



Public administration characteristics and performance in EU28:

Latvia

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1 SIZE OF GOVERNMENT

The Latvian public sector is relatively small compared to the EU-28 countries, as the share of total expenditure as a percentage of GDP is 37.06 %. This share has declined over the last years as a result of structural reforms after the economic downturn in 2009. In terms of public expenditure, Latvia is a fairly centralised country with 60.8% of central government expenditure. This tendency has remained over the past year (i.e. since expenditure cuts in 2009). Since Latvia does not have a regional level of governance, the local government share is around 26% of total public expenditure. In comparison to other EU countries, the central government share of total expenditure (in %) is at the same level as in the Netherlands and Sweden.

Table 1: General government budget data

LATVIA	2010	EU 28 Rank	2015	EU 28 Rank	Δ Value	Δ Rank
Total expenditures (in % GDP)	44.79	19	37.06	25	-7.73	-6
Central government share (%)	59.39	22	60.88	19	+1.49	+3
State government share (%)						
Local government share (%)	26.78		26.67			
Public investment (in % GDP)	4.73	9	4.58	8	-0.15	+1
Debt in % GDP	47.43	4	36.33	11	-11.10	-7
Deficit in % GDP	-8.5	23	-1.3	8	+7.2	+15

Sources: AMECO, Eurostat

The period since 2010 reflects the fact that the Latvian economy is facing the effects of the austerity regime introduced in 2009. The public deficit has declined substantially and reached 1.3% of the country's GDP. In addition, public debt as a percentage of GDP has also decreased to 36.3%. Latvia is therefore among those EU countries with a low level of public debt and a decreasing level of public deficit. In 2008/2009, Latvia had to apply for support from international donors and the European Commission to avoid default. The Latvian economy has gradually improved since 2009, when it was labelled 'one of the sickest in Europe' (BBC, 2009).

According to the OECD, public administration employment¹ constitutes 4% of total employment in 2015 (59 100 people). Eurostat data shows that this share has decreased since 2011. Total employment has improved and public-sector employment has decreased in absolute terms. Remuneration freezing, dismissal measures, budgetary cuts and structural reforms in the sectors of social security, education and health have reduced public sector employment considerably in 2009 and 2010. Thus, Eurostat data of 2011 reflects the results achieved in order to respond to the economic meltdown and to balance public expenditure under the pressure of international donors and the European Commission.

In 2015, the Latvian government employed 194 454² people. Staff distribution shows a more or less equal distribution between levels of government since both levels are

¹ These numbers are similar to data reported by the Latvian Ministry of Finance. However, data included public administration according to NACE R2 classifications. At the same time, the term 'public administration' in Latvian laws applies only to central levels and excludes public corporations and local municipalities.

² Including municipalities and excluding public companies.

involved in service delivery while policy design function is the responsibility of the central level.

Public-sector employment in Latvia:*

LATVIA	2015
(1) General government employment (total number)*	194 454
• share of central government (%)	42.65
• share of state/regional government (%)	n/a
• share of local government (%)	57.34
(2) Public employment in social security roles (total number)	4 069
(3) Public employment in the army	5 350
(4) Public employment in the police**	7 841
(5) Public employment in employment services	678
(6) Public employment in schools and day care	26 553
(7) Public employment in universities	4 867
(8) Public employment in hospitals***	2 580
(9) Public employment in core public administration (total number) Calculation (1) minus (2)-(8)****	142 516
(10) Core public administration employment in % of general government employment	73.29

Sources: National statistics office, www.csb.gov.lv

Data of Ministry of Finance, Latvia, 2015.

*According to the OECD, general government employment excludes public companies. Data are presented in total numbers, not in millions. since the total number of inhabitants in Latvia is 1.9 million.

** Local police officers are not included in data, since only a few municipalities have formed local police units.

*** According to the 'Medical Treatment Law', the data includes the number of people employed in public hospitals and certified as well as included in the register of medical practitioners.

****According to the Latvian Law on Public Administration, the core public administration in Latvia employs 57 990 people, covering ministries and their subordinated agencies at the central level as it might be stated in other sources. In this case, core public administration employment as a % of general government employment is 29.82%. This is due to the fact that employment at municipal level is not included in public administration.

2 SCOPE AND STRUCTURE OF GOVERNMENT

2.1 State system and multi-level governance

Latvia is a sovereign, democratic, parliamentary and unitary state founded in 1918 as specified in the current Constitution (*Satversme*) adopted in 1922. The re-foundation of Latvia as a constitutional state took place in 1990 after passing an Independence Declaration and restoring the constitutional continuity of the Republic of Latvia (1918-1940). After the Soviet occupation (1940-1990), Latvia restored its independence along with a constitutional and administrative model. Based on half a century of occupation by the USSR, Latvia belongs to the Central and Eastern European countries in which political and administrative traditions have been influenced by the Soviet regime. At the same time, Latvia (in line with Lithuania and Estonia) has pre-occupation and pre-communist administrative traditions since all three Baltic countries were independent between both

world wars. The reconstruction of public administration which began after 1990 was complex and contradictory. Many public administration agencies were established to provide functions that had been centralised during the Soviet occupation (e.g. foreign affairs and national security). The overall transformation process in Latvia had many facets, since the triple transformation required considerable policy coordination efforts and administrative experience as well as demanding massive reforms in all spheres of public life with political commitment and sustainability.

Latvia now follows a classical division between legislative, judicial and executive powers. The legislative power is represented by the single chamber Parliament (*Saeima*) consisting of a hundred members elected by secret ballot based on proportional representation for a four-year term. The backing of a tenth of Latvian citizens is required to force a national referendum to recall *Saeima*. However, *Saeima* is recalled if a majority of voters and at least two thirds of the number of the voters who participated in the last elections of *Saeima* agrees with this choice. There is no provision in place to recall an individual Member of Parliament. The President also can propose the dissolution of *Saeima*, but the President's proposal will be put to the people by means of a national referendum. If a majority of voters support the President's proposal, Parliament is dissolved. If more than half of the votes are against the President's proposal, the President should resign and Parliament will elect a new President. The President of Latvia is elected by the Parliament for a four-year term. He or she fulfils representative functions and has the right to initiate new laws. In addition to this, the President is the Commander-in-Chief of the armed forces of Latvia. In fact, the President is accountable to Parliament, because Parliament elects him/her and removes him/her from office.

