



OECD Public Governance Reviews

Strengthening the Innovative Capacity of the Public Sector of Latvia



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Preface

The Government of Latvia has made significant strides to innovate in the face of recent crises and shocks, while continuing to pursue efforts to improve the country's social, environmental and economic wellbeing by tackling tough challenges as climate change, the sustainable development goals, smart specialisation and more. Despite this, innovation is needed more than ever. The governance environment we operate in is becoming increasingly complex: challenges such as rising costs of living, emerging technologies, security threats and pressures on the healthcare system demand that the public sector move quickly to ensure we deliver effective services to citizens while grappling with new and emerging challenges.

Innovation is not a new concept in the Latvian public sector. This report has helped to highlight the many innovations that have already been developed and implemented, and I praise the desire of individual public servants evidenced in this research who have developed new, innovative and better solutions for the people we serve.

However, there are missed opportunities too: innovation should not be carried on the shoulders of individuals alone. This report showcases how innovative capacity in Latvia can be enhanced at systems, organisational and individual levels so that public servants are empowered to work in new and novel ways to improve the impact and outcomes of the public sector.

This report comes at a vital moment in the development of the public sector: with the launch of the Modernisation Plan and an influx of initiatives through the National Recovery and Resilience Plan (RRP), the Latvian public sector has an opportunity to change its trajectory; to transform how it operates to deliver the best possible outcomes to the public while steering the country towards a prosperous future. This change will demand courage to challenge our own norms, critically question operating processes and governance frameworks, and embrace the risks that come with working in new ways in uncertain contexts.

This report provides foundational insights that form the basis for the co-creation of an innovation strategy aimed to prompt concrete action and transformation to deliver in new and novel ways to citizens.

Sincerely,



Jānis Čitskovskis, Director of the Latvian State Chancellery

Foreword

The Latvian government has made significant strides to ensure its public sector works in more innovative ways to improve outcomes for citizens. Despite this, only 35% of those surveyed in this project confidently agreed that innovation is normal and expected in their organisations; demonstrating that the journey to developing a more innovative public sector is not over (OECD OPSI, 2023^[1]). This is a process of constant improvement, including quick wins, bold transformations and decisive action. This report provides an assessment and stocktake of the innovative capacity of the Latvian public sector. It offers guidance on using innovation to improve both public sector performance and the relationship between citizens and government.

The 2021 OECD *Trust in Government* indicator results showed that only 29.5% of Latvians trust the government (OECD, 2023^[2]). Research on trust in public institutions has shown that the responsiveness of government agencies in adopting innovative ideas has a strong statistical correlation with trust. At the local level, satisfaction with administrative services, perception of government preparedness for future crises, and the responsiveness of public agencies to adopt innovative ideas are the variables which have the strongest statistical relationships with levels of trust in the local government (OECD, 2022^[3]). Low levels of trust in government in Latvia indicate a need work in more innovative ways to address citizen expectations and provide effective public services. Indeed, 78% of survey respondents from this project noted that the desire to improve trust was a main driver of innovation (OECD OPSI, 2023^[1]).

This report was funded by the European Union via the Technical Support Instrument, and implemented by the OECD, in co-operation with the Directorate-General for Structural Reform Support of the European Commission. It provides a rigorous empirical basis for understanding where action is most urgently needed to improve the outcomes of the Latvian public sector and strengthen capacity for innovation through a systemic approach. The strengths and opportunities identified in this report provide a foundation for an action plan, strategy, and capacity-building initiatives to support public sector innovation in Latvia.

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Executive Summary

Challenges over the last few years including a global pandemic, war in Ukraine, energy supply issues and rising costs of living have underlined the importance of the Latvian government's ability to innovate, anticipate and adapt to deliver effective public services to citizens. The drive to enhance Latvia's innovative capacity and improve public outcomes is evident in the government's recently published Public Administration Modernisation Plan 2023-2027, the creation of an 'Innovation Laboratory,' and joint initiatives with the European Commission.

This report investigates Latvia's ability to strategically and systematically apply innovative methods in the workings of government and delivery of public services. It is designed to support future improvements and the development of an Innovation Strategy. Using the [OECD's Innovative Capacity Framework](#) research methodology, this study assesses four key questions:

- Purpose: What is driving the intent to innovate?
- Potential: What determines whether innovative efforts are attempted?
- Capacity: What is needed to carry out innovative efforts and integrate them into everyday practice?
- Impact: How is the impact of innovative efforts understood and informing future practice?

Key drivers of innovation in the Latvian public sector include bold government ambitions, a strong culture of tracking measurable outputs and Latvian public servants' individual desires to do things differently. 92% of public servants surveyed in this project indicated individual satisfaction as a reward and incentive for innovation. However, persistent barriers to innovation remain in the public sector's operating environment as well as overarching capacity gaps. For example, 81% of survey respondents indicated financial resources to be a barrier to innovation and 61% perceived regulatory and legislative frameworks as lacking the flexibility for innovative initiatives. Furthermore, challenges in measuring the overall impact of the public service are sometimes seen as hindering innovative ways of working to improve public outcomes.

This report highlights that there is potential for improving individual and societal outcomes through the transformation of the public sector in Latvia, but more can be done to turn this potential into concrete results. The newly published Public Administration Modernisation Plan, Latvia's Innovation Laboratory, and preparations for a National Innovation Strategy offer great promise - if they are supported by political will, implementation plans and resourcing.

Key findings:

Purpose: What is driving the intent to innovate in the public sector?

- There is a lack of cohesion amongst government priorities, strategies and ambitions connected to public sector innovation, hindering their capacity to drive innovation.
- Individuals are often driven to innovate by personal satisfaction and a desire to enable efficiencies in their daily work.

Potential: What determines whether innovative efforts are attempted?

- Team and organisational environments are key enablers of innovation in Latvia. Factors such as managerial support for innovation, team culture, and collaboration are seen as conducive to innovation.
- Lack of time, risk aversion and the complex rules-based administrative setting often prevent public servants from innovating. They are often unsure of how to navigate regulatory, legislative and procurement processes to make innovation happen.

Capacity: What is needed to carry out innovative efforts and integrate them in practice?

- Workforce issues (staff recruitment and retention, skills development) and lack of funding are key barriers to delivering and scaling-up innovative initiatives. For example, the Innovation Laboratory, founded in 2018, has potential to help drive innovative capacity building across government; however, staffing and funding challenges have prevented it from delivering a sustainable service offer.

Impact: How is the impact of innovative efforts understood and informing future practice?

- Performance based-budgeting is leading to a strong emphasis on key performance indicators, promoting a culture of measurement and driving output-oriented efforts. However, mechanisms and capabilities to measure impact and make evidence-based decisions throughout the policymaking cycle are lacking.
- A lack of “safe spaces” to discuss learning and failure limit the spread of successful initiatives and may help embed ineffective practices.

Municipal Government

These findings reflect opportunities and challenges encountered at both the national and municipal government levels; however, a number resonated more strongly at the municipal level:

- Research conducted emphasised the need for better collaboration between the national and municipal government. Competing strategies and priorities, as well as low levels of trust between these institutions, were viewed as damaging the ability to innovate in municipal government.
- Municipalities, which are often at the forefront of service delivery, face particularly strong barriers to innovation due to inflexible legal, regulatory, audit and procurement frameworks that make it difficult to take risks, challenge norms and test new approaches.
- Capacity challenges such as workforce gaps and lack of funding for innovation projects were also identified as particularly strong barriers to innovation in municipalities.

Key recommendations

- Adopt a public sector innovation strategy, together with an action plan, that defines a clear strategic vision for innovation, in collaboration with key stakeholders and municipal governments. The strategy and action plan should tie innovation to existing strategic agendas, paired with clear measurement indicators and accountability to ensure effective monitoring of the plan.
- Adopt a portfolio approach to steer innovative activities in areas where they are most needed, using mechanisms such as a national innovation fund or, prototyping and acceleration spaces, accessible across the public sector to enable activities that go beyond efficiency enhancements.
- Prioritise incentives to structurally promote innovative behaviours and activities (e.g., through performance goals or setting organisational expectations on time dedicated to specific behaviours).
- Work with auditors to improve the relationship between audit and innovation: create opportunities for safe risk taking. Use audit to identify where innovation is needed most and revisit punitive frameworks to avoid individual penalties for failures.

- Create interdisciplinary teams and working groups that blend knowledge in procurement, regulation, policy and service design to identify how innovations can be implemented within existing public governance frameworks and to identify where frameworks need to be changed.
- Create safe environments for learning and sharing of innovation experiences (e.g., by strengthening the Innovation Network).
- Build capacity to measure impact and outcomes to enhance the effectiveness of performance-based budgeting and evaluation approaches.
- Strengthen communication around innovative projects to build public awareness and share lessons; use dissemination channels such as the Innovation Network and Innovation Laboratory for these purposes.

Chapter 1. Innovation in the Latvian public sector

This chapter provides an overview what innovation means in a government context and how innovative capacity has been supported and sustained through the years in the Latvian public sector. The chapter also outlines the methodology for this assessment report.

Innovation and innovative capacity in the public sector

The OECD Observatory of Public Sector Innovation (OPSI) defines **innovation** as something that **is new or novel to the context, implemented** and aims to **achieve impact** (such as improved outcomes, effectiveness, satisfaction or efficiency) (OECD, 2017^[1]). Examples could include new ways of engaging citizens to ensure services meet their needs, finding efficiencies in administrative process, or using new methods (such as strategic foresight) to make governments more resilient.

Innovative capacity looks at the holistic ability for public sector systems (individuals, organisations, system and ecosystem) to work in innovative ways to improve public sector outcomes (e.g., user impact, satisfaction in services, trust in government, economic opportunities, access to education etc.). Beyond improving public outcomes, stewarding an innovative public sector can help make the public sector a workplace of choice (Kaur et al., 2022^[2]). Innovative capacity recognises that innovation is influenced by the system around it (e.g., how institutions work together, political influences, accountability frameworks, audit, individual skills, organisational leadership, performance management, measurement and evaluation approaches).

For innovations and innovative approaches to be successful... they require a systemic approach: one that is both top-down and bottom-up and does not seek to “tick an innovation box” or be a Senior Executive’s pet hobby or a passing phase. If embraced effectively, innovation can be a powerful and practical lever. (Kaur et al., 2022^[2])

In order to implement a systemic approach to innovation, a blend of explicit supports (e.g., innovation labs, innovation strategy, innovation skills programmes) should be paired with cross-government supports across the system (e.g., working with procurement, regulatory, financial, accountability and workforce management mechanisms) to better enable working in new and novel ways.

Innovation in the Latvian Public Sector Context

There is recognition of the need for innovation in the Latvian public sector, as well as a number of promising initiatives and strategies that can be strong levers for promoting and supporting greater innovative capacity. In addition to the key institutional responsibilities for innovation, four contextual aspects are particularly important in interpreting the findings of this report: **strategic priorities and plans, trust in government, a focus on financial efficiency, and Latvia’s innovation trajectory.**

Institutional settings and key actors

In the Latvian public sector, the **Latvian State Chancellery**, plays a key role in setting and implementing a strategic vision for innovation in the public sector. Since the integration of the Cross-Sectoral Coordination Centre into the organisation, it is also responsible for coordinating innovative initiatives across the public sector (Cabinet of Ministers, 2023^[3]). This is set to continue as the **Public Administration Development Division** will be central to implementing the Public Administration Modernisation Plan 2027 and a future innovation strategy and action plan. The **Innovation Laboratory** is also based within the State Chancellery. It coordinates the **Innovation Network** and provides key innovation related training programmes, including training to public servants and senior management in innovative methods such as design sprints. Furthermore, the Chancellery coordinated intersectorally; organising and supporting innovations across state owned enterprises.

Beyond the State Chancellery, a number of public sector organisations and surrounding actors play a particularly important role (OECD Observatory of Public Sector Innovation, 2021^[4]):

- School of Public Administration: Provides design thinking courses.
- [Latvia Investment and Development Agency](#): Leads cross-sectoral efforts focused on research, development and innovation, piloting work in the area of [Anticipatory Innovation Governance](#) (OECD, 2023^[5]).
- [Ministry of Environmental Protection and Regional Development](#): Responsible for leading digital transformation in the public sector, serves a key function in steering the implementation of reforms relevant at a municipal level.
- [Ministry of Finance](#): Manages budgetary allocations and reporting.
- [State Audit Office](#): Helps to identify opportunities for innovation aimed at improving efficiency and public interest through its audit assessments.
- [Ministry of Culture](#): Leads by example by spearheading innovative initiatives including Creativity Week and hosting the original Design Council.
- [Ministry of Economics](#): Serves a key role in innovative procurement.
- Innovation Ecosystem: State-owned enterprises, non-profit actors, private sector businesses, academia and research bodies and civil society groups can play an important role in innovative initiatives.

Strategic priorities, projects and plans contributing to public sector innovation

The Government of Latvia is working closely with European Commission, OECD and international partners to increase the use of innovative approaches at the national and municipal levels via a number of strategic projects contributing – directly and indirectly – to public sector innovation.

The recently adopted Public Administration Modernisation Plan 2023-2027 highlights key priority areas for government transformation including digital transformation, human resource development, innovation, sectoral policies, efficiency of internal processes and compliance with regulations (Latvian Chancellery, 2022^[6]). These priorities are reinforced through Latvia's National Recovery and Resilience Plan (RRP), projects supported by the European Commission's Technical Support Instrument (TSI) and additional initiatives through Norway Grants and other supporters. In some areas, Latvia is already performing strongly. For example, Latvia has one of the largest shares of renewable energy in the EU (European Commission, 2023^[7]).

Latvia's National Recovery and Resilience Plan, which provides 1.8 billion euros in grants offers a massive influx of funding that is expected to stimulate and support innovation in the public sector and beyond. Priority areas include green climate transition challenges (e.g., transport, energy efficiency of buildings), digital transformation of public services (e.g., digital upskilling, improved research and innovation environments), economic and social resilience and modernisation of the healthcare system (European Commission, n.d.^[8]).

Through European Union cohesion policy programs for 2021-2027, over 15.5 million euros will be directly dedicated to strengthening innovative capabilities in the municipal government (VARAM, 2023^[9]). The "Smart Municipalities" programme will provide financial support to develop and implement innovative solution, technology, process, service or product innovation, which improves the efficiency of the services provided by municipalities and which has a potential to contribute to a Latvian-wide innovation landscape.

The European Economic Area and Norway grants also offer opportunities for enhancing the efficiency of policies and the capacity of public institutions to meet citizens' needs. One of such initiatives in Latvia is the "Facilitation of inter-municipal cooperation and enhancement of good governance principles in Latvian local governments" programme led by Latvian Association of Local and Regional Governments and implemented between 2021 and 2024 (Latvian Association of Local and Regional Governments, 2021^[10]).

Furthermore, partnerships between the Latvian government and the European Commission through TSI projects has led to innovative initiatives on strengthening co-operation between levels of government, human centric digital government services, strengthening corruption prevention and improving health technology assessments. These projects are part of 54 TSI projects which have been financed in Latvia through the TSI and Structural Reform Support Programme, have provided significant funding to enhance the effectiveness of government (European Commission, 2022^[11]). Included amongst these initiatives was a [scan of the public sector innovation system of Latvia](#) and a study on the use of [anticipatory innovation governance in ecosystem management](#) (OECD, 2023^[5]) specifically targeting the use of innovative approaches in the public sector.

Additionally, priorities set out in the National Development Plan for Latvia (2021 – 2027) (Latvian State Chancellery, 2020^[12]) could prove to be key drivers of innovative approaches. These priorities include:

- Strong Families, a Healthy and Active Population
- Knowledge and Skills for Personal and National Growth
- Business Competitiveness and Material Well-being
- Quality Living Environment and Regional Development
- Culture and Sport for an Active Lifestyle
- A United & Open, Safe and Secure Society

Efforts to address these priorities are well underway, including a digital health strategy and a healthcare workforce strategy (European Commission, 2023^[7]). However, there remain areas where improvement is needed, for example, Latvia is performing poorly on SDG 1: No poverty, SDG 3: Good health and wellbeing, SDG10: Inequalities and SDG13: Climate action (European Commission, 2023^[7]). Moreover, the share of population unable to access adequate healthcare was nearly double the EU average in 2021 (European Commission, 2023^[7]), this is likely to increase with the aging population requiring additional care. These challenges demonstrate the necessity to leverage innovative approaches to meet citizen needs.

Tackling these priority areas is not simple: Latvia is facing the consequences of Russia's full-scale war in Ukraine which has caused trickle down impacts including an energy price increase of 48.8% (significantly above the EU average) and consumer price inflation of 17.2% (European Commission, 2023^[7]). Despite this, Latvia's productivity growth remains strong and above the EU average and the labour market is performing well (European Commission, 2023^[7]). The European Commission noted in its 2023 Country Report a number of key challenges facing the country, including weak innovation performance, aging population and share of low skilled people (European Commission, 2023^[7]).

These strategies and projects showcase that there should be no shortage of ambition for innovation in the Latvian public sector. However, an ongoing effort is required to ensure these multiple strategic plans and projects work cohesively to achieve their goals. Leveraging innovative approaches that build the innovative capacity of the public sector is an important part increasing cohesion and steering towards success.

Innovation and trust

There is growing recognition of how increased innovation capacity of the public sector can address key public sector challenges and wider public agendas in Latvia and beyond (OECD, 2022^[13]). For example, trust in Government remains a significant issue in Latvia. The 2021 OECD indicators of trust found that only 29.5% of respondents indicated that they trusted their national government (OECD, 2023^[14]). This research highlighted strong awareness of the potential for working in innovative ways to renew the relationship between citizens and governments and contribute to wider public agendas. Hence, there is a strong relationship between innovative government behaviours and responsiveness (e.g. adoption of innovative ideas), reliability of government (e.g. preparedness for the future), and trust of citizens in government (OECD, 2022^[13]). These themes are explored in depth in Chapter 2: *Detailed findings – national level*.

Issues relating to trust were also identified when exploring the relationship between national and municipal level government. Despite a relatively high level of autonomy and devolved remit of power and public service responsibilities (European Commission, 2021^[15]) municipal civil servants reported lack of trust from central government as a barrier to more local innovation, and national level public servants also raised issues of confidence and trust in municipal actors.

A focus on efficiency

Throughout the last decades, budget pressures in the Latvian public sector have led to innovations targeting mostly cost savings. Innovative efforts have consequently prioritised efficiency rather than larger cross-cutting innovative transformations. This pressure has been underscored by senior decision makers and public servants engaged in this research process and evidenced by low overall public expenditures. Government spending in 2021 came to 44.1% of GDP, which remains below the OECD average (OECD, 2023^[16]). Similarly, in areas such as healthcare and education, the Latvian government's expenditures remain below OECD averages (OECD, 2023^[17]; OECD, 2023^[18]). Despite this, the public sector workforce is larger than the OECD average, which has consequences on public sector salaries, budgets and operating environments (OECD, 2021^[19]). Consequently, innovation to find immediate efficiencies is often

favoured over innovation that aims at improving long term outcomes. The European Commission has also indicated that systemic underfunding of public services in Latvia is standing in the way of structural change (European Commission, 2023^[7]).

