sporadic within the Latvian public sector. This report provides a foundation for the development of an **innovation strategy** for the Latvian public sector, aimed to **equip** and **empower** the public sector with the tools, resources and space to work in innovative ways to improve the impact of its actions on the lives of citizens and the success of Latvian businesses and institutions.

Based on this assessment, a number of key priorities will be explored during the co-creation of the innovation strategy and action plan:

An innovative operating environment
The public sector operating environment is conducive and supportive of innovation.

An equipped workforce
The public sector can recruit, retain and equip staff with the tools and training to work in innovative ways.

Effective services and operations
The public sector can recruit and retain the most qualified workforce in Latvia as an innovative, invested and stimulating employer.

CRITICAL SUCCESS FACTORS

An innovation strategy and action plan alone will not propel the public sector towards a more innovative and effective future. **Leadership support, consistent resourcing and pan-governmental commitment** will be crucial to drive the change needed to ensure that the **public sector is equipped to manage current and future challenges.**