The executive power is represented by the government (the Cabinet of Ministers), led by the Prime Minister. Upon invitation from the President, the Prime Minister forms a cabinet. Cabinets of Ministers are approved by Parliament. If Parliament has expressed 'no confidence' in the Prime Minister, the whole government resigns. At the same time, Parliament also has the right to express 'no confidence' in individual ministers, leading to the removal of that particular minister. The Prime Minister, along with his/her cabinet, possesses the power to decide on policy implementation.

There are only two levels of government in Latvia – central level and local level. The division of powers exists at local level as well, between the elected local council and the administration of the municipality.

The functioning of local government is based on the principles of the European Charter of Local Self-Government as well as on the laws of the Republic of Latvia. The European Charter was adopted by *Saeima* on 22 February 1996 when Latvia accepted 29 of the 30 paragraphs of the European Charter. In 2009, Latvia finally implemented the administrative territorial reform by amalgamating all previous 556 local municipalities into 119. The administrative territorial reform started in 1998 was slowed down by a number of factors such as resistance from municipalities, changing political commitments and a complicated negotiation process between the government and local municipalities.

The Latvian public administration system is marked by a sectoral approach to policy design at the central level. Each sectoral ministry is responsible for its own field of policy issues and subordinated agencies with a country-wide administrative jurisdiction (e.g. in social insurance or unemployment issues). At the same time, local municipalities provide basic services in the spheres of local development, education, social care, public transport and construction. The division of responsibilities between levels of governments is described in detail by the national laws, assuming that the policy design function is the

responsibility of the central government, while service delivery is shared between both levels.

Government level:	Legislation	Regulation	Funding	Provision
Central government				
Defence	x	x	x	x
External affairs	x	x	x	x
Internal affairs	x	x	x	x
Justice	x	x	x	x
Finance/tax	x	x	x	x
Economic affairs	x	x	x	x
Environmental protection	x	x	x	x
Public utilities	x	x	x	
Social welfare	x	x	x	
Health	x	x	x	x
Science and research	x	x	x	x
Education	x	x	x	x
Transport (railways, airports)	x	x	x	x
Local government				
Internal affairs – e.g. local police, local development strategies		x	x	x
Economic affairs (local business development)		x	x	x
Environmental protection				x
Public utilities		x	x	x
Social welfare		x	x	x
Education (primary, secondary)			x	x
Local transport		x	x	x

Since Latvia is a unitary state, legislation is the exclusive responsibility of the central level of government. In fact, the laws are approved by Parliament (*Saeima*), while the Cabinet of Ministers has the right to issue government regulations with a country-wide jurisdiction. Local municipalities are allowed to issue local regulations, but these regulations should not contradict the laws and regulations of the Cabinet of Ministers. Local regulations only have a municipality-wide jurisdiction with a restricted impact -

local regulation should not impose another administrative regime or approach than provided for in the laws or the government regulations.

There are no local taxes in Latvia. All taxes (except property tax) are centrally collected and distributed. Centrally-collected taxes are therefore distributed to municipalities on the basis of a series of criteria related to the main functions of local municipalities (i.e. social care and assistance, education, etc.). Consequently, the number of residents in the different age groups has a direct impact on the local budget and the redistribution of taxes. At the same time, in the framework of the 'Law on Local Self-government' (1994), local municipalities may fund the local police or develop business support programmes. However, the 'principle of commensurability' is one of the key points in the annual negotiations between the Ministry of Finance and the Union of Local Authorities during the budget planning process each year, when both sides try to negotiate on the redistribution of personal income tax as the main source of local revenues and on the amount of transfers. Service delivery roles are shared between the two levels.

State structure (federal - unitary) (coordinated - fragmented)	Executive government (consensus - intermediate - majoritarian)	Minister-mandarin relations (separate - shared) (politicised - depoliticised)	Implementation (centralised - decentralised)
Unitary & coordinated	Coalition	Separate, depoliticised	Decentralised

The executive government has been based on coalitions when multiple political parties accounting for a majority of seats in Parliament form the government. The Latvian multi-party system does not allow one political party to collect a majority of votes during elections. There were a few cases when minority governments were formed. The last minority government was formed in 2004 and was in power for nine months.

Political appointees and public servants have separate backgrounds since it is not common for public servants to have a political career. The level of politicisation is therefore low. Meanwhile, the implementation of policies is the responsibility of agencies and public bodies falling under the responsibility of the ministries with a low-to-medium level of overview or supervision from the centre of government, unless the Prime Minister and the government have a particular interest. There is strong supervision in budgetary issues, while there is room for manoeuvre with regard to the substance of other policies.

The public administration reform process in Latvia, which began in the 1990s, was divided into two parts - the public administrative reform at the central level and the administrative territorial reform covering the local municipalities. Both types of reform were planned in isolation within the different ministries, with their own unique goals and shifts in political commitment. They were implemented at different speeds. Reform efforts resulted in two administrative subsystems with a partially negative impact upon policy implementation. Since the decentralisation of the 1990s took place before reforms at the central level, the number of stakeholders increased significantly. Before amalgamation in 2009, the number of local municipalities was around 550 with limited administrative capacity. Any agreement on reforms was possible only after large-scale debate because of the large number of stakeholders. However, the limited administrative and economic capacity of municipalities in service delivery was a key reason for amalgamation. In order to improve policy implementation and communication across levels of governance, the main instruments - the consultation and negotiation procedures between the Union of Local Authorities and the government - were introduced.

Inter-governmental relations are channelled through the consultation and negotiation procedure. This procedure consists of several interlinked steps such as negotiations with the Ministry of Finance to be held at least once per month; the attendance of representatives of the Union of Local Authorities at the meetings of the government every week; and the memorandum of understanding regarding public expenditure to be signed annually.

2.2 Structure of executive government (central government level)

3.3.1. The machinery of government

The executive branch of power in Latvia consists of the political government (the Cabinet of Ministers) and the public sector with two levels of governance (i.e. central level and local level) and state-owned or municipality-owned enterprises.

The central level of governance consists of 13 ministries and four institutions directly under the responsibility of the Prime Minister – the State Chancellery, the Cross-Sectoral Coordination Centre, the Corruption Prevention and Combating Bureau and the Society Integration Foundation. Since 2008, the number of ministers in the government has been determined by the 'Law On the Cabinet of Ministers'. According to this law, there are ministers heading ministries in the fields of foreign affairs, defence, finance, economy, internal affairs, education and science, culture, welfare, transport, justice, health, regional development and environmental protection as well as agriculture. For purposes of political stability within a governmental coalition, there might be ministers with special assignments and Deputy Prime Ministers without portfolio. However, the position of ministers with special assignments has not existed since 2009.