The focus on short term priorities and efficiencies is similarly observed in progress reports on European Commission priorities (European Commission, 2023^[7]). For example, limited progress has been made on 2021 Country Specific Recommendation 1: Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all. This report suggests a significant opportunity to shift the use of innovation from a mechanism to improve efficiency towards a resource to enhance effectiveness and steer the country towards prosperous futures.

Explicit innovation efforts

In addition to the broader strategic plans contributing to innovation in the public sector, there are a number of specific innovative efforts worth highlighting. These represent concrete examples of where initiatives have been implemented to leverage innovation in the Latvian public sector. The below table showcases a number of key milestones which have marked this journey.

Table 1.1. Key milestones on the Latvian innovation journey

Year	Milestone	Implications on innovation
2023	<ul style="list-style-type: none"> • Introduction of Public Administration Modernisation Plan 2023-2027 • Publication and conclusion of project on anticipatory innovation ecosystems in Latvia • Adoption of the “Smart Municipality” programme 	<ul style="list-style-type: none"> • Supports the development of a more efficient state administration, strengthening of public service skills, centralisation and standardisation of functions, smart work, quality, innovation in horizontal management and digital transformation. • Capacity building for the use of anticipatory approaches within LIAA. • Introduces innovative solutions to improve functions of municipalities.
2022	<ul style="list-style-type: none"> • Introduction of strategic planning guidelines for state administration • Riga City Council established the Riga municipality Innovation Fund to ensure implementation of the innovative solutions in capital of Latvia 	<ul style="list-style-type: none"> • Effort to improve strategic planning process, efficiency, skills development, innovation, digital transformation, climate neutrality, and regulatory compliance. • Review of the Innovation approach in Riga.
2021	<ul style="list-style-type: none"> • Publication of the Public Sector Innovation Scan of Latvia and Experimentation Guidelines for the Latvian Public Sector 	<ul style="list-style-type: none"> • Provides evidence on the opportunities and barriers impacting innovation in the Latvian public sector and established guidance to support experimentation in the public sector.
2020	<ul style="list-style-type: none"> • Introduction of reform plan requiring agencies to reduce budgets by 6% and implement modernisation efforts 	<ul style="list-style-type: none"> • Emphasis on using innovation to increase efficiency and manage shrinking budgets. • On February 11, 2020 the Cabinet of Ministers approved the Action Plan for the improvement of the Public Procurement system, which also includes a plan to organize at the Latvian

	<ul style="list-style-type: none"> Implementation of the Law on Public Procurement 	School of Public Administration specially developed training programme for state and municipal sectors for raising the knowledge and skills of purchasers within the framework of the competences of EC Public Procurement professionals (ProcurComp).
2019	<ul style="list-style-type: none"> Adherence to the OECD Declaration on Public Sector Innovation Learning and development programme introduced for senior level managers from 71 public institutions focused on innovation and experimentation, design thinking course introduced for senior managers. Innovation lab / unit established formally 	<ul style="list-style-type: none"> Formal commitment to innovation through OECD legal instrument. Importance placed on skills development of leadership in the areas of innovation and experimentation. Beginning of more formalised institutionalisation of innovation through the innovation lab.
2018	<ul style="list-style-type: none"> Launch of a series of design sprint projects. Establishment of informal network of innovation and design enthusiasts. Launch of the train the trainer programme on design thinking through Latvian School of Public Administration 	<ul style="list-style-type: none"> The launch of design sprints and informal innovation network marked a key step in the uptake of innovative methods in Latvia and created supports for skills development and training. Latvian School of Public Administration demonstrated itself as a key partner in the development of innovative skillsets.
2017	<ul style="list-style-type: none"> New Law on Public Procurement came into force. Public Service Procurement Law and Public and Private Partnership laws were amended according to EU public Procurement Directive as of 2014. 	<ul style="list-style-type: none"> This law established a legal basis for the procurement of innovation.
2013	<ul style="list-style-type: none"> Reform effort on “small, efficient and professional public administration” undertaken. Research and Innovation strategy for smart specialization - RIS3. 	<ul style="list-style-type: none"> Appetite for innovative efforts created through necessity to shrink and professionalise the public administration. Ministry of Economics, Ministry of Education and Science, Ministry of Environmental Protection and Regional Development, Ministry of Agriculture were named responsible for the implementation of the innovation processes to ensure knowledge transfer and sustainable innovation process development.

Source: (OECD OPSI, 2023^[20]) and interviews, focus groups and survey results.

The above efforts showcase key steps and reforms as Latvia moves towards the more systemic and intentional use of innovation in the public sector. Despite these efforts, initiatives and capabilities to support innovation remain scattered and a systemic approach to innovation that recognises its transformative and cross-cutting nature is lacking. To provide an initial assessment on the country's public sector innovation

and guide the country on its innovation journey, the OECD Observatory of Public Sector Innovation worked with the Latvian State Chancellery to conduct a [Public Sector Innovation Scan](#) with the support of the European Union's [technical support instrument](#). This project takes stock of the actions completed since the previous scan and identifies opportunities to further a systems approach to innovation in Latvia. It is designed to directly link recommendations to a future innovation strategy and action plan to prompt meaningful action. The below table maps the recommended actions of this project to progresses made.

Table 1.2. Progress on innovation in the Latvian public sector

Recommendation	Progress assessment	Actions taken	Potential growth areas
1. Formalise the innovation network	Major progress	<ul style="list-style-type: none"> Each ministry has been given the opportunity to nominate a representative to the network (this will soon be an obligation). Network has an advisory board of 13 members. The Network's role as a consultative institution under the State Chancellery was formalised via a signed internal order document in June 2023. 	<ul style="list-style-type: none"> Provide yearly funding for an innovation network coordinator.
2. Convene the major actors in the innovation system to discuss their roles within the system	Some progress	<ul style="list-style-type: none"> The institutional mapping of key actors in the innovation space reveals lack of formal responsibility allocation for innovation in the Latvian public sector. Recent developments, such as the transfer (March 2023) of the cross-sectoral co-ordination centre into the Latvian Chancellery (previously a distinct body situated directly reporting to the Prime Minister), may provide an opportunity for reinforcing a central steering of innovation to support the implementation of cross cutting priorities. (Cabinet of Ministers, 2023^[3]). Furthermore, the Chancellery's role in implementing the modernisation plan can further reinforce alignment between agendas and opportunities to ensure coordinated steering. Clear distinction is made between research, development and innovation in the economy (e.g., LIAA work area) and innovation in the public sector. Opportunities remain to improve collaboration across levels of 	<ul style="list-style-type: none"> Clearly define roles and responsibilities for innovation through the innovation strategy and action plan. Use the development process of the innovation strategy and action plan to build buy-in and encourage ownership over innovative activities.

		government and sectors to develop and implement innovative initiatives.	
3. Help politicians and senior leaders explore and understand their role in shaping the public sector innovation system	Limited progress	<ul style="list-style-type: none"> Executive level appetite exists for innovation – particularly innovation aimed at achieving greater efficiency. Political support remains lacking for innovation and has been cited by many research participants as a barrier. There is no clear executive champion for innovation in the Latvian Public Sector. 	<ul style="list-style-type: none"> Build awareness on Latvia's adherence to the OECD Declaration on Public Sector Innovation. Communicate the importance of innovation in delivering key government priorities and agendas.
4. Ensure that the Innovation Laboratory has the resources and support required to deliver pathfinder successes and influence the rest of government in its early stages	Some progress	<ul style="list-style-type: none"> Until July 2023, the Innovation Laboratory has been consistently short staffed (with a staff of 0-2), making it difficult to sustain the lab's operations and reputation. The Innovation Laboratory remains quite unknown and its impact highly limited, largely due to its size. Funding through the Recovery and Resilience Plan / Public Administration Modernisation Plan 2027 (<i>Modernisation Plan</i>) will help to provide some sustainability and continuity of the lab in the mid-term. The team has been expanded to four staff members from July 2023 and is moving forwards with activities. 	<ul style="list-style-type: none"> Use the innovation strategy and action plan to define a clear role for the Innovation Laboratory. Support the lab with domestic resources to enable it to develop, communicate and implement a clear service offer aimed at enabling the implementation of key government priorities, this will be particularly important following the end of RRP funding in July 2025.
5. Continue to expand training in innovation and innovation methods	Some progress	<ul style="list-style-type: none"> Design thinking training has been implemented through the School of Public Administration and the Innovation Laboratory, including some train-the-trainer efforts. However, recent survey results have pointed to a lack of use of these skills by participants in their organisations. To date, the Latvian School of Public Administration has not had consistent domestic funding to maintain its course offer, however an influx of RRP funding will help enable the training of over 300 public servants. 	<ul style="list-style-type: none"> Identify the key skills gaps encountered by public servants when trying to innovate, work with the school of public administration and the Innovation Laboratory to address those skills gap and measure progress in improving skills: targeting specific groups and ensuring that the skills are implemented in the workplace. Build a baseline of knowledge and skills around innovation.
6. Create an explicit public sector innovation strategy	Some progress	<ul style="list-style-type: none"> The Modernisation Plan has paved the way for innovative action with seven key priority areas including innovation 	<ul style="list-style-type: none"> Develop an innovation strategy which situates innovation as a key lever to deliver on government

		<p>development and digital transformation.</p> <ul style="list-style-type: none"> The innovation strategy to be developed as part of this project will have the potential to further enhance a coherent approach to innovation and the implementation of the modernisation plan. 	<p>priorities and agendas. Through an accompanying action plan, outline clear responsibilities, incentives and accountabilities for the implementation of the strategy.</p>
7. As part of that strategy, introduce a cross-agency innovation portfolio approach	Limited progress	<ul style="list-style-type: none"> A portfolio approach to innovation (i.e., a blend of types of innovation serving a range of purposes including enhancement, adaptation, tackling missions and anticipating and responding to the future in the present) has not yet been adopted, and cross-agency efforts remain limited. Innovative activities in Latvia remain largely in the areas of adaptive innovation (i.e., testing and trying new approaches in response to a changing operating environment) and enhancement-oriented innovation (i.e., upgrades practices, improving efficiency and achieving better results) (OECD Observatory of Public Sector Innovation, 2021^[21]) The future innovation strategy could be key to enabling a range of innovative activities, balancing the portfolio of investments. 	<ul style="list-style-type: none"> Use the innovation strategy to establish a priority portfolio of innovative initiatives; blending types of innovation and innovation purposes to ensure innovation is used as a strategic resource for immediate and future challenges, ranging from simple to complex. Balance investments in innovative initiatives to include activities focused on a range of purposes (efficiency, tackling complex challenges, finding new evidence, grappling with the future etc.).
8. Identify a high-level ambition that will drive system-wide innovation efforts	Some progress	<ul style="list-style-type: none"> The Modernisation Plan provides clear high-level ambitions that can drive innovation (see Box 2.2. <i>Innovation and the Latvian Modernisation Plan</i>). These ambitions include efficiency, workforce development, improved quality of policies and regulations, centralisation and standardisation, smart work, innovation development, horizontal management and digital transformation. 	<ul style="list-style-type: none"> Through the innovation strategy, link innovation to key priorities in the Modernisation Plan and other dominant government priorities and agendas.
9. Support the ambition with a central capacity	Limited progress	<ul style="list-style-type: none"> The Innovation Laboratory has been consistently understaffed; lacking the capacity to coordinate the innovation agenda. The Latvian State Chancellery has less co-ordination power and authority than most countries' central government 	<ul style="list-style-type: none"> Use the innovation strategy to define key roles in the innovation ecosystem (i.e., Establish a governance structure for innovation), and solidify roles and responsibilities with the

		<p>institutions, although this may change through the integration of the Cross-Sectoral Co-ordination Centre.</p> <ul style="list-style-type: none"> • Additional staffing through the RRP / RRF and implementation of the modernisation plan, paired with a stronger co-ordination role of the Chancellery will help to enable co-ordination of the innovation agenda. 	<p>resources necessary to ensure their effectiveness.</p>
10. Create a capability for anticipatory governance	Limited progress	<ul style="list-style-type: none"> • Anticipatory Innovation Governance project completed in collaboration with LIAA, however, efforts have not expanded beyond LIAA. 	<ul style="list-style-type: none"> • Build capacities in strategic foresight through the Innovation Laboratory and school of the public service. • Support a diverse portfolio of innovative activities.

Source: (OECD OPSI, 2023^[20]) and interviews, focus groups and survey results.

As seen above, the progression on each of the recommended actions has varied – indicating a need to build implementation capacity for the suggested recommendations of the previous assessment report and the forthcoming innovation strategy and action plan (key deliverables of this project).

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Chapter 2: Detailed findings on innovation in the Latvian public sector: National level

There is a continued appetite in the Latvian Public Sector to innovate: largely driven by a desire to increase efficiency and deal with time and resource scarcities. Through the Modernisation Plan and key European projects and agendas, a more strategic approach to innovation is evolving. Despite this, the potential and capacity for innovation remains weak due to barriers in the operating environment and capability issues within the public sector. Persistent challenges include perceived inflexibility of regulatory, legislative and audit frameworks, lack of explicit financing mechanisms for innovative initiatives, skill shortages, workforce retention and development issues and fear of risk and punishment in the event of failure. Momentum continues to build around measuring the impact of government policies, strategies and services with a strong emphasis on key performance indicators. This measurement approach will be enhanced by increased emphasis on measuring outcomes and identifying opportunities for innovation and transformation to improve the delivery of public services to citizens.

Methodology

This assessment report applies the [OECD's Innovative Capacity Framework](#) to understand the drivers, enabling environment, capacities, resources, impact and learning relevant to innovation in the Latvian Public Sector. This methodology enables the application of a systems lens to understand the most critical intervention points that need to be addressed to enhance the use of innovative approaches to improve public sector outcomes. The following questions framed the research activities:

- **Purpose:** What is driving the intent to innovate? (i.e., drivers and incentives)
- **Potential:** What elements across the system determine whether innovative efforts are attempted? (i.e., enabling environment)
- **Capacity:** What is needed to carry out innovative efforts and integrate them into everyday practice? (i.e., resources, skills and capabilities)
- **Impact:** How is the impact of innovative efforts understood and informing future practice? (i.e., evaluation, measurement and learning)

In order to answer these questions and ensure the recommendations and findings in this report are based on substantive evidence, a number of research and engagement activities were conducted:

- A **literature review** of key governmental strategies, EU, OECD and World Bank Reports, academic literature, government laws and decisions etc.
- A **survey** of municipal government employees which received 147 complete and 174 partial responses.
- A **survey** of national government employees which received 716 complete and 1628 partial responses.
- A survey of **non-profit, academia, private sector and civil society representatives** which received 19 complete and 22 partial responses.
- Four **focus groups** targeting executive, technical level, innovation and policy communities.
- A **municipal level project launch** and **engagement workshop**.
- A **municipal** and **national level validation workshop**.
- **22 interviews** with actors across municipal and national level institutions.

Note: This report often refers to the comments and insights of “research participants” as a source of evidence. This group refers to participants in interviews, workshops, focus groups and survey respondents (including narrative responses).

Overview of the Report

Chapter 2: Outlines the detailed findings of national level research: mapping insights on innovative capacity to the OECD's Innovative Capacity Framework.

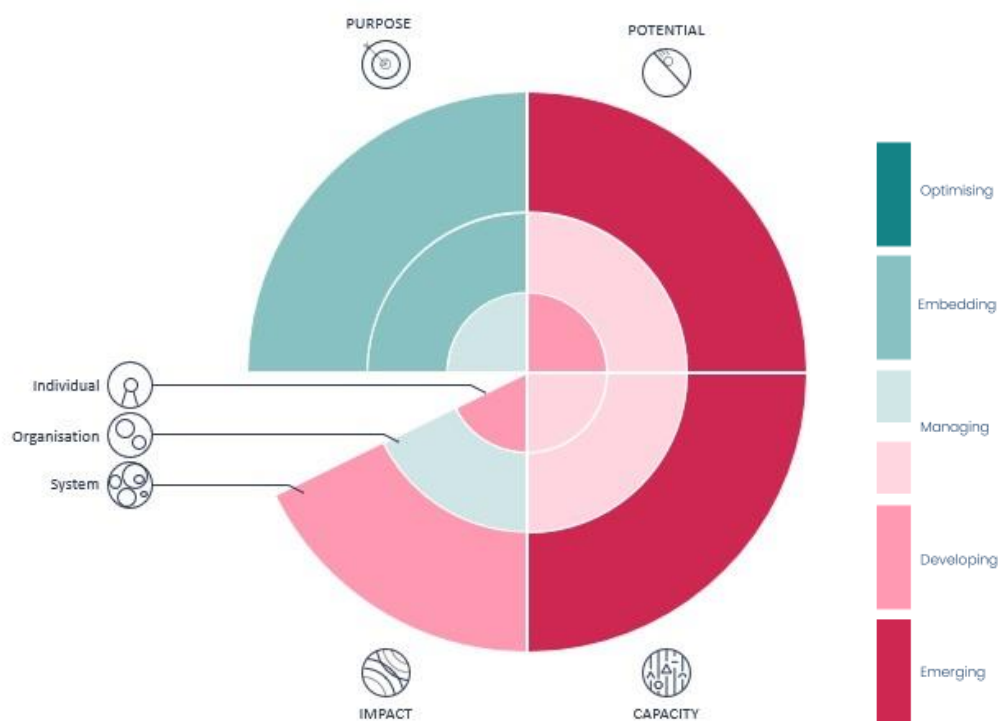
Chapter 3: Outlines the detailed insights on innovative capacity at the municipal level.

Chapter 4: Outlines the journey from insights to action, including directional shifts that can be supported through the development of an innovation strategy and action plan.

A heatmap of Latvia's innovative capacity

The overall findings of this research highlight a range of strengths, opportunities and barriers hindering and enabling innovation in the Latvian public sector. Based on the evidence gathered from this research, the detailed findings presented in this chapter were assessed in relation to the [Innovative Capacity Framework's](#) indicators – scoring each focus area on a scale from emerging to optimising. The below heatmap showcases the results from this assessment – noting that the most urgent issue areas are in the systems level capacity and potential for innovation, followed by systems level impact, individual level potential and individual level purpose. The rationale behind each scoring is evidenced throughout this chapter.

Figure 2.1. Heat map of Latvia's Innovative Capacity



Source: OECD Observatory of Public Sector Innovation

Purpose: What is driving the intent to innovate?