Each ministry is divided into two parts – the political level and the administrative level. The political level consists of a politically-appointed minister and his/her office. The administrative level consists of the state secretary – the highest administrative position in the ministry – and subordinated units with administrative staff under the state secretary.

According to the 'Law on public administration structure' (2002) the following typology has been created: direct public administration and indirect public administration. Direct public administration (or central level) consists of the ministries, institutions subordinated to the ministries and state agencies. In turn, subordination to a ministry includes two sub-forms: a) direct control: the higher institution (i.e. a ministry) has the right to issue an order to the lower institution and to reverse the decision of the subordinated institutions, b) supervision: the right to check the legality of the decisions made by the lower institutions. Indirect public administration includes local municipalities, municipal agencies, municipality-owned enterprises as well as state-owned universities. Agencies (both state and municipal) were created at the beginning of the current millennium to separate policy design from service delivery. The agency model was transferred from the UK 'next step' agencies. Originally, the autonomy of agencies was intended to provide flexibility in service delivery to be monitored by means of performance indicators. However, performance indicators were not a sufficient instrument to ensure the necessary external control and accountability of agencies. Weak control therefore resulted in 'policy vacuums' (Pollitt, 2004:292) where too much discretion with too little control allowed agencies to design their own closed policies towards services with limited accountability.

3.3.2. Centre of government coordination

Latvia applied the broader definition or understanding of the centre of government where several administrative bodies – the State Chancellery, the Cross-Sectoral Coordination Centre, the Prime Minister’s office and the Ministry of Finance are the main participants. Such a broad list of participants also requires considerable coordination efforts, almost all of them (excluding the Prime Minister’s office) are civil service bodies. A mix between civil service and politically-appointed bodies ensures that the Latvian centre of government has both: content-oriented skills and procedural skills to improve horizontal coordination. The staff of the office of the Prime Minister is selected and recruited primarily based on trust and political preferences to ensure support to the Prime Minister. The Prime Minister’s Office usually consists of a maximum of around ten people appointed by the Prime Minister. At the same time, the Prime Minister’s office is administratively supported by the State Chancellery, thus the power of the centre of government is in the hand of civil servants.

The Cross-Sectoral Coordination Centre was established in 2011 to be a key policy coordination body in Latvia, to overcome fragmented policy making, sector-specific policy focus and lack of performance measurement (Reinholde, 2015). However, tension between the Cross-Sectoral Coordination Centre and the State Chancellery regarding their importance in policy coordination is permanent. Meanwhile, the Ministry of Finance being responsible for public budgeting and tax policies is the ‘invisible hand’ at the centre of government. At the same time, e-documents and the simplified harmonisation of draft papers among ministries have improved horizontal coordination and helped to overcome ministerial tensions.

3.3.3. Budgeting and monitoring mechanisms

After the economic meltdown in 2009, the budgetary process in Latvia was dominated by austerity measures minimising strategic approach and planning. At the same time, austerity measures increased the role and impact of the Ministry of Finance in the budgetary process. The austerity measures consisted mainly of a recruitment freeze, staff reductions and remuneration cuts, and their main purpose was to balance budgetary expenditure. However, the procedure of budgeting has remained as it was before the economic downturn - i.e. the Ministry of Finance develops the macroeconomic prognoses as a guideline for ministries, and they then develop their budgetary requests. The Ministry of Finance collects all budgetary requests, but the Cabinet of Ministers makes the final decisions on public expenditure according to politically-defined priorities.

The ‘Law on fiscal discipline’ (2013) was approved to link public expenditure with the economic cycle. In addition to this, the Council on Fiscal Discipline was established as an independent collegial body in 2014 to monitor compliance with the general rules and principles of fiscal discipline. Since 2011, Latvia has kept its budget deficit below the targeted 3% of GDP; however, structural reforms in the sectors of health care and education have been delayed. In this context, the Council on Fiscal Discipline regularly evaluates the structural reforms and issues recommendations.

3.3.4. Auditing and accountability

The National Audit Office and internal audit units in the ministries monitor the legality and efficiency of everyday activities and public expenditure. The National Audit Office is an external auditor monitoring the use of public resources, while internal audit units

focus on systems of internal control inside ministries and agencies. Over recent years, the National Audit Office has developed a capacity to execute performance audits concentrating upon policies and services.

The National Audit Office is an independent audit institution tailored to supervise revenues and expenditure of public budgeting for all levels of governance. The National Audit Office consists of the auditor general approved by *Saeima* for four years and the Council of the National Audit Office consists of seven members, including the auditor general. The Council is appointed for a four-year term by *Saeima* as well. This approval procedure ensures independence from the executive power in auditing public expenditure.

To minimise corruption, a special agency – the Corruption Prevention and Combating Bureau (KNAB) – was established for the prevention of corruption and to monitor the finances of political parties which have been the subject of public scandals. The Bureau has ensured a uniform approach to preventing conflicts of interest across public administration at all levels of governance. Since its establishment, the Bureau has ensured a more or less continual overview of the activities of public officials, establishing a separation between public and private interests. However, the effectiveness of the Bureau has been negatively affected by a number of internal staff scandals.

The Ombudsman's office was established in 2007, following the lead of the Scandinavian countries in having an independent official and agency in charge of the protection of human rights in general, including good governance. Rights to good governance are within the top 10 topics of citizen complaints to the Ombudsman (Ombudsman, 2015:11).

In total, the Ombudsman's office, the Civil Service administration (later becoming the State Chancellery) and the Corruption Prevention and Combating Bureau are relevant in building an infrastructure of ethics and accountability in the public sector of Latvia (Palidauskaite et al., 2010).

3.3.5. Coordination of administrative reforms

The State Chancellery is a key institution responsible for public administration and human resources development policy at the central level. Meanwhile, the Ministry of Finance is responsible for remuneration policy in general. However, ministries, agencies and local municipalities are autonomous in implementing their human resources policies. At the same time, territorial reforms at the local level are prepared and coordinated by the Ministry of Regional Development and Environmental Protection. Several working groups were established in Latvia in 2009, e.g. the Reform Management Group and the Council for Prevention of the Shadow Economy in order to ensure a coordinated approach to modernisation efforts in the light of austerity regime. Both working groups consist of some ministers, top-level civil servants and representatives of social partners, so their proposals have been adopted by the government and added to the agenda.

3 KEY FEATURES OF THE CIVIL SERVICE SYSTEM

3.1 Status and categories of public employees

3.1.1 Definition of the civil service

The Latvian public sector is divided into two broad categories of public sector employment: civil servants and employees with contracts based on labour law.

Civil servants are appointed to civil service positions and their employment is regulated by the Civil Service Law (2000). According to this law, civil service positions are related to the development of policies, public expenditure, safeguarding of public powers and issuing of administrative acts. In fact, these positions are mainly based within the ministries, while employment in inspectorates, universities, hospitals and the central bank is contract-based. The Latvian civil service is divided into two parts – general civil service covering mainly ministries and specialised civil service including servants employed in diplomatic and consular services as well as tax administration. Both – general and specialised civil service – have the same employment status, but the working conditions may differ due to the substance of functions. There has never been a local-level civil service, although from time to time there are political and public debates on a civil service in the local municipalities.

3.1.2 Configuration of the civil service system

In 2001, Latvia shifted to the position-based civil service system, since the previous approach with career-based civil service with different qualification categories, entry exams, and detailed supervision by the Civil Service Administration had not been fully implemented due to budgetary constraints and resistance from public administration bodies.

In practice, the division between civil service and public employment is almost non-existent because both have the same duties and social rights, ethical codes, performance evaluation and remuneration system. By 2016, there were 11 728 civil servants out of 57 990 people employed at the central level or less than 6% of the whole public workforce³. The Latvian public administration is open to external appointment, and vacancies are openly published to attract staff with the necessary skills. However, due to substantial differences in public pay in comparison to the private sector (see 3.3), many vacancies remain open for a long time. Latvia is therefore approaching a public model in which contract-based employment prevails. This idea is included in the Draft Law on Public Service (2014) that has been delayed for a while. The Draft Law on Public Service was intended to create a unified public service, covering national and local levels of governance as well as to achieve substantial changes regarding remuneration and human resource management in the public sector in general. However, the idea of a unified public service for all levels is opposed mainly by local municipalities.

³ Latvian Ministry of Finance, 2017. www.fm.gov.lv

3.2 Civil service regulation at central government level

Currently, the civil service is governed by the Law on Civil Service (2001). The former civil service law of 1994 was designed to establish a career-based civil service following the German tradition and the Latvian civil service experience before the Second World War. The law of 2001 was tailored to establish a position-based system in order to overcome all implementation gaps related to the law of 1994, like a complicated scheme of qualification categories, entrance exams and remuneration (Palidauskaite et al., 2010).

The regulation of the civil service has gone through two relevant stages. From 1994 to 2000, there were detailed secondary regulations designed to regulate the civil service. From 2000, there has been an opposite tendency – to minimise regulation and apply the same principles as for contract-based employment.

Since detailed secondary regulation of the civil service was poorly implemented, Latvia received criticism expressed in the Regular Report from the Commission in 1998 (Regular report, 1998). Latvia needed to overcome implementation gaps related to the remuneration system in order to reach certain equilibrium between the public and private sectors. At the same time, Latvia continued to stick to its political goal of achieving a 'small and professional' administration with the simplification of civil service management.

Over the last 10 years, Latvia has continued incremental pre-accession reforms. The key changes include an application of measures to reduce employment in public administration like dismissals, a recruitment freeze, not replacing people leaving due to retirement and annual performance targets. Budget cuts during the economic meltdown included salary cuts as well as cuts to all HR-related expenditure followed by impressive remuneration policy changes in 2005 and 2006. During 2005 and 2006, Latvia developed 'the Catalogue of Positions' covering public administration, and set remuneration based on classification of a position. This allowed the country to substantially increase remuneration in the public sector as well as to equate pay for the same position in different line ministries and public agencies.

However, remuneration in public administration, especially in the civil service, remains a cause for concern. Despite the law on a unified remuneration system (2010) many sectors (e.g. education, health care, police, local municipalities) have their own remunerations systems. Such special schemes are not only in conflict with the common and unified remuneration principles, but they also spark debate on transparency and effectiveness especially in the light of recent requests for pay increases in the education and health-care sectors.

3.3 Key characteristics of the central government HR System

3.3.1 The management of HRM

The State Chancellery is responsible for developing human resource policy for the central level – i.e. policy planning and coordination in such fields as employment relationships, job classifications, performance appraisals etc. The Ministry of Finance on the other hand develops, coordinates, maintains and updates a unified remuneration system for organisations financed from the public budget.

However, the actual implementation of HRM is left to ministries and institutions. They are autonomous and have a large degree of discretion in the implementation of HRM tools in

recruitment, selection, promotion, appraisal and training. At the same time, a new e-based performance management system (NEVIS) (from 2013) has been introduced at the central level (see point 5.4.)

3.3.2 Senior civil service

The political debate on establishing a senior executive system started around 2002 with an idea to design guidelines. However, the idea of having a special senior civil service and a junior civil service initiated by the State Chancellery and public administration itself was not supported by the government. In practice, the senior civil servants have special conditions regarding recruitment, entry and appointment even if there is no formal recognition and it is considered to be exceptional. Usually the senior executive service covers the top positions at the ministries (state secretary and deputy state secretary) and heads and their deputies of government agencies. The tasks of recruitment and selection of senior executives are entrusted to the commission/special service centre under the State Chancellery (since 2015), which apply the same assessment methods as for the recruitment and selection of ordinary civil servants.

3.3.3 Social dialogue and the role of trade unions

In Latvia, there is no obligation to carry out collective bargaining. At the same time, the unionisation rate is only around 15%. Trade unions are regularly consulted and integrated into working groups related to civil service issues; however, their impact differs from sector to sector. However, there is no specific trade union representing the public sector.

Remuneration is regulated by the law on a unified remuneration system (2010) covering the central and local levels. According to this law, remuneration consists of three important parts – wages, social guarantees and bonuses. At the same time, 78% of the wage is determined by the content, responsibility level and complexity of the position while the other 22% - by actual performance and the professional experience of the employee (State Chancellery, 2017). Seniority is not a key factor affecting wages.