Summary: Latvia needs a clear and strategic approach to innovation that is supported by politicians and leaders. Innovative efforts are currently driven by government priorities and desires to increase efficiency, meet international standards (including EU and OECD priorities) and to respond to crises, shocks and citizen pressures. Key strategic agendas could become powerful drivers of innovation in the public sector by reducing the fragmentation of such agendas and by linking strategic agendas to organisational and individual level responsibilities, incentives and rewards.

“In the last three years the change was so fast - covid, war... We had to innovate day by day.” – Interviewee from this project

Innovation in the Latvian public sector is often driven by a desire to increase efficiency in a constrained financial environment – a need to do more with less, rather than a desire to improve the effectiveness of government policies and services¹. Furthermore, interviewees and focus group participants noted that innovation is also often driven by external forces such as EU priorities, crises, societal expectations and criticism communicated through media, and a desire to perform well at an international stage. These findings were also confirmed in the survey (Figure 2) which found that global challenges, missions and international standards, followed by public opinion, trust and citizen expectations were the strongest drivers of innovation.

“If society demands something of the government, then politicians start to mirror it after some time, then they put it in their speeches, and it enters the agenda.... I would wish our leaders would be more engaged in innovative initiatives. Of course, the dream would be that they are not only engaged, but they encourage innovation – a culture of innovation, experimentation and failing. – Interviewee from this project

Box 2.1. Efficiency focused innovations in Latvia

Many of the innovations implemented by the Latvian public sector are aimed at improving efficiency and effectiveness of government services.

National land registry: This [land registry service](#) and [state revenue service](#) combines publicly available data for companies, citizens and professionals to use; simplifying access to information and administrative processes.

E-signatures: Digital signatures have been developed in Latvia since 2005 and have since evolved to include a Baltic-wide e-document space, expediting approval processes. For example, in recent years e-signatures have been introduced to expedite signing and approval processes while ensuring security. Moreover, innovations such as the real-estate registry and changes to the road safety authority have been introduced to enhance the efficiency of government services.

Virtual Assistant: The [Business Register](#) has introduced a virtual assistant “Una” to help provide answers to the most frequently asked questions via Facebook and their [website](#); alleviating pressures on face-to-face customer service centres and helping improve communication and access to information.

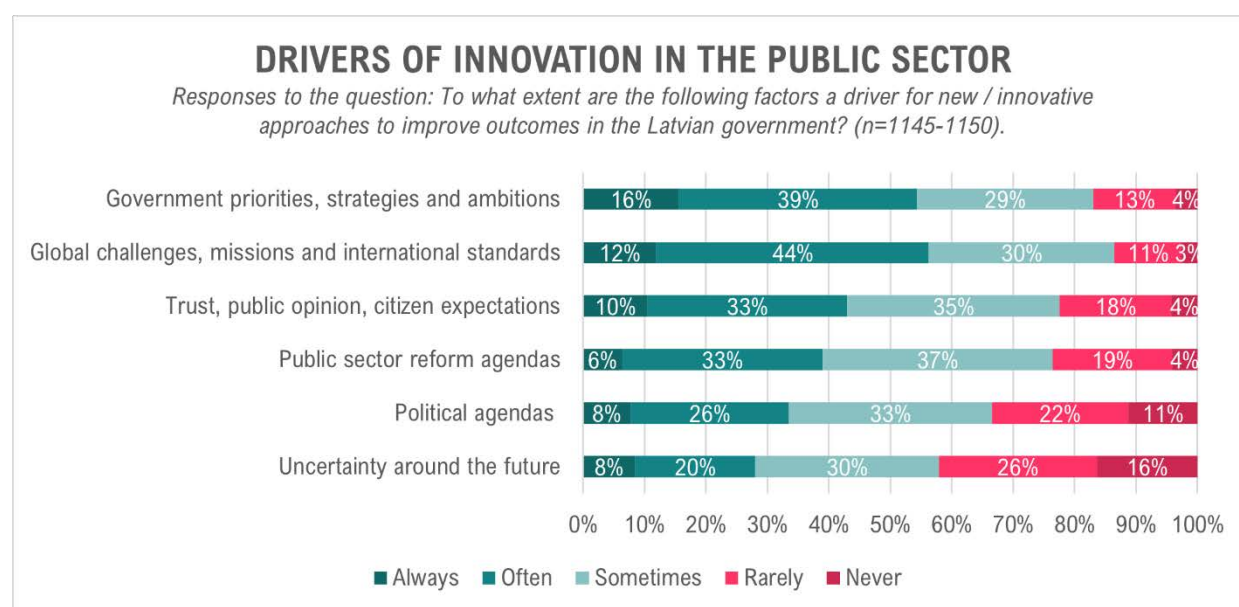
User experience and design thinking to improve information management systems: The Central Financial and Contract Agency has taken a user-focused approach by developing and testing prototypes of web solutions to enhance functionality to project applicants, employees and beneficiaries.

Source: (SJSC Latvian State Radio and Television Centre, 2020^[1]; Central Finance and Contracts Agency, 2020^[2]) and interviews, focus groups and surveys with officials across the Latvian public sector.

Figure 2.2. Drivers of innovation in the public sector

The strongest drivers indicated in a survey of national level public servants, were government priorities, strategies and ambitions, as well as global challenges, missions and international standards. The weakest drivers were

uncertainty around the future and political agendas: showcasing a potential lack of political support for innovation, and lack of appetite to engage with the future.



Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=1145-1150

There are an abundance of government priorities and reforms that have the potential to be strong drivers for innovation, including those in the Modernisation Plan (see Box 2.2. *Innovation and the Latvian Modernisation Plan*), reforms on developing an efficient state administration, and the [National Development Plan of Latvia for 2023 – 2027](#). Priorities in these reforms include: strong families, business competitiveness, a safe and secure society, paired with priorities for government including: development of an efficient state administration, supporting smart work, improving horizontal management and supporting transformation (Latvian State Chancellery, 2020^[3]). EU projects are also often a driver for innovation. Such projects include efforts to support anticipatory innovation, (OECD, 2023^[4]), enhance tax collection, improve the judicial system, develop human-centric digital services, enhance co-operation and quality of public administration and strengthen corruption prevention (European Commission, 2022^[5]).

These strategic priorities, reforms and EU agendas were noted in surveys and interviews as drivers of innovation but were perceived by many research participants as fragmented – driving innovation in many different directions rather than supporting a coordinated approach and are subject to a wide range of project delivery timelines. The Modernisation Plan, which was adopted in 2023 and supported by the RRP offers a key opportunity to unify reform agendas and transformation initiatives in the public sector around key priority areas (see Box 2.10. *Innovation in the National Recovery and Resilience Plan*).

“There is a jerky, campaign-like approach to innovation, no mid-term and long-term plans, reactive action.” – Interviewee from this project

“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

Box 2.2. Innovation and the Public Administration Modernisation Plan (2023-2027)

The Public Administration Modernisation Plan (2023-2027) provides a number of clear drivers for innovative activity, including increased trust in public administration (targeting an increase of 16%), satisfaction in public services (targeting an increase of 9.5%), targets for the implementation of innovation activities, future office and performance management. The plan aims to provide clear directions for development and change to ensure that the public administration can adapt to changing circumstances. All seven key action areas of the Modernisation Plan present opportunities for innovation:

1. United and efficient public administration (*use of innovative project teams, strengthening common values, improving cross-sectoral cooperation, horizontal issue management*).
2. Development of human resources (*equipping public servants with the skills and knowledge needed to work in innovative and more effective ways, exploring the future of the public service*).
3. Quality of policy and regulation (*renewing policy planning, reducing administrative burden*).
4. Centralisation of support functions (*improving interoperability, shared services, efficiency etc.*).
5. Smart work (*new approaches to work organisation, co-working, improving rural opportunities*).
6. Development of innovation (*developing and implementing a systemic approach to innovation, dedicating resources to innovation*).
7. 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*).

This Modernisation Plan offers significant potential for innovative transformation within the Latvian public sector and could provide a strong driver and enabler of innovative activities. To ensure cohesion of the strategic approach, reform agendas, additional strategies and key EU projects should be clearly aligned to the Modernisation Plan. Embedding the capacity of the Cross-Sectoral Co-ordination Centre within the Latvian State Chancellery will help to ensure systems-wide co-ordination of the Strategy's implementation.

Source: (Latvian State Chancellery, 2023^[6]).

While government priorities, strategies and ambitions are seen as a strong driver for innovation, supported by senior government leaders and public servants (see Figure 2.2. *Drivers of innovation in the public sector*) research participants noted that politicians are rarely direct advocates and drivers of innovative approaches. Politicians remain hesitant to push for innovation, other than on topics of efficiency and cost reduction (political mandates and laws were noted as a hindrance to innovation by 53% of survey respondents).² Research has also found a lack of appetite at the political level to seek scientific data to inform policy development (Kalniņš, 2019^[7]). Furthermore, research participants from this study on innovative capacity claimed that politicians and public sector leaders are often afraid to set explicit ambitious goals and key performance indicators (KPIs) out of fear that they might not achieve them. This is likely due to a fear of scrutiny over potential failures that could result from innovative efforts: 41% of survey respondents indicated risk of punishment and legal liability as a hindrance to innovation (OECD OPSI, 2023^[8]). There is a risk that overarching government reform agendas are being overlooked by short term political priorities.

The state audit office raised the issue of political support as one of the key barriers to the implementation of the State Administration Reform Plan of 2020; stating the absence of political support, with capacity issues in the State Chancellery as key barriers to the Reform's success (State Audit Office of the Republic

of Latvia, 2021^[9]). Furthermore, the audit office flagged that the lack of political support to address the remuneration issue has prevented change (State Audit Office of the Republic of Latvia, 2021^[9]).

"We are alone with our big problems. Political parties are not willing to support public sector policies for innovation. Their main focus and statements are on efficiency, small effects in public administration." – Interviewee from this project

Latvia also suffers from low trust levels in government where only 29.5% of Latvians trust their national government (OECD, 2023^[10]). 78% of survey respondents from this project noted the desire to improve trust to be sometimes, often or always a driver of innovation (see Figure 2.2. *Drivers of innovation in the public sector*) this was additionally noted in interviews and focus groups, particularly in cases where the media communicated a lack of satisfaction in government (OECD OPSI, 2023^[8]). This motivation is well aligned with the findings that the responsiveness of government agencies to adopt innovative ideas has a statistically significant relationship with trust in government (OECD, 2022^[11]).

On an individual level, public servants are often motivated to innovate to find efficiencies, improve their job satisfaction and to serve citizens more effectively.³ However, less than half of those surveyed indicated they are rewarded for innovative behaviour through career advancement, increased compensation and promotions (see Figure 2.3. *Rewards for innovating*) and 30% indicated either never or rarely being recognised by leadership for pursuing innovative approaches (OECD OPSI, 2023^[8]). Recognition from leadership can be a key motivator for innovation and can help establish a clear innovation culture within organisations (OECD, 2021^[12]).

Figure 2.3. Rewards for innovating

The strongest incentive to innovate amongst those surveyed was individual satisfaction.



Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=1151-1153

Encouraging innovation at the individual level through recognition from leaders, performance management assessments and career advancement could increase the drive to innovate (see Box 2.3. *Rewarding innovative behaviour*). (OECD, 2017^[13])

Box 2.3. Rewarding innovative behaviour at individual and organisational levels

Rewarding innovative behaviour through both intrinsic and extrinsic incentives has been proven fruitful (Demircioglu and Audretsch, 2017^[14]). As part of this external recognition for innovation efforts is also important, including leadership recognition, performance management, career advancement and innovation awards – all of this can help incentivise innovation (Rosenblatt, 2011^[15])

Innovation awards are used in many countries to help drive and reward innovative behaviours. Innovation awards could serve as important motivators, while also enabling the sharing of lessons learned, best practices and solutions that could be adapted to new contexts. Global examples include the [European Public Sector Awards](#), [Open Government Partnership Local Innovation Awards](#), Belgium's [Federal Innovation Awards](#), [Brazil's Innovation Awards](#) and the [Irish Civil Service Excellence and Innovation Awards](#). The City of Louisville, USA, rewards staff with badges for involvement in innovative initiatives including hackathons, collaborative projects, digital inclusion initiatives and more.

Furthermore, management accountability frameworks, performance reviews and career advancement plans can also include explicit incentives for innovative behaviour. However, these must be carefully implemented and supported by innovative skills to avoid these becoming “box checking” exercises. Examples can be found in Box 12. *Examples of approaches to objective setting, measurement and accountability*.

Rewarding innovation through performance management and career advancement can help encourage and normalise innovative behaviour.

Source: (Badgelist, 2017^[16]; OECD Observatory of Public Sector Innovation, 2022^[17]; OECD, 2021^[12]; OECD, 2018^[18])

Considerations for the Latvian public sector

The above findings showcase a strong drive for innovative approaches at the individual, organisational and systems levels, with some need for increased strategic cohesion, political engagement, individual level incentives and supports to work more actively with uncertainty.

Based on the above analysis, the Latvian government may consider to:

- **Establish an Innovation Strategy**, under the purview of the Director of the State Chancellery, that embeds the principles of the Modernisation Plan into concrete action. Pair the strategy with measurement indicators and clear accountabilities and responsibilities at the organisational and individual levels. (e.g. combining measurement approaches such as the [Innovation Barometer](#), Key Performance and Results planning or key success factors, such as those shown in the [Irish Innovation Strategy](#)).
- **Engage politicians on the need for innovation** to cope with a rapidly changing governance environment, era of crisis and shocks, and to engage with uncertainty in the present and future. This could include: collaboration between innovation specialists and the Prime Minister's office on how to work in innovative ways to deliver on key priorities nominate a political champion of the work, work alongside executive committees and task forces to support innovative initiatives (e.g. Cross-Parliamentary Group for Innovation such as [that of the UK](#)).
- **Align EU, reform, strategic and innovation agendas clearly to the Modernisation Plan** to ensure a clear narrative and understanding of how each element contributes to innovative public

governance and individual public servants' responsibilities (see Box 2.2. *Innovation and the Latvian Modernisation Plan*).

- **Innovative initiatives (including the innovation strategy) should be aligned to key government priorities such as fighting corruption, the stability programme, key government missions, the priorities of the Modernisation Plan;** shifting the rhetoric around innovation beyond a purely financially efficient focused narratives to one which considers how innovation can enable improved outcomes and achieve difficult objectives such as establishing a comprehensive and integrated healthcare system, supporting a green and fair economy and supporting social fairness ((European Parliamentary Research Service, 2023^[19]) (European Commission, 2022^[20]).
- **Work with talent management and human resource experts to recognise the individual contributions of public servants in proposing, spearheading and implementing innovative initiatives** through informal and formal recognition such as promotions, innovation awards and performance assessments. Similarly, recognise and disseminate the work of public sector organisations that are on the forefront of innovative practices.

Potential for Innovation: What determines whether innovative efforts are attempted?

Summary: *Potential for innovation (i.e., the enabling environment that either prohibits or encourages innovation, such as team culture) in the Latvian public sector stems from involvement in international communities of practice (e.g., OECD working groups), networks for exchanging experiences around innovative practices (i.e., the Innovation Network), strategies which demand innovation for implementation and pressure from constant financial constraints to work more efficiently (although this can also be a barrier). Furthermore, team environments and managers often manage to foster innovative cultures within their teams. However, these factors are not sufficient to enable innovation in Latvia; risk aversion, a culture of cost cutting, staff shortages and time scarcity often stand in the way of innovation. Therefore, the Latvian public sector needs to create more enabling conditions for innovation to flourish.*

Research Findings

Team and organisational enablers: Only 35% of public servants confidently agreed that innovative approaches are normal and expected in their organisations (8% always, 27% often) (OECD OPSI, 2023^[21]). Despite this, opportunities remain to create a stronger enabling environment for innovation across the entire public sector system, in particular, for innovations that move beyond an efficiency focus. Innovation is typically seen as a tool for cost savings, most possible in low-risk contexts where the likelihood of failure is minimal. Opportunities for more ambitious and long-term innovative initiatives to be attempted are few and far between and are typically part of EU funded projects. The state audit office noted that many public institutions are in “survival mode”, making it difficult to find time, staff and resources to consider and implement innovative solutions (State Audit Office of the Republic of Latvia, 2021^[9]).

91 % of public servants perceive their **team environment** as always, sometimes or often an **enabler of innovation**. On the contrary, **54 %** believe that political leaders, signals and directions are **never or rarely** enablers of innovation.

“It is unreasonable to demand and wait for innovative solutions, targeted and meaningful reforms when many institutions are operating in a ‘survival’ mode.” (State Audit Office of the Republic of Latvia, 2021^[9])

Latvia also ranked highly in the area of uncertainty avoidance – reflecting a resistance to embrace uncertainty about the present and future, and instead a tendency to rely on set rules and norms of behaviour (Hofstede Insights, n.d.^[22]). The tendency towards avoiding uncertainty could be part of why research participants found it difficult to break with the status quo.

Few safe spaces in Latvia exist for prototyping, testing solutions and experimentation. The creation of such spaces could help shift the culture around risk taking and uncertainty by creating environments where risk is tolerated in a controlled context (OECD, 2017^[13]). This shelters those who are conducting experiments, developing innovative ideas and prototyping from backlash in the event of failures or unexpected results, meanwhile ensuring the effective use of government resources. One example of establishing this type of space is found in the Ministry of Welfare which established a programme for pilot projects (see Box 2.4. *Innovative pilot projects and sandboxes*).

Box 2.4. Innovative pilot projects and sandboxes

The **Latvian Ministry of Welfare**, based on the European Commission's Guidance for social policy experiments, has launched a number of pilot projects to respond to challenges in innovative ways, on a small scale with clear measures on the impact of activities. Each project targeted interventions on a small group of pilot subjects in a controlled environment to minimize risks and optimize impact measurement.

The results of projects have led to either scaling, modification or cancellation of initiatives based on success factors. Target areas have included social rehabilitation services for children addicted to psychoactive substances, family friendly services for children with functional impairments, individual budget allocations, methodology for social work amongst others.

In Latvia, the **Ministry of Economics** is working on a **law supporting innovative entrepreneurship and priority investments** which should create a legal framework for supporting entrepreneurship in priority sectors, innovation zones and regulatory sandboxes. The regulatory sandboxes will enable experimentation and testing of new regulations.