In general, remuneration in the public sector is much lower than for the same position in the private sector. The remuneration research carried out in 2016 in Latvia revealed that the higher the position is in the hierarchy, the larger the differences are between the public and private sectors (Fontes, 2016). For example, on average the middle and top-level managers in public administration receive approximately 53-58% less than their colleagues in the private sector. This sharp difference in remuneration results in the departure of highly-qualified experts. At the same time, the remuneration level of top managers for certain positions and agencies in the public administration is linked with the average salary in the economy and modified by different coefficients. For example, the salary of the auditor general is an average salary multiplied by a coefficient of 4.05. In general, the remuneration system is fragmented both horizontally and vertically. In the horizontal perspective, different principles are applied for the setting of remuneration in central public administration, health care, education, police and defence, keeping alive the difference between 'rich' and 'poor' sectors. In contrast, vertical fragmentation includes autonomous agencies with better remuneration than overseeing ministries since the 1990s. The 'equal pay for equal work' reform trend was therefore included in the HRM reform agenda in the latest reform wave of 2013 even if the problem was identified as early as the mid-1990s.

In summary, the Latvian civil service is a position-based and open system where elements of the previous career-based system are disappearing more and more. Legally, the civil service is the standard employment status for certain positions and functions but at the practical level the scope of the civil service is shrinking. There are therefore some functions that only civil servants can perform, and there are no great differences between civil servants and public employees. After elections, civil service turnover is low.

HR system (Career vs position based)	Employment status (civil servant as standard; dual; employee as standard)	Differences between civil servants and public employees (high, medium, low)	Turnover (high, medium, low)
Position	Employee as standard	Low	Medium

Recent draft legislative measures (i.e. the Draft Law on Public Service) are tailored to ensure medium coherence in civil service systems between levels of government. The Draft Law on Public Service was intended to achieve substantial changes regarding remuneration and human resource management in all levels in order to avoid sharp remuneration differences between public and private sectors. In addition, the Draft Law prescribed a unified public service with a unified employment status. These HR systems share similar features: a lower remuneration compensation level than in the public sector for civil servants and employees in general, and a higher remuneration level in the autonomous agencies than in central administration. Regarding politicisation, Latvian public administration at the central level has been secured since all governments in power have assumed the political neutrality of public servants.

Coherence between different government levels (high, medium, low)	Remuneration level vs private sector (much higher, higher, same, lower, much lower)	Formal politicisation through appointments (high, medium, low)	Functional politicisation (high, medium, low)
Low	Much lower	Medium to low	Medium

4 POLITICAL ADMINISTRATIVE SYSTEM AND POLITICAL ECONOMY

4.1 Policy-making, coordination and implementation

4.1.1 State system

Latvia has a parliamentary and democratic regime with coalition governments. The government is formed by a Prime Minister upon the invitation of the President. However, both the government and the President are approved by the Parliament. The lifecycle of coalition governments is fairly short; on average the government stays in power for around a year with some exceptions. Usually, the government is dependent on a consensus reached between political parties jointly holding more than 50% of the legislative seats and the ministries are distributed between the coalition parties. Sometimes, a position of minister of special affairs is created to reach political consensus on particular issues (like e-government, integration, EU structural support).

Distribution of powers	Coordination quality (high, medium, low)	Fragmentation (high, medium, low)
Shared	High at the high level, medium at lower levels of ministries	Medium

The central level of government in Latvia is heavily involved in public service delivery, where the ministries are the main policy designers, but agencies subordinated to ministries deliver services. Such an approach is directly linked to public expenditure where the central level dominates the public spending arena.

4.1.2 Consultation for decision making

Latvia has developed a sophisticated consultation mechanism with social partners and NGOs. First of all, there has been a National Tripartite Cooperation Council since 1998, where representatives of the government, employers and trade unions discuss issues related to socio-economic development (e.g. social security, public expenditure, health care and employment). Since the Council is led by the Prime Minister, the Council decisions are expected to have an impact on policy implementation in the particular policy fields.

Line ministries have their own consultation bodies (e.g. advisory councils with representatives of NGOs and expert groups) in order to discuss and get support for their policies. In order to facilitate public participation and consultation, the government approved regulations on different procedures of public participation⁴. Based on the regulation, there is a wide range of tools available for the public, such as public discussions, discussion groups, working groups, experts group etc. However, the degree of institutionalisation and scope of topics differ among sectors and areas. In addition, public participation and consultations have been institutionalised at the government by the signing of a cooperation memorandum between the government and NGOs as early as 2005 allowing more and more NGOs to join the memorandum. Originally, the memorandum was signed by 57 NGOs, and it had reached 404 signatures by 2016⁵. The memorandum is tailored to ensure the effective representation of society in all stages of decision making, including the legislation drafting stage. There are regular meetings of the joint council regarding the implementation of the memorandum (with representatives from the civil service, NGOs, etc.) to monitor cooperation.

Since 2011, the e-petition platform Manabalss.lv has attracted public attention and is now a relevant consultation and participation tool. Every initiative that reaches 10 000 signatures is submitted directly to the Parliament and included on the official agenda. In summary, the consultation system still has a corporatist tendency to listen to the voice of larger and stronger think tanks and associations, while the e-platform also allows the individuals to have their say.

Political economy (liberal – coordinated)	Interest intermediation (corporatist - pluralistic)	Citizen participation (strong – weak)	Policy style
Liberal	Fairly corporatist	Medium	Incrementalism

4.1.3 Policy advice

Most policy advice and policy design is concentrated in the hands of bureaucrats. According to parliamentary statistics, 75% of all legal initiatives approved by *Saeima* are

⁴ See regulation No 970 'Procedures for the Public Participation in the Development Planning Process', approved 25 August 2009.

⁵ Data from the official website of the government of Latvia
<http://mk.gov.lv/content/informacija-par-nvo-un-ministru-kabineta-sadarbibas-memorandu>

prepared technically and in terms of substance by the ministries⁶. Although external experts are invited to support this process and are engaged in the preparation of particular government policies, policy advisors to politicians are mainly bureaucrats. Each minister has a team of political appointees and political advisors (up to a maximum of five people), but this team is not capable of covering all issues in the policy fields. Since the team of political appointees changes together with the government, bureaucracy remains the main source of continuity for policies as well as for policy advice.