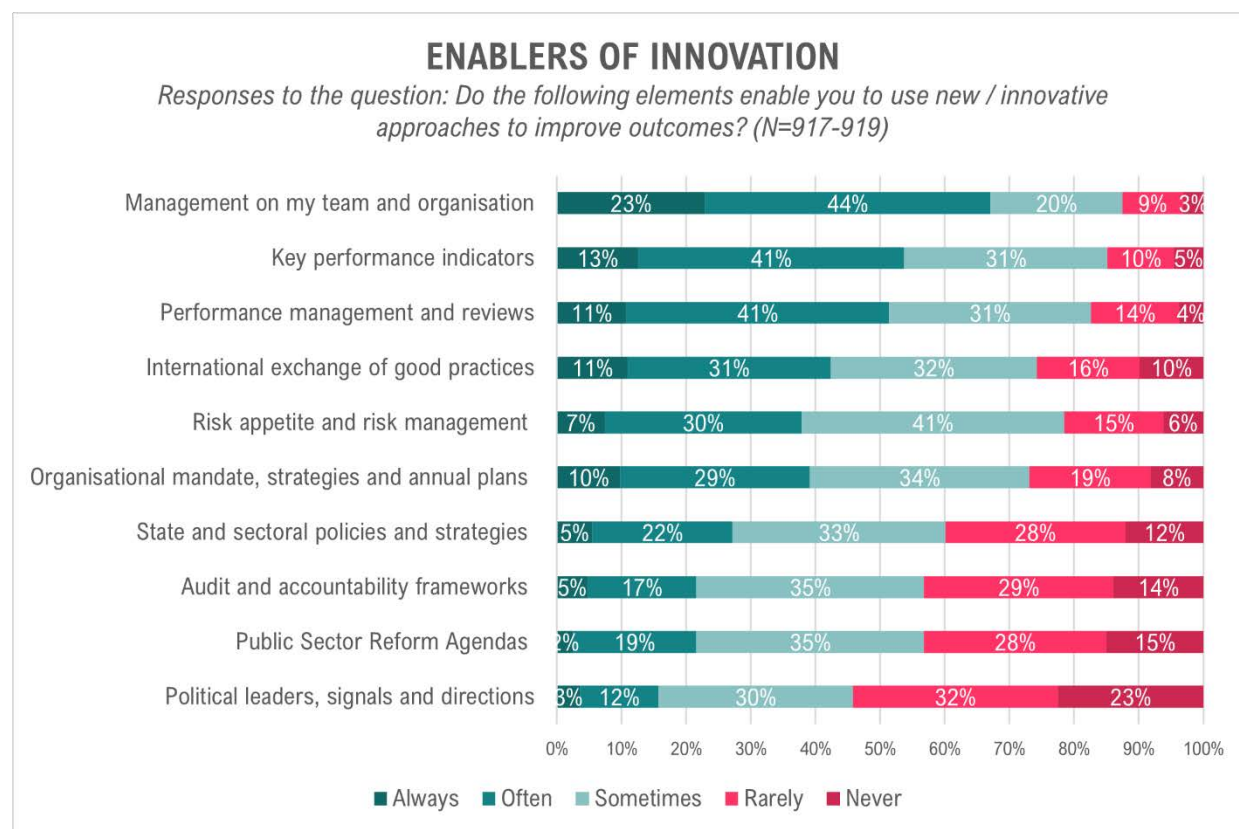
Controlled pilots, sandboxes, prototyping, incubators, and experimental projects enable ideation, testing and impact measurement in an environment which allows risk to be managed and closely monitored. When successful, projects can be scaled, adapted and spread, and when ineffective they can be closed or adjusted.

Source: Latvian Ministry of Welfare (2023) and Ministry of Economics (2023).

Public servants surveyed in Latvia perceive the most common enablers of innovative activities to be team environments (91% reported as always, often or sometimes enabling innovation), management of teams and organisations (87%) and key performance indicators (85%) (see Figure 2.4. *Enablers of innovation*). This demonstrates that while systemic approaches to building enabling environments for innovation are lacking, organisational and team level factors are working to enable innovative activities (see Box 2.5. *Fostering innovative culture in Latvian public sector organisations*).

Furthermore, 43% of survey respondents noted that organisational changes (such as institutional restructuring, changes in leadership etc.) were a hindrance to innovation, indicating a need for continuity in innovation processes (which can be supported through overarching strategies), despite political and institutional changes (OECD OPSI, 2023^[8]).

Figure 2.4. Enablers of Innovation

Source: (OECD OPSI, 2023^[8])

Box 2.5. Fostering innovative culture in Latvia Public Sector Organisations

Organisational and team culture has a huge influence on employees' desire to pursue innovative activities. Many incentives, enablers and supports can be introduced at the organisational level to encourage innovation, such as dedicating time to innovate, creating supportive team environments, encouraging team members to challenge the status quo etc.

In Latvia, the **Employee Council** in the **Ministry of Economics** has taken responsibility for gathering ideas from within the department and bringing them to life; cutting through the often time-consuming layers of bureaucratic management to reach the minister.

The **Latvijas Banka** (Latvian Central Bank) has introduced an [Innovation Hub](#) dedicated to supporting business development in the area of FinTech. This Hub helps enhance services to business users by providing clarity on financial sector regulations, compliance, identifying challenges in business development and provide clarity on the bank's approach to introducing innovative solutions. The Bank has also dedicated 10% of employee staff time to experimentation: creating space for innovation and normalising innovation and experimentation as part of the daily life of employees.

The [Latvian Innovation Laboratory](#) has also convened and supported an Innovation Network to disseminate innovative initiatives, ideas and culture across the public service, open to all public servants.

A global example of a mechanism that could be used in Latvia to encourage a shift in public sector culture includes Portugal's "**Right to challenge**" which is a process through which individual public servants can independently identify a problem or gap where they feel that status quo processes or mechanisms do not suffice. For selected problems, prototypes and potential solutions are developed to identify and test the most impactful solutions.

Source: (OECD, 2022^[23]) and interviews and focus groups.

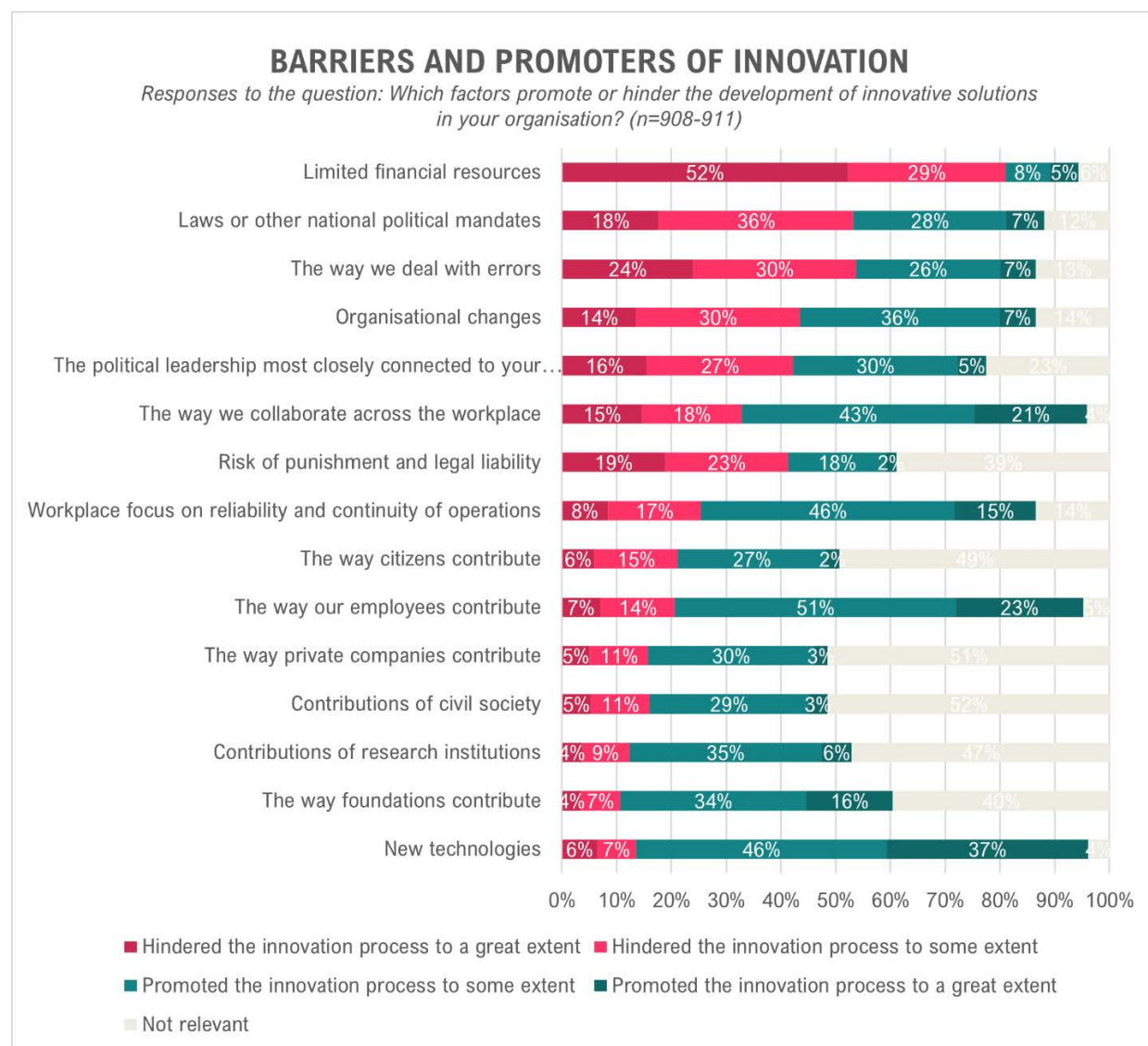
“People would be willing to innovate... But what you need for this is empowerment so that people will feel that they can do things.” – Interviewee from this project

Systems level enablers: Political signalling and reform agendas are viewed as comparatively weak enablers of innovation, with 54% of surveyed public servants stating the political signals rarely or never enable innovative approaches, and 43% stating that public sector reform agendas never or rarely enable innovative approaches (see Figure 2.4. *Enablers of Innovation*) (OECD OPSI, 2023^[8]). Given the number of strategic initiatives, this suggests issues relating to implementation and alignment of strategies may be obstacles.

The continued use of the State Chancellery's [strategic planning guidelines](#) may help promote the development of a strong vision for organisations which is tied to evidence, performance indicators and clear lines of responsibility to work plans, skills development, training etc. (see Box 2.12. *Examples of approaches to objective setting, measurement and accountability*) (Latvian State Chancellery, 2022^[24]). The guidelines make clear the need for strategies to be linked to the daily life of organisations, with achievable goals, realistic activities, explicit resources and authorities for implementation and frequent performance monitoring. Furthermore, these guidelines include specific innovation indicators, including measures for activities involving innovative methods, solutions developed using innovative methods,

experimentation, engagement in innovation networks, skills development and budgetary allocations to innovation.

Figure 2.5. Barriers and promoters of innovation



Source: (OECD OPSI, 2023^[8])

Risk aversion, fear of punishment and dealing with errors all came up as challenges in interviews and focus groups. These factors were also perceived as barriers to many of those surveyed (see Figure 2.5). Similar challenges exist around the perception of audit amongst public servants. Rather than perceiving audit as an opportunity to identify topics for innovative initiatives, audit is seen as a barrier to innovation, with 43% of survey respondents indicating that audit and accountability frameworks are rarely or never an enabler of innovative approaches (OECD OPSI, 2023^[8]).

54 % of public servants at the national level perceived “the way we **deal with errors**” as a hindrance to innovation. (OECD OPSI, 2023^[8])

"You need to allow public servants to fail sometimes, and not punish them for that... it would be a really significant first step, and from there we can encourage them to start trying to do things." – Interviewee from this project

Considerations for the Latvian public sector

The above findings showcase challenges in the enabling environment in the Latvian public sector that may dissuade or inhibit public servants from innovating. Enablers at the team, organisation and individual level are more prevalent: respondents noted that team environment (safe and open) and performance management approaches tend to allow for innovation to occur. Meanwhile, stronger barriers exist at the systems level including political leaders, the way failures and risk are managed, competing reform agendas, frequent organisational and institutional restructuring.

Based on the above analysis, the Latvian government may consider to:

- **Leverage the Innovation Network** founded in 2018 alongside the Innovation Laboratory to continue the **spread of innovative culture** while providing consistent resourcing to support the management and sustainability of the network (e.g., offering training to equip them to innovate in their organisations, using the network to disseminate innovative initiatives and lessons learned).
- **Establish domestic budgetary allocations specifically for a diversity of innovation activities;** encouraging innovative efforts that go beyond cost-savings (e.g., Funding innovation accelerators, prototyping or experiments).
- **Foster an environment where innovation is expected of employees and organisations through a clear innovation strategy tied to organisational and individual responsibilities and accountabilities for innovative behaviours** (e.g., ministerial mandates and individual performance objectives). At the individual level, this could be enabled by explicitly identifying 'innovation activities' – such as prototyping, piloting or impact measurement – within job families.
- **Create safe spaces for experimentation** where individuals do not need to bear the responsibility that may come from innovations that do not go as planned. Such spaces could include project incubators, regulatory sandboxes, innovation labs or innovation accelerators. The [Experimentation Guidelines for the Latvian Public Sector](#) can help to provide an initial framework on how to set up and execute experiments.
- **Build awareness at the political level of Latvia's adherence to the [OECD Declaration on Public Sector Innovation](#)** as well as the need for innovation in order to keep up to international norms and standards.

"When introducing innovations, it is necessary to take into account that they may not succeed as planned. In the state administration, constant criticism from the public, politicians and the media discourage people from risking something new ... but you can't innovate without making mistakes." – Interviewee from this project

Capacity for Innovation: What is needed to carry out innovative efforts and integrate them into everyday practice?

Summary: The Latvian public sector's capacity to innovate is enhanced by systemic supports such as access to EU funding, the recent Modernisation Plan and the Latvian Innovation Laboratory resilient staff mindsets and the Latvian Innovation Laboratory. However, a resource and capability gap for innovation remains (see Figure 2.7. Resources and capabilities for innovation). Persistent challenges include recruiting and retaining a skilled workforce in the face of competition from other sectors, ensuring the sustainability of funding sources, fostering cross-sectoral collaboration and improving the awareness and functionality of the regulatory, budgetary and legislative frameworks to be more supportive of innovation. A resourced and deliberate portfolio approach to innovation that allows for a broader range of initiatives – from those targeted at immediate improvements to supporting more transformative change – may help to address some of those issues.

Workforce and skills: At the individual level, recruiting and retaining a highly talented public sector workforce is difficult in the Government of Latvia, although this may improve with the recent remuneration reform. However, in the current situation, research participants noted that the net zero component of the remuneration reform is resulting in understaffing and workload issues. This issue was also raised by the state audit office, which flagged that some institutions cannot afford to maintain their staffing levels and that the amendments provided in the remuneration reform will not solve all the remuneration problems in state administration (State Audit Office of the Republic of Latvia, 2022^[25]; State Audit Office of the Republic of Latvia, 2021^[9]).⁴ While the introduction of innovative job families and forthcoming competency framework (part of the RRP) has acknowledged the need for public servants with different skillsets, recruitment and retention challenges associated with tight budgets and a desire to shrink the public sector workforce make it extremely difficult to sustain new initiatives (Cabinet of Ministers, 2022^[26]) (State Audit Office of the Republic of Latvia, 2021^[9]).

Only 21 % of those surveyed indicated that **workforce planning**, including the recruitment of **diverse teams** representing a wide range of **backgrounds** and **skillsets** as always or often an aid to implementing new and innovative approaches. (OECD OPSI, 2023^[8])

"Human resources are the most valuable resource of every organisation. The knowledge and skills of employees are an essential prerequisite not only for the high-quality performance of functions, but also for economic handling of material resources." (State Audit Office of the Republic of Latvia, 2021^[9])

While public servants participating in this research demonstrated an appetite for advancing skillsets and learning, limited funding has been committed to skills development and training making access to the latter difficult at times. For example, the Latvian School of Public Administration lacks consistent funding to provide a regular service offer to public servants – expanding the service of the school could be of great benefit to the public service (e.g., offering training in behavioural insights, user-centred design, experimentation, strategic foresight). There is also a question of impact of training programmes, for example, many public servants participated in the 'train the trainer' programme on design thinking at the [Latvian School of Public Administration](#), however, the results remain uncertain on the effectiveness of implementing those skills in their home institutions.

"Changing existing mindsets and achieving significant change in the work of state administration is often hard without attracting new and qualified employees." (State Audit Office of the Republic of Latvia, 2021^[9])

Mindsets: Interviews and focus groups identified the importance – and existence – of resilient mindsets and entrepreneurial behaviours to navigate the challenging operating structures. Creating spaces for innovative activity will help to support innovative attitudes, such as those laid out in the OECD's innovation

skills framework such as data literacy, user-centricity, curiosity, storytelling and insurgency (OECD, 2017^[27]).

“Latvians are creative, there are a lot of people with great ideas who in their heart want to change things... but the system as is very stagnant. We need to find a way to enable those people - and to change the culture ... this is how we get more, better things done.” - Interviewee from this project

Portfolios of innovation: Currently, at the organisational level, innovation skillsets and capacities favour innovations focused on enhancement and adaptation, primarily aiming at cost and time savings and organised on an ad-hoc basis (OECD Observatory of Public Sector Innovation, 2021^[28]). Targeting systems change and tackling more complex challenges remain rare, despite some initial efforts at the organisational level to build capacity for mission-oriented and anticipatory innovation (OECD, 2023^[4]). For example, the Investment and Development Agency of Latvia (LIAA) has worked to expand the anticipatory function of its ecosystem approach (See Box 2.6. *Anticipatory and mission-oriented innovation in LIAA*).

Box 2.6. Anticipatory and mission-oriented innovation in LIAA

The Latvian Investment and Development Agency (LIAA) has been spearheading mission-oriented and anticipatory innovation approaches in Latvia. Mission-oriented innovation is an approach aimed at tackling measurable, ambitious and time bound targets that demands stakeholder collaboration from across sectors or organisational silos. Building capacity to use these approaches across Latvian public sector institutions will help to compliment more common uses of innovative approaches to enhance existing efforts and adapt to changing circumstances.

LIAA adopted “Mission Sea 2030” based on the EU Mission “Restore our Ocean and Waters by 2030”; working with actors across sectors to develop innovative solutions to improve clean water technologies, water innovation, water resource preservation technologies etc. Furthermore, work on the City to Sea: Mission Cities in Latvia has also provided an opportunity to fund urban mobility and water innovation projects through an innovation accelerator.

Anticipatory innovation governance can help governments to continuously identify, test and implement innovative solutions to benefit from future opportunities while reducing the risks through increased resilience of their public sector systems. In the area of Anticipatory Innovation Governance, LIAA has been working with the photonics ecosystem to implement anticipatory approaches such as horizon scanning to understand the possible change that will affect the smart materials and photonics industries: creating knowledge about the future to act on in the present.

Expanding these capacities across other institutions in Latvia will help to diversify the portfolio of innovative initiatives: creating lasting impact.

Source: (OECD, 2023^[4]; Invest in Latvia, n.d.^[29]; City to Sea, n.d.^[30])

This tendency towards efficiency and cost savings came out clearly in a survey of Latvian public servants on the innovations occurring in Latvia (OECD Observatory of Public Sector Innovation, 2021^[28]). This survey pointed to the fact that 52% of innovations targeted enhancement, 35% targeted both enhancement and adaptation while only 1% of innovations were considered anticipatory (future focused), 1% targeted at

tackling complex missions (mission-oriented innovation) and 5% purely aimed at enhancements (OECD Observatory of Public Sector Innovation, 2021^[28]). These enhancements implied a tendency to focus on innovations that can improve efficiency, deliver better results, build on existing structures and upgrade practices rather than tackling more complex challenges or engaging with emerging shifts and trends before they become concrete (OECD Observatory of Public Sector Innovation, 2021^[28]). A portfolio approach to innovation management would enable public sector leaders to ensure a wider range of innovative initiatives that together can tackle challenges, from simple to complex (across different levels of ambition, scale, and policy area, see Box 2.7. *Innovation portfolio management*).

Significant opportunities remain to expand capacity and supports in the areas of mission-oriented and anticipatory innovation (See Box 2.6: *Anticipatory and mission-oriented innovation in Latvia*).

Box 2.7. Innovation portfolio management

A portfolio approach to innovation means pursuing multiple efforts to achieve goals simultaneously, aiming to connect and orient diverse and multi-faceted innovation activities according to an overall strategy.

This approach has a number of benefits for public sector leaders:

- It recognises the inherent uncertainty of success in any individual project and encourages a wider range of potential projects to be pursued which helps leaders to adopt a more nuanced approach to risk management.
- It can help public sector leaders to identify and exploit synergies between different related innovation activities (for example, where a procedural innovation may be required to support a new technological innovation).
- It creates room for public sector leaders to take a diverse approach to activities and therefore reflect different facets of an innovation (for example, *mission-oriented*: tackling complex challenges or missions, *anticipatory*: making sense of the future and acting on it in the present, *adaptive*: responding to changing circumstances and evidence, and *enhancement-oriented*: aimed at improvement or increased efficiency).

The Finnish Public Innovation Fund, [Sitra](#), has established a portfolio approach to innovation investments which blends a range of strategic goals and pain points to target through innovative initiatives. Furthermore, this approach helps lump projects tackling similar challenges which could otherwise not be tackled in a single project.

The City of Chicago Office of Innovation was established to provide a systemic overview of innovations; tracking ideas, progress, failures and to enable continuity in innovation processes despite changes in political administration.

Sources: (OECD, 2022^[31]; OECD Observatory of Public Sector Innovation, 2021^[32]; Sitra, n.d.^[33])

Collaboration across sectors and between public sector organisations

The Government of Latvia has adhered to the [OECD Recommendation on Open Government](#) which emphasises the importance of open government for building citizen trust, public service modernisation, innovation etc. and commits the government to “grant all stakeholders equal and fair opportunities to be informed and consulted” (OECD, 2017^[34]). Moreover, it highlights the importance of government transparency in public decision-making and access to information to ensure citizens and stakeholders are

aware of opportunities to be actively involved in decision making (OECD, 2017^[34]). Fully implementing this recommendation could help to improve the use of collaborative approaches when designing and implementing innovative solutions.

This research revealed that collaboration across sectors and between public sector organisations can be an enabler for innovation in Latvia, however, participating public servants noted challenges in knowing who, how, and when to engage. For example, 33% of survey respondents noted the contributions of civil society as a promoter of innovation, 33% noted contributions of private companies as a promoter, 50% noted contributions of foundations and 41% the contributions of research institutions (see *Figure 2.5: Barriers and promoters of innovation*). What was concerning however is that nearly 50% noted that the contributions of citizens, private companies, research institutions and civil society as “not relevant” to the development of innovative initiatives (see *Figure 2.5: Barriers and promoters of innovation*).), highlighting a potential lack of recognition of the fundamental role that these groups play in many innovation processes, as both users and collaborators, or to a lack of awareness of how these groups are engaged in innovation activities.

Participants cited a lack of time and understanding of how to meaningfully engage stakeholders as a challenge in the innovation process. The OECD Citizen Participation Guidelines (2022) provide examples of participation methods which could be applied in Latvia, including open meeting and town hall meetings, public consultations, open innovation methods (crowdsourcing, hackathons, public challenges), civic monitoring, participator budgeting and representative deliberate processes. (OECD, 2022^[35])

One example of a collaborative platform used regularly in Latvia to gather input from stakeholders is the [TAP Portal for Draft Legal Drafts](#), aimed at harmonising the development of laws and administrating the input gathering process (Cabinet of Ministers: Republic of Latvia, 2021^[36]). The portal provides administrative simplification, checks and balances, public consultation and improved operationalisation and usability of laws. Other examples in Latvia and internationally can be found in Box 8. *Partnerships across sectors*. Furthermore, within institutions themselves, on 63% of survey respondents noted collaboration across the workplace to be a promoter of innovation (OECD OPSI, 2023^[8]).

Box 2.8. Partnerships across sectors

Innovation often demands collaboration across sectors to ensure that solutions are developed based on cutting edge knowledge, technology and best practices.

The **Innovation Laboratory** has launched a [programme](#) where public servants can shadow business representatives to better understand how legislation and regulations impact them. This enables direct feedback on the functionality and impact of regulations. In 2020, more than 40 companies were visited by representatives of 25 public authorities.

Another example is the **LAMPA democracy and conversation festival**, held annually since 2015. It is a new (innovative) tradition in Latvia that provides safe environment for private and public sector stakeholders, citizens and foreign experts to gather in a festival format to discuss and debate topics related to democracy. Topics include policy making, education, civic governance, ethics, inclusion, culture and the future of democracy itself. As it takes place outside the formal institutions and is enriched with a culture and arts program it has been a revolution in the way how diverse stakeholders can provide feedback and build the culture of trust.

International examples of fostering collaboration to support innovation include:

- **Slovenia's Partnership for Change** aimed at enabling knowledge transfer and build partnerships between sectors. This partnership is based on a cross-sectoral membership programme (350 employees from public administration with 55 companies) where mentorship pairs work to tackle major challenges using an agile approach.
- **Chile's GobLab** has extended membership of their public innovator's network to more than 16,000 members across sectors. This public-private network provides networking opportunities and training which enables the decentralisation of innovative activities and building of innovative capabilities. The network composition is 71% public sector, 14% civil society, 11% academia and 4% private sector.

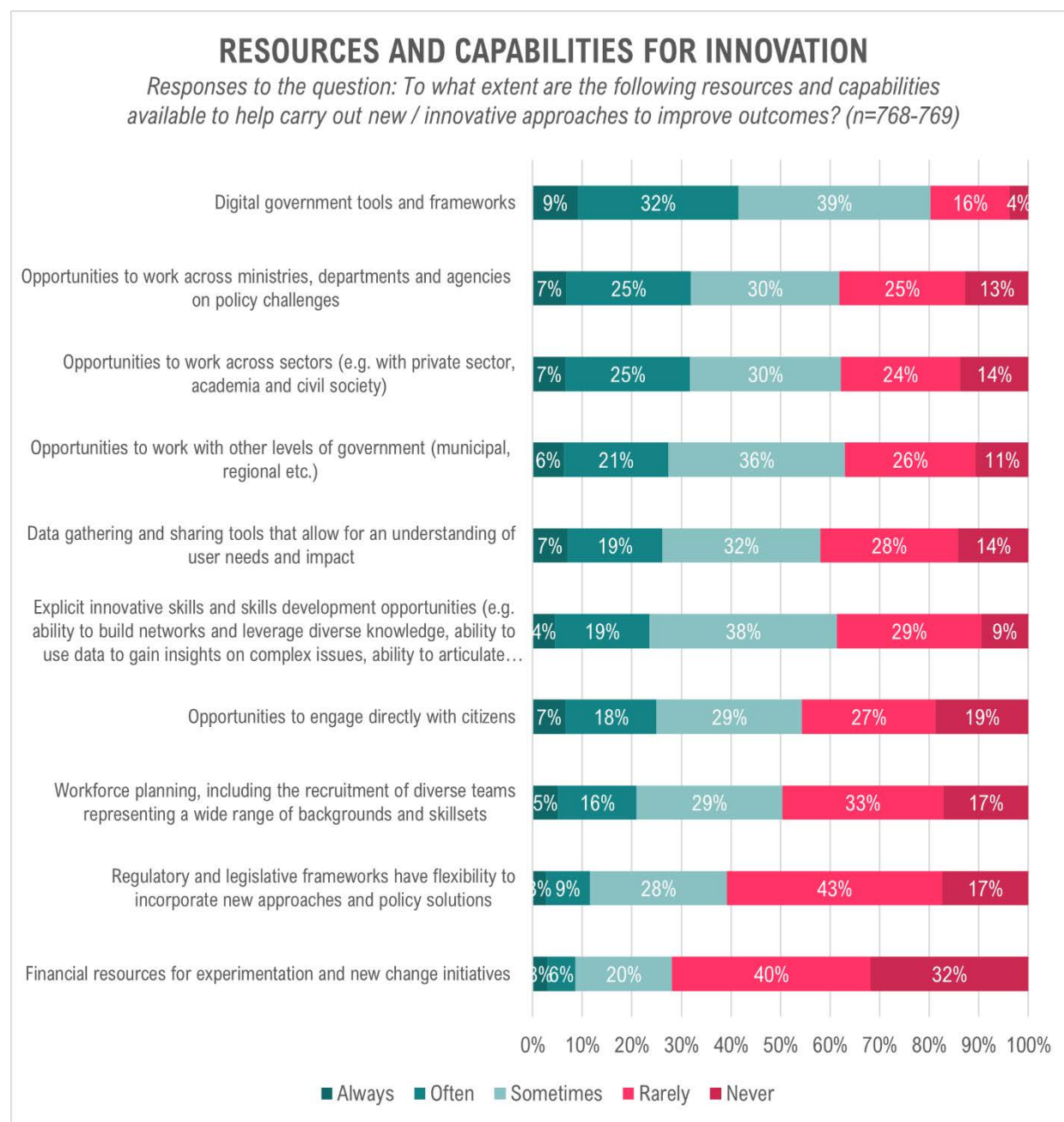
Sources: (GobLab Chile, 2018^[37]; OECD Observatory of Public Sector Innovation, 2022^[17]; Festivals Lampa, 2023^[38]).

Funding and EU projects: There is significant funding available for ad-hoc innovative initiatives and projects. However, sustainability and continuity of resources for directed portfolio of innovative activities is lacking in Latvia. This challenge was evidenced in the survey which indicated that financial resources for experimentation and change initiatives was raised as one of the strongest resource and capability gaps for innovation. 72% of those surveyed indicated the availability of funding to carry out new and innovative approaches as a barrier to innovation (OECD OPSI, 2023^[8]).

Dedicating domestic budgets and funding to innovation can help support a deliberate and directed portfolio of innovative activities, linked to measurable and reportable goals. While external funding for innovative projects is a key asset, a lack of funding for consistent staff resourcing can lead to heavy workloads and issues with sustainability (European Commission, 2023^[39]; European Commission, n.d.^[40]; European Commission, 2022^[5]; European Commission, 2022^[20]). The Modernisation Plan provides an opportunity to more sustainable resourcing for innovative initiatives which are directly tied to clear strategic priorities over a multi-year period. This will enable some direction and continuity and can demonstrate the potential for a resourced innovation strategy.

“There is a fixed amount of resources needed to ensure proper functioning of government and we barely have that. It leaves little room for trying new things because we’re always focused on reducing expenditures but not any other corresponding cuts.” – Interviewee from this project

Figure 2.6. Resources and capabilities for innovation



(OECD OPSI, 2023^[8])

Governance frameworks: The majority of public servants surveyed perceive laws, procurement, and regulatory rules as barriers to innovation. In particular, 61% of those surveyed indicated there was a lack of flexibility in regulatory and legislative frameworks for innovation, and procurement was one of the most commonly mentioned issues in focus groups (OECD OPSI, 2023^[8]). Participants noted that in some cases,

the biggest issue may be actually understanding how innovative initiatives can be conducted within existing regulatory and procurement frameworks, rather than the frameworks themselves.

Data sharing, IT and digital infrastructure: Digital government tools and frameworks were identified as the strongest resource/capability support for innovation, with 80% of survey respondents indicate these as always, often or sometimes a support for carrying out new and novel approaches (see Figure 2.6: Resources and capabilities). The recent consolidation of IT infrastructure may make it easier to have access to the necessary tools needed for innovative initiatives. Moreover, a centralised model makes it easier to collaborate with other institutions in designing and implementing innovations.

Institutionalisation of Innovation: Latvia's adherence to the [OECD's Declaration on Public Sector Innovation](#), in addition to the creation of an Innovation Laboratory in the Latvian State Chancellery, are significant steps. The creation of an innovation strategy and action plan, with explicit measurement indicators, clear responsibilities and dedicated resources for implementation will help to provide capacity for innovation across the entire public sector (see Box 2.9. *Public sector innovation strategies: The example of Ireland*).

Box 2.9. Public sector innovation strategies: the example of Ireland

Public sector innovation strategies can help to steer a portfolio of innovative efforts to strategically deliver on a government's priorities and goals while ensuring continuity of services. Innovation strategies should tie innovation efforts to a key vision, linking efforts to clear incentives and individual and organisational level responsibilities, defining key success metrics such as clear outcome and impact measures and developing a clear communication and implementation plan to ensure the strategy's implementation (backed with resourcing).

Innovative efforts in Ireland are guided and steered by the Government of Ireland's innovation strategy: [Making Innovation Real – Delivering Today, Shaping Tomorrow](#). The strategy sets a clear vision for innovation and lays out four key priorities:

1. Citizen-centric innovation
2. Culture of innovation
3. Scale-up innovation
4. Transformative innovation

A number of key elements have been included in the strategy to guide its implementation:

- Clear mapping of the vision to priorities, goals, actions, rationales and success criteria.
- A nominated body (Innovation Division of the Department of Public Expenditure and Reform) responsible for its implementation and frequent progress review through the Public Service Reform and Development Framework.
- An [innovation canvas](#) aimed to help organisations identify initiatives to bring innovation to life, mapped to key priority areas.
- An [innovation snapshot tool](#) aimed at helping public service bodies assess their innovation maturity.
- Accompanying [implementation guidance](#) to help public sector organisations translate the strategy into action in their organisations (e.g. by establishing organisational level innovation strategies or to guide their innovative efforts).

Source: (BCG, 2018^[41]; Government of Ireland, 2020^[42])

The role of the Innovation Laboratory in enhancing innovative capacity

The Innovation Laboratory has played a key role in supporting the Innovation Network and the use of design thinking methods in Latvia since its inception in 2018. It was founded to increase public sector innovation by supporting skills development and innovative practice across the public sector. With funding from the Recovery and Resilience Funds (European Commission, n.d.^[40]), the Laboratory has a key opportunity to refine, define and communicate a clear service offer which links to the strategic priorities of the Latvian government (see Box 2.10. *Innovation in the National Recovery and Resilience Plan*).

However, the Laboratory has faced staff shortages and resourcing issues since its creation in 2018. This has prevented more continuity in the Laboratory's service offer and impacted on the range of activities and support it has been able to offer. While most innovation laboratories have a staff base of at least four (some ranging up to twenty – see Box 2.11. *Staffing of Innovation Labs*) the Innovation Laboratory in Latvia has only had one or two staff members. Funding from the RRP will help to increase staffing for the Innovation Laboratory in the short term (until 2025), but longer-term resourcing is uncertain, risking the labs long-term sustainability.

Box 2.10. Innovation in the National Recovery and Resilience Plan (RRP)

The RRP includes a number of key activities to improve the capacity of the Innovation Laboratory to support the development of innovative skills, initiatives and activities across the Latvian Public Sector and surrounding ecosystem. There are four key components aimed at building capacity:

1. **Improving the legal framework for the innovation ecosystem:** strengthening the role of the innovation laboratory as an operational supporter of the ecosystem, paired with legal acts to facilitate the application of innovation methods and design thinking in procurement.
2. **Strengthening the role of the Innovation Laboratory and solidifying the service offer:** Equipping the Innovation Laboratory with permanent staff and a physical space with necessary resources. Furthermore, the lab offers three key services: organisation and management of design thinking sprints, pilot development support and innovation and consultative support for the application of innovative methods. The design sprint process has already begun with a [call for ideas](#) and selection of projects including citizen understanding of tax declarations, re-imagining standards of higher education and cadastral systems.
3. **Skills and competency development:** Developing and implementing design thinking sprints, a training programme for management and innovation experts and experience exchange opportunities with innovation labs across countries.
4. **Communication activities:** The establishment of communications activities related to innovation sprints, dissemination of results of pilots, clarity of information and adoption of good practices. The lab will also organise innovation awards at the end of the project.

These activities will help to solidify the role of the lab, while enabling access to resources during the implementation period (until end of July 2025).

Source: Latvian State Chancellery (2023).

Box 2.11. Staffing of Innovation Labs

The effectiveness and longevity of innovation labs depends extensively on positioning, leadership, resources and staffing. Without these elements, in particular, a consistent workforce, innovation labs are unlikely to achieve their desired impact.

Small innovation labs benefit from a high degree of agility and relatively limited scrutiny and oversight in comparison to large innovation labs:

- The [Estonian Innovation Team](#) has a core staff of four (human resource, design and tech backgrounds)
- The [Belgian NIDO Lab](#) has a staff of six (fluctuating), with heavy reliance on interchanges and doctorate students.
- [UNDP Accelerator Labs](#) are consistently comprised of three staff: head of experimentation, head of exploration and head of solutions map.

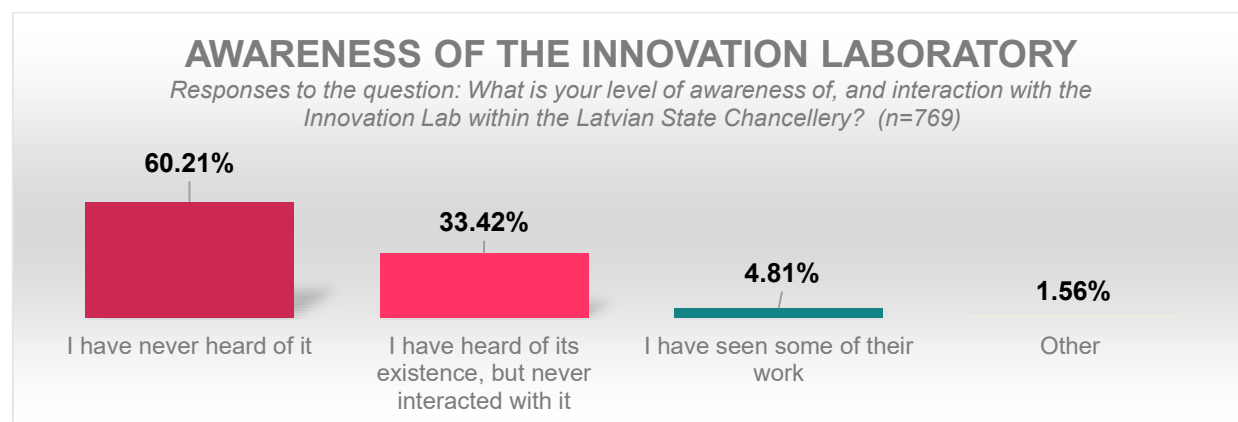
Larger innovation labs benefit from the possibility to run much more extensive, and a larger volume of projects and business lines.