Sources of policy advice (mandarins, cabinets, external experts)	Administrative autonomy (high – medium – low)	Patronage & politicisation (formal, functional) (merit – patronage) (high – medium – low)	Public service bargaining (Agency – Trustee)	Stability (high – low – no turnover after elections)
A broad mixture: mandarins, external experts, consultants	Medium	Low	Trustee	High

Civil servants are regarded and treated as an independent group of trustees (according to Hood and Lodge, 2006) with medium discretion in policy design and implementation. Staff turnover and politicisation at the top and middle civil servant positions during government changes are extreme cases attracting public attention if they happen.

4.2 Administrative tradition and culture

The Latvian public administration is based on Rechtsstaat in which the state is constrained by the rule-of-law. At the same time, Latvia’s affiliation with the Roman-German legal tradition has an impact upon dominant values and policy implementation. In this context, Latvia follows the separation of public and private spheres, and the codification of legal rules and administrative action are understood as an implementation of rules. According to the combination of administrative systems and traditions, Latvia belongs to the Central Eastern and South European group with a complicated past of Soviet occupation from 1940 to 1990. After 1990, Latvia re-established its Rechtsstaat model with some signs of modernity.

However, during the public administration reform process Latvia was inspired by New Public Management (NPM) and accepted many ideas of NPM, based on Anglo-Saxon traditions. This explains the Latvian tendency towards a liberal welfare state model and an open public sector allowing everyone who has the requested skills and experience to apply for a job in the public sector.

Administrative culture Rechtsstaat (state based on justice and integrity), public interest	Welfare state (liberal, conservative, social-democratic)	Public sector openness (open, medium, closed)
Rechtsstaat	Liberal	Open

⁶ See statistics of *Saeima*. http://titania.saeima.lv/LIVS12/SaeimaLIVS2_DK.nsf/StatisticsSheet?ReadForm&statkey=Llv3!12

Since the early 1990s, Latvia emphasised the rule of law, legality, neutrality and equality as key values. These values are included in the umbrella laws regulating public administration – the Law on Public Administration Structure (2002), the Law on Civil Service (2001) and the Law on Administrative Procedure (2001). Procedural logic therefore dominates over managerial logic in the areas of administrative decisions at all levels. However, the public sector is open to business ideas and is working towards the reduction of administrative burden (e.g. e-services, analysis of business processes).

Key PA Values	Managerial vs Procedural (Managerial, Mixed, Procedural)	Red tape (regulatory density) (very high to very low)	Discretion/autonomy (high, low, medium)
Legality, neutrality, equality	Procedural	Medium	Medium

The table below explores some elements of the Hofstede’s analysis of the administrative culture and Latvian scores.

Hofstede national culture dimensions		
Dimension	Value	Average EU28
Power Distance	44	52
Individualism/Collectivism	70	57
Masculinity/Femininity	9	44
Uncertainty Avoidance	63	70
Long-term Orientation	69	57
Indulgence/Self-restraint	13	44

Sources: Geert Hofstede’s national culture dimensions, <https://geert-hofstede.com/national-culture.html>.⁷

The relatively low score for ‘Power Distance’ (44) reflects a tendency towards equality and equal distribution of power. This also includes a preference for the decentralisation of power in the decision-making process at the government and local level. From a practical perspective, the score might be supported with evidence from real-life situations. Latvia has developed a sophisticated system to ensure public participation in decision-making processes at both levels. Many public participation instruments (like the internet platform Manabalss.lv; access to all legal drafts on the internet; many forms of public hearings; etc.) allow everyone to participate in the policy process. However, all these public participation tools should be carefully evaluated from the perspective of whether participation has an impact on the results of policy making.

The 70 points scored for ‘Individualism/Collectivism’ is high, reflecting strong individualist tendencies in Latvia and a reliance on one’s own resources and family connections. At the same time, the explanatory text⁸ emphasises Latvia’s individualist nature during the soviet occupation which, in fact, contradicts the actual russification and collectivisation of Latvia during the soviet occupation.

⁷ Interpretation: power distance (high value = higher acceptance of hierarchy and unequal distribution of power); individualism (high value = stronger individualist culture); masculinity (high value = higher masculinity of society); long-term orientation (high value = stronger long-term orientation); indulgence (high value = indulgence)

⁸ <https://geert-hofstede.com/latvia.html>

The score of 9 for 'Masculinity/Femininity' emphasises that Latvian society has a tendency to prioritise quality of life and caring for others. However, this score contradicts the score on individualism. In fact, this score and dimension does not reflect the real challenges and structural reform of welfare, health and education policy in Latvia. There is a strong tendency towards competition, performance appraisal and achievements in the education system as well as in the labour market in general.

The high score (63) for 'Uncertainty Avoidance' is lower than the EU average. The comments on that score⁹ state that Latvia has a high preference for avoiding uncertainty. During the economic downturn of 2009, Latvia introduced many unpopular political and economic decisions to overcome the crisis and many of those decisions were tailored to sharp cuts in the public sector and a drive for innovations. To a great extent, these decisions were tailored to avoid future crises. 'Long-term Orientation' with a score of 69 shows that Latvia is a pragmatic society caring about its future. Finally, 'Indulgence' has a very low score (13), reflecting the country's tendency towards pessimism.

5 GOVERNMENT CAPACITY AND PERFORMANCE

5.1 Transparency and accountability

The set of indicators relating to transparency and accountability reflects a range of different views. Latvia's high position (first in the EU-28) regarding access to government information has been a result of long-term efforts to institutionalise it. Latvia approved the 'Freedom of Information Law' as early as 1998. All legislative procedures are open and Latvia ensured that it was possible to follow the entire legislative process in its different stages from the ministries to the Parliament via databases online (i.e. <http://tap.mk.gov.lv/mk/tap/> and <http://saeima.lv/lv/transcripts/category/19>). Since 2013, Latvia has introduced green papers or discussion papers to be prepared at early stages of policy development to ensure access to information and foster public participation. An independent study (Rozenvalds, 2015) revealed that less than one fifth of respondents believe that the government is following public opinion regarding policies and their implementation. Latvia has therefore made good progress regarding formal openness and participation procedures, although the formally open procedures do not equate to government transparency.