- [LabX Portugal](#) has grown to a core staff of eight including engineers, communications experts, mathematicians and technical experts.
- Chile's [Laboratorio de Gobierno](#) has grown from an initial structure of only a few staff to a staff of 21 as it continues to expand its reach and operations.
- [Impact Canada](#), which runs a challenge-based innovation and behavioural insights programme has a core team of approximately 20 people in addition to recruiting innovation fellows who are deployed directly in ministries.
- [Policy Lab UK](#) has a team of 16 including a mix of designers, researchers and policymakers.

Source: OECD Observatory of Public Sector Innovation - direct interviews and engagement with innovation labs.

The innovation laboratory in Latvia is still in its early years and staffing shortages have made it difficult for the lab to secure visibility and sustainability in the Latvian public sector. Long-term funding, leadership support, a clear communications strategy, an explicit service offer, and consistent staffing will help the lab build its reputation and stability. The survey from this project clearly demonstrated the lack of awareness of the majority of public servants of the presence of the lab and an even greater lack of involvement of public sector staff in the lab's operations (Figure 7). 60% of respondents had never heard of the lab and only 5% indicating that they have seen some of the lab's work (OECD OPSI, 2023^[8]). Respondents had a difficult time indicating what and how they would like to see the lab grow and improve due to a lack of awareness of the lab's activities. Those involved in workshops and focus groups recognised the importance of the Innovation Network and design thinking training, but they noted that it is often difficult to translate learnings into action within their respective ministries.

Figure 2.7. Awareness of the Innovation Laboratory

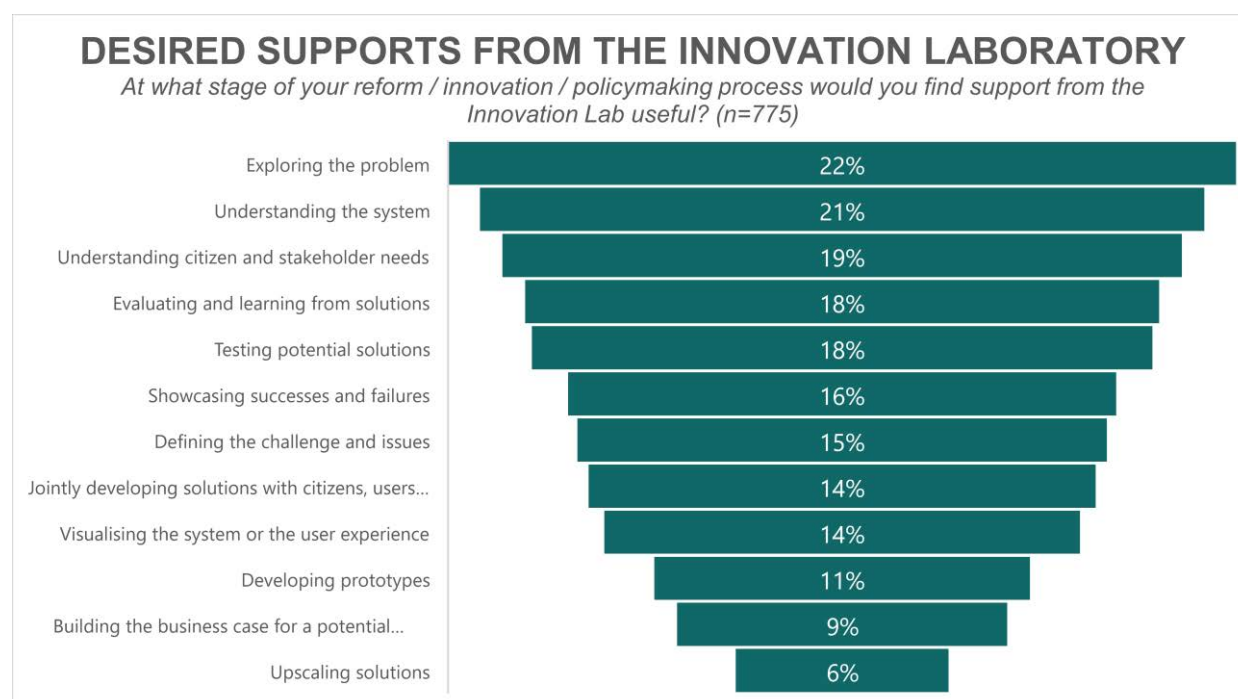


Source: (OECD OPSI, 2023^[8])

In the majority of cases, respondents did not indicate a specific need for assistance from the Laboratory (OECD OPSI, 2023^[8]). Figure 8: *Desired supports from the Innovation Laboratory*, represents the areas in which respondents were interested in support from the innovation lab. With the most popular areas being exploring the problem (22% indicating interest), understanding the system (21%) and understanding citizen and stakeholder needs (19%).

"The Chancellery and Lab need to sit down and determine their vision for the lab, then make concrete decisions." – Interviewee from this project

Figure 2.8. Desired supports from the Innovation Laboratory



Source: (OECD OPSI, 2023^[8])

Considerations for the Latvian public sector

This analysis highlights a number of opportunities to improve the capacity of the public sector to carry out and embed change. In particular: providing consistent domestic funding for innovative projects (i.e., piloting, implementing an innovation strategy, supporting the Innovation Laboratory) can support continuity beyond electoral and EU project cycles; adopting a portfolio approach to innovative initiatives will help to balance risk and ambition while aiming to meet key strategic objectives; cementing the role of the Innovation Lab as an important implementation partner will facilitate improved collaboration and knowledge sharing.

Based on the above analysis, the Latvian government may consider to:

- **Link the work of the Innovation Laboratory to the Government's key strategic priorities**, including the Modernisation Plan and other key strategic documents (Sustainable Development Strategy, National Development Plan) and develop a strong communication, engagement and dissemination approach for the Laboratory which engages relevant stakeholders and communicates clearly the impact of the Laboratory's work (e.g., innovation demonstration cases for key modernisation plan areas, flagship projects linked to Government priorities).
- **Increase dedicated funding and resourcing for the Innovation Laboratory** to ensure its sustainability, ability to deliver on key objectives and priorities and capacity to support the innovation agenda in alignment with key Government priorities.
- **Leverage the role of the Innovation Laboratory as a training body and convener to enhance relationship between auditors, regulators, procurement specialists and public servants** and educate them in finding opportunities and flexibilities for innovation in these frameworks (e.g. through mechanisms such as working groups, workshops and opening of communications channels, exposure and training on international best practices).
- **Create interdisciplinary teams and working groups** that blend knowledge in procurement, regulation, policy and service design to identify how innovations can be implemented within existing public governance frameworks and to identify where frameworks need to be changed.
- **Support employees' desire to learn and build their skillsets by enhancing training opportunities available through Latvian School of Public Administration and Innovation Laboratory and improving the efforts of human resource professionals to increase awareness and facilitate access to training** (including providing sustained resources to these organisations), ensuring that training opportunities are regularly assessed to ensure their impact (e.g. training to technical experts, policy designers, procurement specialists on topics such as user-centred design, innovative workforce management, innovative procurement).
- **Build on workforce development opportunities stemming from the remuneration reform, forthcoming competency framework and creation of innovative job families** to build a diverse public sector workforce: recognizing that a net-zero approach risks leading to work overload, burnout and retention issues.
- **Develop and test experimental funding mechanisms** to fund experiments and prototypes in a safe space to diversify the innovation portfolio and close the gap on financing for innovative initiatives (see Box 2.4. *Innovative pilot projects and sandboxes*). Support projects that go beyond enhancement and cost-cutting, such as implementing the experimentation guidelines and creating specific spaces for new ideas to be developed, tested and implemented.
- **Continue efforts in the area of data interoperability, IT interoperability and data sharing** to enable cross-cutting innovations.

Impact of Innovation: How is the impact of innovative efforts understood and fed into future practice?

Summary: Over the past decade, a strong emphasis has emerged on introducing key performance indicators for strategies and initiatives which is promoting a culture of measurement and performance in the Latvian public sector (Reinholde, 2015^[43]). In particular, the use of performance-based budgeting has reinforced the importance of performance in both outcomes and outputs. While this has enabled efforts to be linked to key outcomes to society and priorities of the government, a tendency remains to promote status quo solutions rather than searching for ones that are more effective or optimal. Furthermore, participants noted difficulties in finding the right measures to assess effectiveness and impact of policies and services, particularly understanding how to use evidence and data throughout all stages of policy and service design cycles rather than at the beginning and end of planning and budgetary cycles. Improved impact measurement of government policies, throughout the entire policy cycle, will help to identify opportunities for innovation when policies and services that are not meeting citizen and user needs. Furthermore, explicit tools and skills to measure the impact of innovations are largely absent. Finally, creating more opportunities to share learnings from evaluations and experiences of innovating could help support the scaling and spreading of successes and learning from failures.

“You need to be able to say something doesn’t work and terminate it.” – Interviewee from this project

Performance based budgeting

Research participants have noted that a strong emphasis on KPIs in decision making, such as through performance-based budgeting in Latvia, is encouraging a culture of performance and measurement in the Latvian public sector. The use of performance-based budgeting in priority measure areas aims to link policy measures to policy goals, measurable results and communicable progress (Ministry of Finance of the Republic of Latvia, 2021^[44]). Performance budgeting can help to shift away from a focus on inputs towards a focus on outcomes and results in achieving key policy objectives (OECD, 2019^[45]). The Latvian budgetary processes have performance information embedded into all stages of budgeting (Latvian State Chancellery, 2021^[46]):

- Annual spending reviews: e.g., assessment of previous outputs (operational performance indicators), outcomes (policy performance indicators) and costs
- New spending measures and initiatives: e.g., setting specific and measurable objectives, expected operational performance indicators (outputs) and policy performance indicators (outcomes).
- Budgetary requests and parliament: e.g., policy and resource management scorecards that assess goals, policy performance indicators, operational performance indicators and quality indicators
- Post-parliamentary adoption: e.g., spending mapped to outcomes and outputs

Since 2016, “score cards” have been introduced in Latvia’s annual budget process to help understand the linkage between resource allocation, policy goals and outcomes (Ketners, 2020^[47]). Furthermore, changes in the budgetary system over the past decade have involved an increasing emphasis on review of achieved results (Ketners, 2020^[47]). When reporting on state budget execution, institutions have to explain any deviations that exceed 15% (positive and negative) from planned performance indicators (Ministry of Finance of the Republic of Latvia, 2021^[44]). This approach helps to measure and communicate results and to provide results to citizens on how the state budget is delivering results (Ministry of Finance of the Republic of Latvia, 2021^[44]).

While performance-based budgeting could allow for more strategic spending, focus on efficiency and effectiveness, horizontal financing and prioritisation of key focus areas (OECD, 2019^[45]), research participants from focus groups and interviews noted concerns that tying budget to performance has resulted in targets which are at times restrictive rather than ambitious and encouraging of innovation and bold, ambitious goals. The strict nature of performance-based budgeting, which can produce harsh consequences for unintended outcomes, may also make public servants less motivated to test new approaches that could produce greater impact but may also result in failures or unintended consequences. Research to date on performance-based budgeting has shown that many countries have gradually shifted towards performance-informed, rather than performance based budgeting, while others use it as a means to classify decisions taken in budget formulation rather than a strict decision making mechanism (OECD, 2019^[45]). Participants from this research suggested that KPIs are also not always sufficiently ambitious and only 48% of survey respondents reported that they continue to prioritise identifying better solutions over day-to-day solutions (OECD OPSI, 2023^[8]). There is a concerning perception that the linking of future budgets with performance against KPIs has led to the use of easily achievable, relatively unambitious KPIs due to fears of losing budgets or possible reputational risks.

There are opportunities to explore more flexible frameworks for KPI setting that create room for more ambitious goals, more flexibility for unintended results, or that enable a more nuanced approach to accountability management that recognises and rewards a greater appetite for risk within defined innovation priorities or policy areas (see Box 2.12. *Examples of approaches to objective setting, measurement and accountability*). Public servants need to believe that bolder goals are achievable, however, they still need to be radical enough to push the imagination of what is possible (Intrafocus, 2018^[48]). To create space to find new solutions to reach more ambitious goals, future budgets should be informed, but not directly linked to the achievement of these targets.

“People are afraid or not willing to put bigger goals than those they can actually achieve, because not achieving them in governmental level is a failure. Sometimes you can get fired as a result, or get less budget. It's an important thing that government tell institutions and ministers that it's okay to achieve 70%, for example, of your goals.” – Interviewee from this project

Box 2.12. Examples of approaches to objective setting, measurement and accountability

Ambitious and measurable objectives can help prompt transformative innovation and support public sector leaders to prioritise activities and demonstrate results, while nuanced approaches to accountability can help to navigate uncertainty and risk.

KPI setting:

There are many ways to set KPIs that allow for flexibility and innovation. For example, one approach is ‘Objectives and Key results’ (OKRs), a widely used performance management method that combines longer-term ambitious aspirations (‘Objectives’) with shorter-term measurable impact (‘Results’) (OECD Observatory of Public Sector Innovation, 2022^[17]; Bain & Company, 2023^[49]; Panchadsaram, 2021^[50]). This approach helps to ensure leaders avoid setting objectives which lack ambition. These objectives and results are then monitored and adapted frequently, enabling leaders to respond to change and uncertainty inherent in innovation (Prince, n.d.^[51]). This ability to track and adapt KPIs is particularly useful given the inherent uncertainty when testing new ways of working for the first time. This approach was developed in the private sector but is used by various teams in the UK Government and LabX Portugal amongst others (OECD Observatory of Public Sector Innovation, 2022^[17]).

Accountability within more adaptive results frameworks:

There is a tension between more adaptive KPIs that respond to the changing context of innovation, and the need for systems in place to ensure individual or organisational accountability for actions and results over time; how can people be held accountable for objectives that change? Adaptive management approaches, more commonly used in the development sector, can increase the agility, utility and capacity to navigate uncertainty (Malhotra, 2023^[52]). However, mechanisms to support accountability within adaptive management approaches should be designed to ensure rigour and explicitly address this tension between accountability and adaptability, even within a more flexible framework (ODI...). For example, managers can ensure that there are pre-planned periodic reviews, reviews involve relevant diverse stakeholders including senior management, all reviews and subsequent adaptations are documented, including the rationale for any decisions, and that the data types and sources used to inform reviews are of high quality and include objective indicators where possible (Ramalingman, 2019^[53]; Rogers, 2020^[54]). Organisation-wide accountability frameworks can also be designed to foster a culture of innovation. For example, Canada's Management Accountability Framework is explicitly used to score organisations on committing resources to innovation, generating evidence to support innovation, and innovating for impact.

Source: (Government of Canada, n.d.^[55]; OECD Observatory of Public Sector Innovation, 2022^[17]; OECD, 2017^[13]; Panchadsaram, 2021^[50]; Prince, n.d.^[51]; Rogers, 2020^[54]; Malhotra, 2023^[52]; Panchadsaram, 2021^[50]).

Policy evaluation and user insights

The overall approach to policy evaluation and performance measurement is evolving in Latvia: 69% of respondents indicated that their organisations regularly evaluate the impact of policies and services (see Figure 2.9. *Understanding impact*), and performance measurement is taking a place of increasing prominence in recent strategies (e.g. [Smart Specialisation Strategy](#), [Modernisation Plan](#)) (Latvian State Chancellery, 2023^[6]). Evaluation practices are considered to be highly transparent, ranking above OECD averages for transparency (OECD, 2021^[56]). However, to improve the impact of policies and public services, there are a number of areas which stand to be improved, including the use of more cyclical policy design (where user input and evidence is constantly gathered, goals constantly revisited and services improved) and increased access to tools and training on user-centred service design, policy evaluation and performance measurement (Japanese Ministry of Economy, 2021^[57]).

The Government of Latvia has adhered to the OECD *Recommendation of the Council on Public Policy Evaluation*, which recommends the promotion of quality policy evaluations and ensure that public policy evaluations impact decision making ([OECD/LEGAL/0478](#), 2022^[58]). This Recommendation highlights the importance of building provisions for evaluation in from the start of an intervention, engaging stakeholders to create ownership for change and trust in results, and build public skills for evaluation ([OECD/LEGAL/0478](#), 2022^[58]).

Latvia currently does not meet all of the standards of this recommendation as policy evaluation remains poorly institutionalised, quality not assessed and usage remains minimal extensive guidance. The majority (61%) of survey respondents indicated that their organisations systemically examine whether solutions are useful (see Figure 2.10. *Learning and reflective practices*). However, 42% of survey respondents indicated an absence of data gathering and sharing tools that allow for an understanding of user needs and impact (see Figure 2.9. *Understanding impact*) (OECD OPSI, 2023^[8]).

Much of the guidance on evaluation, such as that in the *Rules for the development of impact assessments of development planning documents* and the *Guidelines on strategic planning and strategy development*

focuses on assessing impact in strategic and policy planning, and not necessarily on delivery of policies and services (Latvian Chancellery, 2022^[59]; Latvian Cabinet of Ministers, 2014^[60]). In the case of the *Rules for the development of impact assessments of development planning documents*, the developer of the document is responsible for evaluating the impact of the policy on the areas of social impact, macroeconomic environment, development of territories, government budgets, legal norms and international obligations, the environment, and human rights (Latvian Cabinet of Ministers, 2014^[60]). This impact assessment is meant to be conducted in the early stages of policy development, at the mid-term and at the end; pointing to evidence that evaluation does occur at various stages of the policy cycle (Latvian Cabinet of Ministers, 2014^[60]). However, those who conduct these evaluations often do not have specific training in how to do so.

What is most concerning from this research is that 25% of respondents felt that their organisations rarely or never designed policies, evaluations, and decision-making based on user experience, citizen insights, and data (see *Figure 2.9. Understanding impact*). Discussions with focus group and interview participants pointed to a need for more tools and skills to gather evidence on user needs and impact through all stages of the policy cycle (e.g., on a more cyclical basis). The availability of data and evidence was also flagged as an issue by focus group participants. Introducing an agile policy development model, which embeds user insights cyclically in policy and service design and implementation could help improve the use of user data, such as [Japan's agile governance model](#). Furthermore, the OECD Regulatory Policy Outlook noted a specific gap in ex-post evaluations of regulations in Latvia which fell significantly below the OECD average; highlighting a need to better examine the impact of regulations (OECD, 2022^[61]).