Indicator	Value 2014	EU28 rank	Value 2016	EU28 rank	Δ Value	Δ Rank
Access to government information (1-10)	10.00	1	10.00	1	0.00	0
	Value 2013	EU28 rank	Value 2015	EU28 rank	Δ Value	Δ Rank
Transparency of government (0-100)	60.57	9	65.29	12	+4.72	-3
	Value 2010	EU28 rank	Value 2015	EU28 rank	Δ Value	Δ Rank
Voice and accountability (-2.5,+2.5)	0.77	25	0.82	23	+0.05	+2
Control of corruption (-2.5,+2.5)	0.13	23	0.40	20	+0.27	+3
TI perception of corruption (0-100)	43.00	22	55.00	21	+12.00	+1
	Value 2009	EU28 rank	Value 2014	EU28 rank	Δ Value	Δ Rank
Gallup perception of corruption (%)	72.00	16	63.00	13	-9.00	+3

Sources: Bertelsmann Stiftung, European Commission, World Bank Group, Transparency International, Gallup World Poll.

Note: The ranking of the Gallup perception of corruption is based on 27 countries, and on the 2009 values for Estonia and Latvia.

⁹ <https://geert-hofstede.com/latvia.html>

Looking at the correlation between access to information and control of corruption, it should be pointed out that transparency does not eliminate all corruption at once. A gradual decline in the perception of corruption and an improvement in the control of corruption (see table) reflects slow incremental improvements over time, especially taking into account radical changes of the political regime 27 years ago. Recent corruption scandals have been linked with public tenders, the health-care system and police issues and have been picked up by the public media. The Corruption Prevention and Combating Bureau (2002) was established to prevent corruption, investigate corruption-related cases and monitor the finances of political parties. Since that time, the Bureau has provided more or less continual supervision of the activities of public officials and has developed experience in combating corruption. However, the effectiveness of the Bureau itself has been negatively affected by a number of recent internal staff scandals. The long-term efforts of the Bureau along with legislative changes to combat corruption resulted in a declining trend with regard to corruption perception and enhanced scores for control of corruption.

Latvia also has a comprehensive asset declaration system covering public officials. Public officials are required to disclose information on their incomes, savings, debts and property on an annual basis. The declarations of public officials and the monthly salary lists of civil servants are published online.

5.2 Civil service system and HRM

Indicator	Value 2012	EU28 rank	Value 2015	EU28 rank	Δ Value	Δ Rank
Impartiality (1-7)	3.86	21	2.74	14	-1.12	+7
	Value 2012	EU26 rank	Value 2015	EU26 rank	Δ Value	Δ Rank
Professionalism (1-7)	3.89	17	4.80	10	+0.91	+7
Closedness (1-7)	4.43	21	3.60	24	-0.83	-3

Sources: *Quality of Government Institute (Gothenburg).*

The table shows that Latvia is performing at or below the EU average. However, the table presents a mixed view of the Latvian civil service. The data does not reflect competence, capacity, motivation and rewards for civil servants.

Latvian ministries and agencies are autonomous and have a large degree of discretion in the implementation of HRM tools in recruitment, selection, promotion, appraisal and training. Despite organisational autonomy, the Latvian public administration at the central level has been secured against direct politicisation since all governments in power have assumed the political neutrality of public servants.

Indicators of impartiality and professionalism are close to the EU average even though remuneration in the public sector is much lower than for the same positions in the private sector. This sharp difference in remuneration has resulted in the departure of highly-qualified experts. However, to balance the economic growth, public pressure and public expenditure, the remuneration level of top managers for certain positions in public administration is linked with the average salary in the economy and modified by a range of coefficients. At the same time, the remuneration system still largely depends on the financial capacity of the ministries and agencies, as some of them have managed to attract more budgetary resources than other.

By adopting a new law as early as 2001, the Latvian civil service is now a position-based and open system in which elements of an earlier career-based system are disappearing more and more. Vacancies are open for external recruitment in order to attract staff with

the necessary skills. Due to substantial differences in pay, many of the vacancies remain open for a long time. At the same time, the remuneration reform was well planned to link together the basic salary and annual performance evaluation, of which the e-based performance appraisal system (NEVIS) is a key element. The e-based performance appraisal system links together an assessment of competences, performance and remuneration overcoming many systemic problems that Latvia faced in the past. The e-based performance appraisal system (NEVIS) was introduced in 2012 to ensure universal performance evaluations of all employees at the central level. The system is based on 'management by objectives' and a 360-degree approach.

5.3 Service delivery and digitalisation

Indicator	Value 2013	EU28 rank	Value 2015	EU28 rank	Δ Value	Δ Rank
E-government users (%)	12.61	21	29.13	14	+16.52	+7
Pre-filled forms (%)	41.00	18	50.86	14	+9.86	+4
Online service completion (%)	73.14	17	85.43	13	+12.29	+4
	Value 2010	EU28 rank	Value 2016	EU28 rank	Δ Value	Δ Rank
Online services (0-1)	0.42	17	0.61	22	+0.19	-5
	Value 2013	EU27 rank				
Barriers to public sector innovation (%)	38.40	5				
			Value 2015	EU28 rank		
Services to businesses (%)			51.50	12		
	Value 2011	EU28 rank	Value 2016	EU28 rank	Δ Value	Δ Rank
Ease of Doing business (0-100)	76.93	7	80.61	6	+3.68	+1

Sources: European Commission Digital Economy and Society Index UN e-government Index, EU Scoreboard Public innovation, Eurobarometer no. 417, World Bank Group ease of doing business.

The data in the table reflects the efforts and public investment made by the Latvian government to digitise all stages of service delivery. Latvia's performance is around the EU average and is working on improving its performance which is driven by the increase of fast broadband subscriptions and the increasing number of digitalised public services.

The unified access point for digitised public services e-latvija.lv was created in 2006. Approximately 450 e-services and more than 2000 descriptions of public services are now available via latvija.lv through different authentication means like e-banking or e-signature. Due to the low popularity of the e-signature (installed in special smartcards), many public administration institutions introduced their own electronic service delivery systems with their own authentication (like the State Revenue service, or the Rural Support Service) or applied authentication provided by e-banking. Following the ICT progress, many agencies offer services via mobile applications (like the State Revenue Service). Despite the fact that the internet is used by 77% of the population, the general level of digital skills remains low¹⁰.