Performance measures

Performance measures were established in Latvia through the 2008 White Paper: *Guidelines for the results and performance indicators system* and the 2006 White Paper: *Development of the Policy Planning System* (Reinholde, 2015^[43]; Cabinet of Ministers, 2008^[62]; Pārresoru koordinācijas centrs, 2006^[63]). These original documents aimed to the use of results and performance indicators in policy planning, monitoring and evaluation and to clarify how evaluation fits into the planning cycle (Reinholde, 2015^[43]; Cabinet of Ministers, 2008^[62]; Pārresoru koordinācijas centrs, 2006^[63]). However, in the absence of resources and skills to set effective indicators, and source of meaningful data and evidence, focus was quickly placed on outputs (Reinholde, 2015^[43]). This focus on outputs is slowly shifting as many strategies are including increasing measures on effectiveness and impact - the effectiveness and value of such indicators to inform decision making and improve policy outcomes should be studied further (Reinholde, 2015^[43]; Latvian Chancellery, 2022^[59]; Latvian State Chancellery, 2023^[6]).

For example, the State Administration Modernisation Plan 2023-2027 sets out a number of ambitious goals, including that 70% of state institutions will have adopted an innovation by 2027. In order to monitor if this objective is met, an investment in the measurement, monitoring and sharing of innovative efforts will be required (Latvian State Chancellery, 2023^[6]). Overarching strategies such as the Modernisation Plan could catalyse collaboration across government to collectively develop cross-cutting performance measures and cyclical approaches to policy evaluation where evaluation and understanding of user insights is embedded in all stages of the policy cycle.

"In the Latvian government [it] is not very common for us to have a systemic review on the outcomes of such processes... we do this output measuring but the outcomes measuring is not widely distributed." – Interviewee from this project

Based on the requirements in the budgeting process (setting specific and measurable objectives, expected outputs and outcomes) and rules on the development of planning documents there is a widespread use of KPIs to monitor strategies and initiatives. 88% of survey respondents indicating that KPIs are always, often

or sometimes enablers of innovative approaches (OECD OPSI, 2023^[8]). This is supported by guidelines produced by the State Chancellery to provide clear instructions for helping organisations operationalise strategies with clear performance indicators (see Box 2.13. *Guidelines on strategic planning & strategy development*) (Latvian State Chancellery, 2022^[24]). These guidelines could provide a strong foundation for more effective strategy development that produces impact.

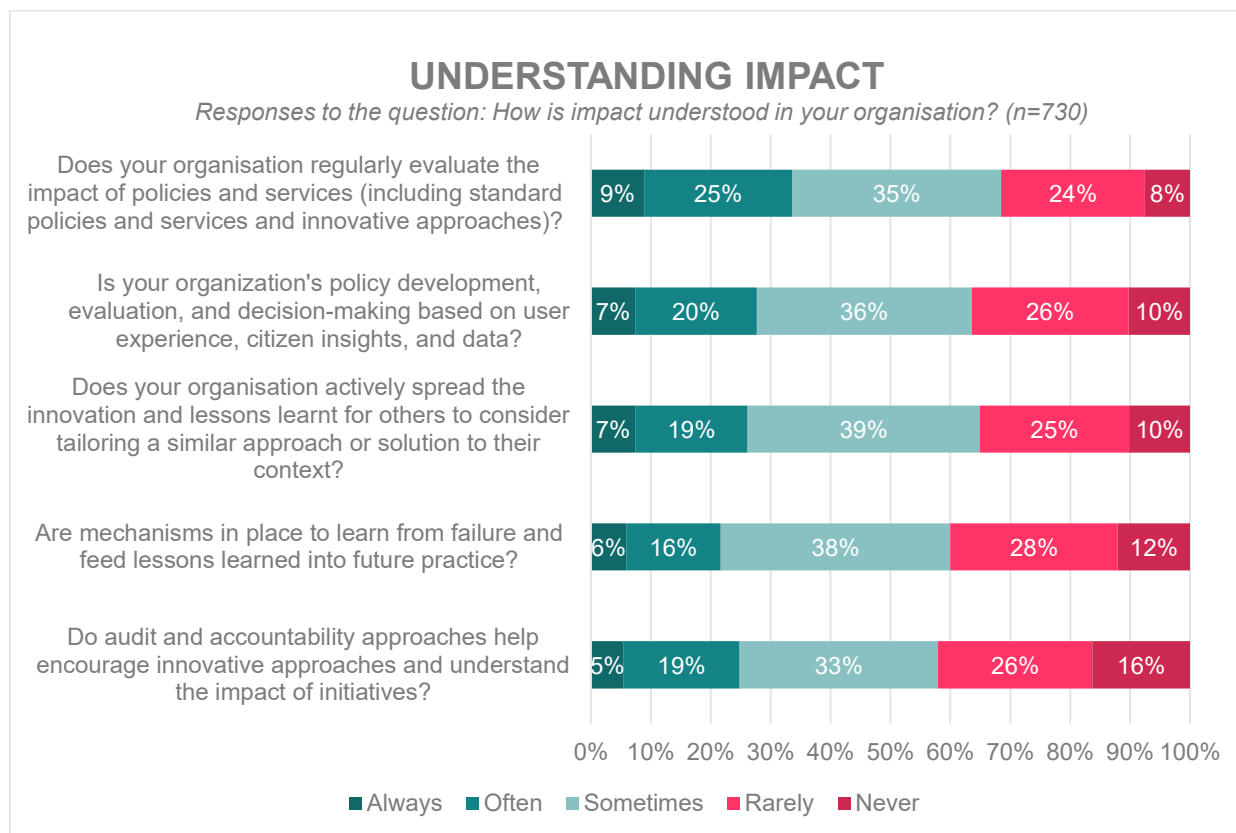
Box 2.13. Guidelines on strategic planning and strategy development

Clear guidelines for strategy development, including setting clear measures for impact can help to ensure strategies are optimised for effectiveness. In 2022 the Latvian State Chancellery published [Strategic Planning Guidelines for Public Administration](#), to help institutions measure progress, purposely develop strategic directions and coordinate resources to achieve goals set out in the plans. This includes linking strategies to work plans, procurement, training and skills and individual work plans.

These guidelines emphasise the importance of building strategies based on evidence (e.g., understanding target groups, external environments and operational capabilities), paired with a clear mission, vision and values, desired results, performance indicators and measures for progress. Understanding target groups' needs includes understanding their interests and expectations, satisfaction in the institution's performance, problems in co-operation with the institution and proposals for improvement. The guidelines also outline how to develop performance indicators for strategies that include specific measures on innovation.

This strategic guidance encourages the gathering of evidence throughout all phases of strategy development, implementation and evaluation to ensure that strategies are producing impact.

Source: (Latvian State Chancellery, 2022^[24]).

Figure 2.9. Understanding impact

Source: (OECD OPSI, 2023^[8])

Audit

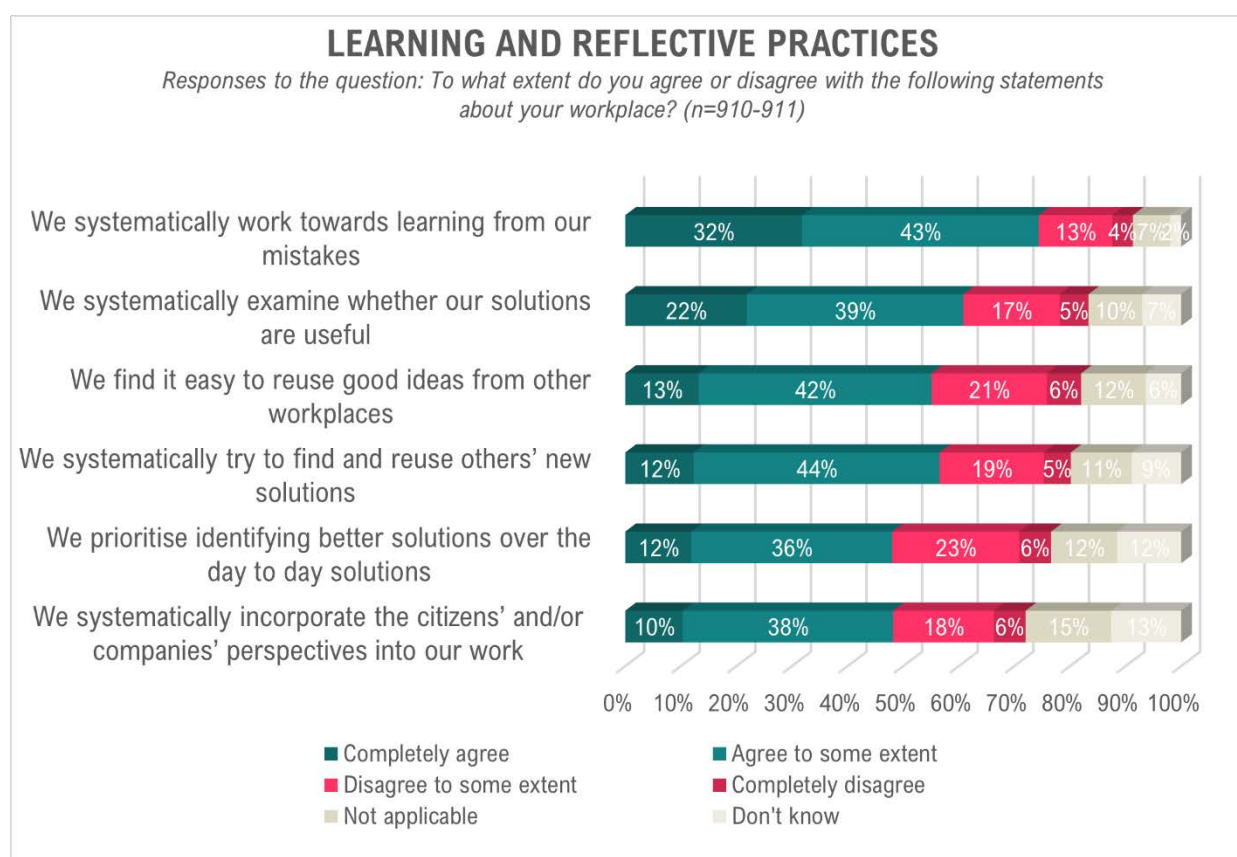
Audit, which is currently perceived as a barrier to innovation, can also be used better to identify policy areas that would benefit from innovative approaches, while still maintaining the integrity and autonomy of the audit institution (OECD, n.d.^[64]) (OECD OPSI, 2023^[8]). Recent studies from the audit office have encouraged innovative approaches, for example, a 2022 audit highlighted the opportunity to leverage innovative approaches to citizen participation to enhance decision making (State Audit Office of the Republic of Latvia, 2023^[65]). However, many participants in focus groups perceived the audit function as one of control and policing, rather than an opportunity for identifying the need for innovation. This may be related to the critical tone present in many audits, which could dissuade readers from accepting constructive criticism as an opportunity for improvement (State Audit Office of the Republic of Latvia, 2023^[65]; The State Audit Office of the Republic of Latvia, n.d.^[66]). The 2022 – 2025 Strategy of the State Audit Office showcases recognition of the need to enhance the relationship between the audit office and stakeholders such as the parliament, audit entities, NGOs, academia to increase the impact of work ensure that communication can help build cooperation amongst these institutions (State Audit Office of the Republic of Latvia, 2021^[67]).

Culture of learning, reflective practices, sharing and spreading solutions

Research participants noted in surveys, interviews and focus groups that there is a strong culture of reflective practices and learning from mistakes in Latvia (overall self-critical culture). The benefits of monitoring and evaluating impact are enhanced by opportunities to disseminate findings and learn from other departments, teams and individuals. Currently, only 55% of those surveyed agreed that their workplaces find it easy to reuse good ideas from other workplaces and only 57% agreed that their workplaces try to systemically find and reuse others new solutions.

74% of survey respondents indicated their workplaces **systemically work to learn from mistakes** (OECD OPSI, 2023^[8]).

Figure 2.10. Learning and reflective practices



Source: (OECD OPSI, 2023^[8])

This indicates a need to complement monitoring and evaluation strategies with explicit knowledge sharing opportunities to ensure the learning process does not only occur at the individual level, but rather extends across organisations and the public sector system (see Box 2.14. *Learning, spreading and sharing innovative ideas*). For example, there is an opportunity to expand the use of networks, such as the Innovation Network, to share and spread innovative solutions. Similarly, the Innovation Laboratory has an important role to play in identifying and signposting towards innovative best practice. There are also opportunities to facilitate more sharing of best practice between municipal governments (see Chapter 3) and to use mechanisms such as innovation awards to share best practices (see Box 2.14. *Learning, spreading and sharing innovative ideas*). Furthermore, encouraging the spreading of solutions (i.e.,

“steeling with pride”) by adapting tried and tested innovative solutions into new contexts (Lykkebo et. al, 2021^[68]).

Box 2.14. Learning, spreading and sharing innovative ideas

Principle Five of the [OECD's Declaration on Public Sector Innovation](#), adhered to by the Latvian government encourages *Diffusing Lessons and Sharing Practices*. To support countries in implementing this principle and encouraging mindful learning, the OECD has developed an [Innovation Playbook](#) which includes key stock take questions, actions and case studies to guide the development of capacity in this area. Global examples of *Diffusing lessons and sharing practices* include:

- The [Netherland's Institute of Brilliant Failures](#) aims to facilitate learning and embrace failure as an opportunity to learn. They provide lectures and workshops on agile learning and developing an organisational climate where mistakes are tolerated, and tools to guide the learning process (such as a magazine, workshops and a failure award).
- The [UN Public Service Innovation Hub](#) which provides an online platform to share stories about innovation projects globally.
- The [Copenhagen Manual](#) which guides the measurement of innovation, including “sharing” and “spreading” innovation and systemically learning from mistakes.

Due to the experimental and risk-intensive nature of many innovations, developing safe spaces to discuss lessons learned is crucial to ensure return for investment (even if failure occurs) to avoid repeating the same mistakes and to spread successes so they can be replicated in new contexts.

Source: (OECD, 2022^[23]; The Institute of Brilliant Failures, 2023^[69]; Center for Offentlig Innovation, n.d.^[70]).

Considerations for the Latvian public sector

The culture of measurement in the Latvia public sector provides a valuable starting point for evidence informed and user focused policy making and innovation. However, the approach reliant on KPIs could be enhanced with increased emphasis on measuring impact of policies and services to identify opportunities where innovation is most urgently needed.

Based on the above analysis, the Latvian government may consider to:

- **Introduce trainings and capacity building activities on how to design and implement policy evaluations and targets in performance-based budgeting processes**, to ensure public servants have the necessary competencies to create meaningful and measurable impact targets, that balance achievability with ambition and ensure that evidence is used throughout all stages of the policy cycle.
- **Integrate user and stakeholder perspectives in the design, implementation and evaluation of innovations** to ensure they are meeting user needs and that the impact of innovations is clearly measured and communicated. This may require more training and tools for public servants to gather and analyse user data.
- **Enhance collaboration, communication and relationships between the state audit office and public servants** to enable audit to be perceived as an identifier of where innovation is needed, rather than a strict control mechanism.

- **Strengthen communication around innovations to build public awareness, spread learnings and spread and scale solutions** (e.g., leveraging the Innovation Network, Lab and establishing potential innovation awards).
- **Develop an approach to monitoring systems-wide innovative capacity to track progress and increase awareness of innovative efforts in Latvia** (e.g., leveraging measurement approaches such as the innovation barometer and linking the future innovation strategy to measurement indicators).
- **Develop learning loops, platforms and forums to disseminate innovation cases and lessons learned from innovation processes and attempts** (e.g., case study repository on Innovation Laboratory website, use the Innovation Network as a forum for sharing lessons learned).

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Notes

¹ Noted in interviews and focus groups.

² Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=911.

³ Noted in interviews and focus groups as well as the OECD Survey on Innovative Capacity in the Latvian Public Sector. N=1151-1153.

⁴ Noted in interviews and focus groups.

Chapter 3. Detailed findings on innovation in the Latvian public sector: Municipal level

Latvian municipal civil servants demonstrate creativity and good will to innovate in response to key governance challenges. The public sector at the municipal level is not naturally conducive to innovation, as risk controls (e.g., audit and accountability mechanisms), limited resources and inflexible legal, regulatory and procurement frameworks often make it difficult to find opportunities to innovate. A desire for transformation and change at the municipal level could be supported with increased resources for innovative activities: including the establishment of safe spaces to test and pilot innovative initiatives, and guidance on how to innovate with citizen needs at the centre within the existing legal and legislative frameworks. Furthermore, municipal public servants could benefit from increased capacity building opportunities in innovation skills.

While centralised supports from the national level for innovative activities could be a significant benefit to municipalities, such supports need to recognise the municipalities' central role in delivering services to citizens. Finally, evaluation and learning mechanisms at the local level are largely informal and could benefit from a more routine approach, focused on impact measures to ensure policies and services are meeting the needs of citizens. A public sector innovation strategy that recognises the

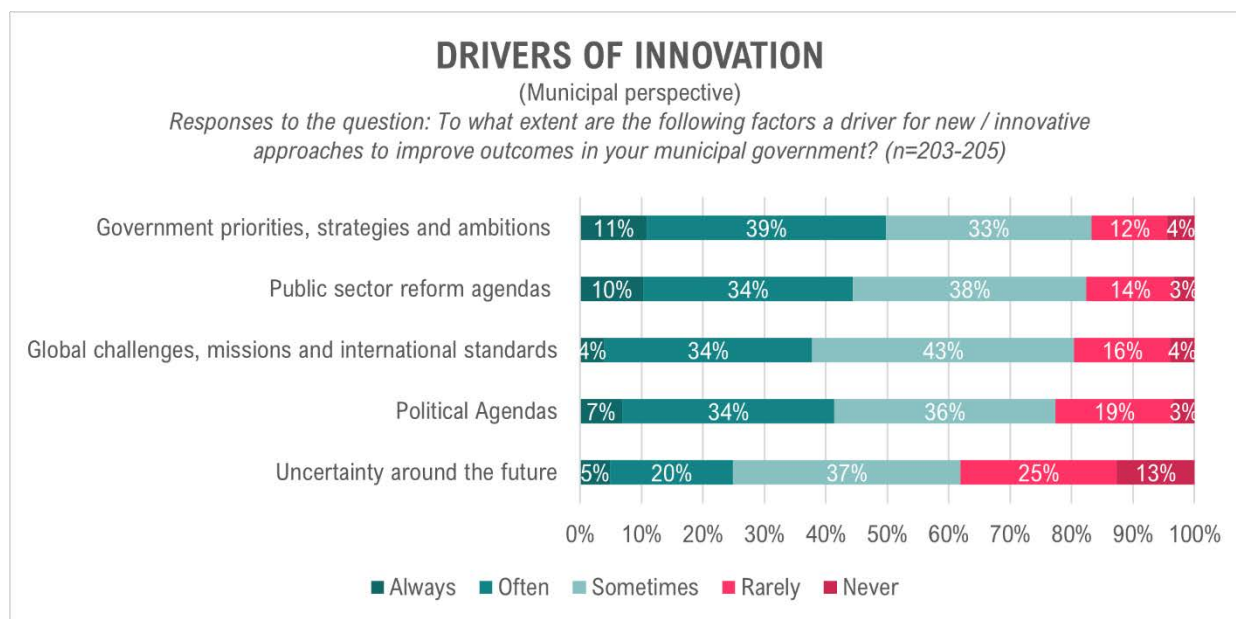
fundamental role of both municipal and national actors could help steer, enable and provide capability for innovative efforts to come to fruition to deliver better impact to citizens.