The Draft Law on Public Services (2014) was drafted to provide a legal basis for the future development of public services, including one-stop shops and e-services. However, the approval of the draft law was halted because local municipalities saw danger in the law – extra functions with no proper public financing. Along with a draft law, there is an ongoing debate on a 'service basket' - an amount of public services available and

¹⁰ See data of the Ministry of Environmental Protection and Regional Development. <http://varam.gov.lv/lat/aktual/aktuali/?doc=23821f>

guaranteed in the different regions of Latvia based on the density of the population and the available infrastructure. Currently, the debate on the 'service basket' is focused on the new tax policy to be launched in 2018. Meanwhile, one-stop shops as joint service centres of national and local government have been a reality since 2014, when the first five such one-stop shops were opened in different regions.

5.4 Organisation and management of government

Indicator	Value 2014	EU28 rank	Value 2016	EU28 rank	Δ Value	Δ Rank
Strategic planning capacity (1-10)	9.00	1	8.00	4	-1.00	-3
Interministerial coordination (1-10)	7.67	10	7.67	9	0.00	+1
SGI Implementation capacity (1-10)	7.43	6	7.14	7	-0.29	-1
	Value 2012	EU26 rank	Value 2015	EU27 rank	Δ Value	Δ Rank
QOG Implementation capacity (1-7)	5.00	13	4.60	25	-0.40	-12

Sources: Bertelsmann Stiftung, Quality of Government Institute (Gothenburg).

With regard to strategic planning capacity, Latvia is among the top five countries in a comparative perspective. This could be explained on the basis of all the evidence. The strategic planning system was designed as early as 2001, defining different levels of strategic planning, performance indicators and types of strategic documents designed at each level. In the framework for the strategic planning system, 'the New Policy initiatives' were introduced to describe a new function of policy that the government wants to develop in future. However, any new policy initiative must be designed according to the National Development plan, the hierarchically highest-level document in Latvia, expressing development goals for at least seven years despite the frequent changes of a government. New policy initiatives were frozen during the economic downturn, but since 2012 they have been restored and any new initiative is evaluated very carefully, analysing the impact on public expenditure and the functionality of public administration. In addition, the Cross-Sectoral Coordination Centre has been established in 2011 to ensure whole- government strategic planning.

In terms of 'Inter-ministerial coordination,' Latvia scores above the EU average. This has been achieved with a set of activities implemented. The procedure of communication and a detailed circulation plan for documents between ministries, NGOs and social partners were set out in 2009. All legal drafts are available online from their early drafts up to the final version approved by the Cabinet of Ministers and *Saeima*. The communication and circulation plan ensures that cross-ministerial working groups – advised by NGOs – are able to elaborate on good quality policy drafts. At the same time, the decision-making process is rather heavy going if the work is organised in sub-committees and working groups consisting of many stakeholders with diverse interests.

The centre of the government, built around the State Chancellery, the Cross-Sectoral Cooperation Centre, and the Ministry of Finance, achieved a high level of coordination of public policies regarding both strategic planning and budget planning. Lately the Ministry of Finance has started to include the performance indicators in the explanatory notes to the state budget, thus ensuring a link between public expenditure and performance indicators.

In general, Latvia is performing fairly well in terms of 'Implementation capacity'. There is no evidence available to explain the sharp decrease in the 'QOG Implementation capacity' since 2014. Meanwhile, the 'SGI Implementation capacity' reflects Latvia's performance fairly well. Latvia recently effectively implemented reforms in public

administration and public spending cuts. At the same time, some of the reforms have been delayed (e.g. reforms in higher education and health care).

5.5 Policy-making, coordination and regulation

Indicator	Value 2014	EU28 rank	Value 2016	EU28 rank	Δ Value	Δ Rank
Societal consultation (1-10)	7.00	8	7.00	7	0.00	+1
Use of evidence based instruments (1-10)	5.67	12	5.67	12	0.00	0
	Value 2010	EU28 rank	Value 2015	EU28 rank	Δ Value	Δ Rank
Regulatory quality (-2.5,+2.5)	0.99	19	1.09	15	+0.10	+4
Rule of law (-2.5,+2.5)	0.78	19	0.79	21	+0.01	-2

Sources: Bertelsmann Stiftung, World Bank Group.

Latvia is performing fairly well in terms of 'societal consultation' and is performing at an average level regarding the 'use of evidence-based instruments'. In the sphere of societal consultation, Latvia has implemented several tools with positive outcomes. The government approved a regulation (No. 970, 2009) on public participation ensuring that cooperation between citizens and public administration is well-structured and provides effective communication. At the same time, citizens have around a dozen tools through which they can express their opinions, from attendance of the meetings organised by public agencies up to e-participation. Manabalss.lv has proven to be a very effective public participation e-platform receiving more and more support from society. The platform was launched in 2011 as a private initiative and has now reached the point at which it can have a substantial impact on the policy process, allowing public opinion to be heard. All websites of ministries, public agencies and municipalities have an access point for societal consultations. However, real practice differs from sector to sector, and from municipality to municipality. Since policy advice mainly comes from within the bureaucratic system, external reports and evaluations are rare and their use is limited due to methodological and structural factors.

At present, the main tool for evidence-based instruments is the detailed analysis of the new policy initiatives from the budgetary impact point of view. Meanwhile, impact assessment of legal drafts was introduced in 2002. However, regulatory impact assessment (in Latvia called 'annotations' to legal drafts) are not fully deployed for evidence-based analysis. In most cases, 'annotations' (including impact on budget, environment and society in general) are prepared by ministries once the legal draft is submitted to the government for a decision. However, they are not updated in the later stages of discussions and suggestions from stakeholders are not evaluated from an impact perspective.

Latvia has made considerable improvement regarding regulatory quality, achieving a score close to the EU average. However, public complaints have been made regarding the unpredictability of the laws and regulations (especially tax regulations). During the course of public administration reform, the government has already made an effort to avoid chaotic legal amendments without providing a proper explanation.

5.6 Overall government performance

Indicator	Value 2010	EU28 rank	Value 2016	EU28 rank	Δ Value	Δ Rank
Trust in government (%)	13.00	25	27.00	17	+14.00	+8
	Value 2011	EU27 rank				
Improvement of PA over last 5 years (%)	3.00	25				
	Value 2010	EU28 rank	Value 2015	EU28 rank	Δ Value	Δ Rank
Public sector performance (1-7)	3.84	19	4.04	16	+0.20	+3
Government effectiveness (-2.5,+2.5)	0.72	21	1.10	15	+0.38	+6

Sources: Eurobarometer 85, Eurobarometer 370, World Bank Group, World Economic Forum.

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