Purpose: What is driving the intent to innovate?

Summary: The drive for innovative approaches is strong at the municipal level. Research participants indicated that civil servants are typically motivated to try new things based on their personal motivations and will to deliver change for fellow citizens. Systems-wide motivations include the desire to increase efficiency, trust and citizen expectations. The effectiveness of public sector reform agendas, government priorities, strategies and ambitions were varied at the municipal level, potentially due to a lack of buy-in for strategies, lack of the necessary resources to implement such strategies and the focus on immediate service design and delivery. Engaging with external agendas (e.g., EU and OECD priorities) and an evolving governance context (e.g., dealing with crises and shocks, leveraging technology) has also prompted innovation. Political agendas and uncertainty around the future were cited as the least prevalent drivers for innovation. Strong political and public sector leadership drive for innovation linked to government priorities and goals, paired with clear incentives for innovation will be key to consistently stimulating innovation.

Research findings

Figure 3.11. Drivers of innovation (Municipal perspective)



Source: OECD Survey on Innovative Capacity in the Latvian Public Sector, n=203-205.

Innovation and trust

Research participants from municipal government indicated a strong personal motivation to serve citizens effectively. They take pride in doing a good job and contributing to the development of their communities, aiming to improve the lives of their fellow citizens. **Meeting citizens expectations and improving trust in government, is the strongest factor encouraging new approaches to improve outcomes in municipalities**, with 83% of respondents seeing it as ‘always’, ‘often’ or ‘sometimes’ a driver for adopting innovative approaches (see Figure 3.1. *Drivers of Innovation – Municipal perspective*). Trust was reported as a stronger driver at the municipal level than at the national level where only 77.6% noted this to be always, sometimes, or often a driver of innovation (OECD OPSI, 2023^[1]).

At a regional level in Latvia, strong regional disparities in levels of trust are evident with the West (Kurzeme) exhibiting less trust in government than South Latvia (Zemgale) (OECD, 2022^[2]). However, overall, municipal government performed significantly higher than the national level in levels of trust, with 42.1% of respondents trusting the local government and only 24.5% in the national government¹ (OECD, 2022^[2]). While this is common in most countries, the variance in levels of trust between municipal and national government is 2.5 times greater than the average variance of countries surveyed (OECD, 2022^[2]). The average level of trust in the civil service in Latvia (35%) runs higher than the average level of trust in government.

“The public administration's thinking about public administration must be changed - public administration is meant for citizens.” – Interviewee from this project

Box 3.15. Democratic participation in Latvian municipalities

The will to improve public sentiment, better respond to citizen needs and increase trust in government and public institutions is one of the key drivers of innovative initiatives in Latvian municipalities. This is demonstrated in the municipal innovations: ***Democracy begins in the family and the Riga Neighbourhood Platform***.

The municipality of Cēsis has developed a participatory services planning initiative: ***Democracy begins in the family*** alongside academic partners, municipal and national administration which shows how design-driven innovation can improve participation in public decision-making, with the aim to enhance trust in government in the longer term. In this project pilot, Cēsis municipality held a vote for children and young adults to indicate their preferences on how to develop the region, in conjunction with the Saemja elections. This programme was developed as part of the “Design for Democracy” initiative in collaboration between LMA, Cēsis Municipality and the Central Election Commission (CVK). The initiative looked to solve challenges concerning voter activity and civic responsibility by giving school-aged children the opportunity to vote for solutions in their urban environment such as flower colours, playground equipment, and water tap locations.

The **Riga Neighbourhood Platform** uses citizen engagement to make budgeting decisions in the city. It is hoped that this will increase transparency of municipal government decision-making, while also ensuring that funding is directed towards initiatives that people care about.

The platform is a website that enables citizens to propose and vote for ideas to develop their city. Initiatives have a budget of up to 70,000 euros, and range from children's playgrounds or skate parks to traffic improvements or improved street lighting (Balso Rīga, n.d.^[3]). Since 2019, the scheme has received 127 project proposals. Of these, 24 have been voted for by citizens to be implemented, and 7 are now fully installed (Balso Rīga, n.d.^[3]).

It is hoped that innovative and participatory initiatives such as this will improve governmental trust and strengthen relationships between family, city, and country and activate public participation.

Sources: ((Gāgane, 2022^[4]; Cēsis County Municipality, 2022^[5]; OECD, 2022^[2]; Balso Rīga, n.d.^[3]).

Public sector reform agendas, government priorities and strategies

The survey also showed public sector reform agendas and government priorities and strategies and ambitions were perceived as key drivers for innovative approaches, with 81-82% considering these to be sometimes, often or always a driver of new and innovative approaches (government priorities, strategies and ambitions performed slightly lower than at the national level) (OECD OPSI, 2023^[1]) (OECD OPSI, 2023^[6]). However, further research in workshops, interviews and focus groups, revealed scepticism amongst municipal level actors on the capacity of public sector reform strategies and government strategies to drive meaningful systemic change, due to a lack of collaboration between institutions, a disconnect to the bigger picture and lacking civil society engagement in strategies and their implementation. One key challenge raised by the audit office is that municipal strategic goals are not being translated into strategic goals of institutions and achievable targets of employees: making it more difficult for individuals take authority and be accountable for the implementation of these goals (State Audit Office of the Republic of Latvia, 2022^[7]).

Political agendas

Survey respondents noted political agendas to be less of a driver of innovation, with only 25% considering these often or always a driver of innovation, and 37% indicating these to sometimes be a driver (OECD OPSI, 2023^[6]). This challenge was similarly raised at the national level, showcasing a need to engage politicians in the innovation process; clearly communicating and demonstrating to them how innovation can be used to deliver on key strategic agendas (OECD, 2017^[8]) (OECD, 2019^[9]).

“I tried several times to move innovation forward and failed. During my 10 years in the municipality, I haven’t seen any major change in terms of being more innovation minded or attracting talent. The political turmoil in the last two governments has impacted the public sector and the trust in government.” – Interviewee from this project

Innovation-explicit strategies and goals

Despite the presence of strong drivers, municipal governments could benefit from a clear strategic approach to innovation that aims to deliberately drive and steer innovative efforts. Innovation strategies in local government can help provide continuity to innovative efforts, stimulate drive and capacity in the long term and ensure a portfolio of innovative efforts (see Box 3.2. *City innovation strategies*) (OECD, 2019^[9]). The absence of explicit innovation strategies, clearly articulated goals, ambitions, or guidelines for applying new approaches to public work hinders the application of innovation (OECD, 2019^[9]). Careful attention will be needed to ensure that a strategy is co-created with relevant actors and directly tied to organisational and individual responsibilities (OECD, 2019^[9]).

Box 3.16. City innovation strategies

Research conducted by the OECD and Bloomberg Philanthropies has shown that innovation strategies or plans can help cities establish a long-term vision for innovation, link innovation to key objectives, can help create ownership over the innovation agenda and expose public servants to new tools and approaches to innovation. In particular, strategies help increase the testing of new ideas, risk taking, data-driven analytics, user engagement, organisational change and the use of foresight research methodologies.

For example, the [City of Launceston Innovation Strategy](#) (Australia) provides a strategic framework for the city's innovative projects and initiatives; mapping activities to six strategic themes including transport and mobility, digital access and data, people and equity, environment and place, economy and investment, and smart council and government. The City of Riga is currently in the process of developing an innovation strategy.

Source: (OECD, 2019^[9]; City of Launceston, 2023^[10]).

"In essence, the state should set a strategic overarching goal "Innovation". – Interviewee from this project

"We must first start with "innovative thinking" - the understanding that it is a support and not a burden. The barrier of ignorance must be overcome - the unknown often creates a barrier to the initiation and implementation of new solutions. The state must clearly formulate the goals to be achieved and procure funding." – Interviewee from this project

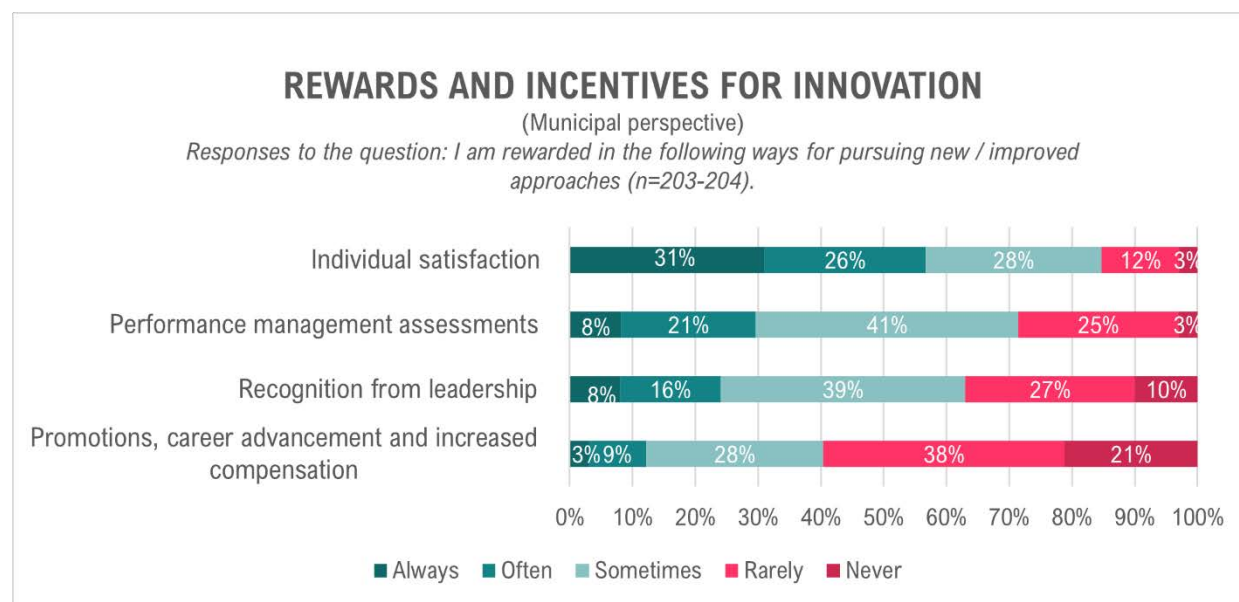
Evolving governance context and international agendas

Innovation in Latvia is also often stimulated by external factors due to an ever-evolving governance environment (e.g., evolution of technology and rise of external crises) and heavy reliance on external funding sources. External drivers of innovation which stood out during this research process included:

- **European policy agenda and funding:** The [European Regional Development Fund](#) programmes as well as wider European policy ambitions around green and [smart](#) cities were mentioned as drivers of innovation as they provide dedicated resources for innovation projects in municipalities.
- **Digitalisation:** New technologies and digital solutions open up (or sometimes enforce) new possibilities for improving service delivery in innovative ways (OECD, 2022^[11]). For example, digital transformation efforts have prompted the creation of a network of the State and Local Government Unified Customer Service Centres ([VPVKAC](#)), where residents can apply for some of the most common state and municipal e-services independently or with assistance. However, municipalities are also confronted directly by the accessibility challenges arising from digital solutions: showcasing the need to provide adaptable services to a wide range of users.
- **External crises,** such as the recent pandemic or ongoing war in Ukraine require quick, innovative, and agile responses. Municipal level research participants, who are often at the forefront of service delivery, observed a lack of support from the central level of government to be properly equipped to manage these crises and shocks.
- **Domestic challenges and pressures,** are often experienced more directly at the municipal level, challenges such as housing supply, delivery of public services (in particular in healthcare and social

protection) and de-population all necessitate innovation in municipalities in order to deliver public services in challenging circumstances (see example in Box 17. *Innovative responses to housing challenges in Valmiera and Riga*) ([Chmielewski, 2023](#); [European Commission 2023](#)).

Figure 3.12. Rewards for innovating in municipal government (Municipal perspective)



Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=203-204

Box 3.17. Innovative responses to housing challenges in Valmiera and Riga

Faced with a key societal challenge: *housing shortages*, the Valmiera Municipality worked to solve housing issues in an innovative and sustainable way. Based on best practices from Austria and Finland, Valmiera commissioned a construction of multi-level apartment buildings. Catering to young families and professionals, the 150 apartments have been designed to work with various accessibility needs and functionalities with apartments specifically designed to accommodate those with functional disabilities. There was no precedent for such municipal investment in Latvia, so the council navigated through heavy administrative procedures, public scrutiny and was required to address private sector concerns that the project would distort competition.

The resulting apartment buildings are classified as a low-consumption structure with high levels of energy efficiency and were awarded for its sustainability, quality and contributions to society. The apartment buildings are a unique project for the nation as they are the first rental houses commissioned by local government (MONUM, 2020^[12]) bolstering Valmiera's position as a modern municipality and encouraging residential relocation to the area (MONUM, 2018^[13]). More recently, the Ministry of Economy has been developing plans to promote energy-efficient and low-cost apartments buildings, the plans for the projects can be downloaded free of charge by local government representatives to encourage the uptake of similar initiatives (Baltic News, 2023^[14]).

The Municipality of Riga responded to a related challenge in a different way. Riga has a large number of empty buildings without heating and in a state of disrepair. The municipal government wanted to find ways to make use of this potential asset (Cooperative City Magazine, 2023^[15]). The municipal government partnered with 'Free Riga', an association of cultural organisations and activists, to encourage the temporary use of empty buildings in ways which would support the economy and community initiatives (Free Riga, n.d.^[16]). The Municipality of Riga offered a 90% property tax reduction to landowners who leased buildings to non-government organisations who met criteria relating to public benefit for people of Riga (Cooperative City Magazine, 2023^[15]).

Sources: (Baltic News, 2023^[14]; Design and Construction Council, 2020^[17]; MONUM, 2018^[13]; MONUM, 2020^[12]; SIA, 2019^[18]; Cooperative City Magazine, 2023^[15]; Free Riga, n.d.^[16]).

Drivers of innovation at the individual level

Based on the survey results, one of the strongest drivers of innovation at the individual level was a desire to improve efficiency in daily work². This desire to streamline processes and reduce bureaucracy stems from multiple delivery challenges faced by the civil servants – such as limited resources, excessive workload, complicated, rigid and lengthy procedures, which will be explored in more detail in the *potential* section of this chapter.³

Only 11% of survey respondents indicated that innovation effort **is routinely rewarded with career advancement or increased remuneration** (OECD OPSI, 2023^[6]).

The survey showcased that individual satisfaction is the most common reward for pursuing improvements in new ways. However, at 57% of responses for 'always' and 'often', it is considerably less than in the central government (66%). Only 11% of respondents declared that innovation is 'always' and 'often' rewarded with a career advancement or increased remuneration (see Figure 3.2. *Rewards and incentives for innovation*), which again is less than 17% at the national level (OECD OPSI, 2023^[11]). Explicit drivers

for innovation, such as through performance evaluations and the establishment of achievable targets for employees are largely absent (State Audit Office of the Republic of Latvia, 2022^[7]). This demonstrates the scope and potential for more formal recognition of individual innovative efforts and setting of achievable innovation-related performance targets to drive ongoing improvement.

“Unmeasurable individually achievable goals continue to be set for employees, which, together with the determination of the same competencies for employees in different positions and the lack of specific requirements for the performance of job duties, makes the planning and evaluation of work performance a formal and thus unnecessarily burdensome process that is not directed towards the goal of leading employees to achieve better results.” (State Audit Office of the Republic of Latvia, 2022^[7])

A recurring theme among respondents was a recognition of Latvia as a creative and progress-driven nation with high aspirations and ambitions for progress and development. Municipalities are a key actors in delivering on these aspirations, however innovations in municipalities are most often in response to a specific issue for the citizens, aimed to increase participation in public decision-making or aimed to improve the trust in government, rather than stemming from a clear government innovation strategy and linked to key government priorities. Steering a deliberate portfolio of innovative efforts, linked to the priorities of municipal governments, could help measure, communicate and gain support for the value of innovation and the impact that innovation can have on local communities.

Considerations

- **Co-create municipal-focused components of a country-wide public sector innovation strategy**, engaging stakeholders across municipalities to define common, goals, objectives and measures and understand how municipal innovation can be best driven, steered and supported by a national public sector innovation strategy.
- **Establish clear goals and priorities for innovation at the municipal level** in alignment with the strategy and government priorities and linking goals and priorities with clear lines of responsibility and measurable targets. Link projects from external funding sources to those key goals and priority areas.
- **Reward individual innovative efforts with recognition and rewards** (e.g., recognition from leaders, explicit indicators and scoring in performance management assessment, innovation awards).
- **Facilitate more intermunicipal cooperation and exchange of practice on innovation** through Latvian Association of Local and Regional Governments or other less formal bodies (e.g., expansion of the Innovation Network) to activate municipal political leaders in promoting innovation.
- **Build innovation literacy among citizens and key stakeholders to accept and demand new and improved ways of delivering public value** (e.g., engaging students through innovation competitions for primary, second and tertiary students, engaging ecosystems in the development of innovative initiatives, communicating about innovative initiatives through all stages of development).

Potential for Innovation: What determines whether innovative efforts are attempted?

Summary: *New technologies and supportive team environment are currently identified as the strongest elements enabling innovation in the municipal public sector in Latvia. However, the public sector is*

generally not perceived as conducive to innovation due to limited resources available (including resources to dedicate to innovation), fear or risk taking, and a lack of systemic supports (e.g., through procurement, regulatory, legislative, audit frameworks) for innovation. Furthermore, as resources largely stem from a variety of external funding sources (e.g., European Commission, European Council of the Regions, Norway Grants etc.), agendas can be fragmented, and teams are balancing many priorities and responsibilities. Research participants argued that a simplification of administrative burden, could help free up time and resources for upskilling and attempting innovative approaches. Furthermore, giving explicit permission to public sector staff could help reduce fears of punitive accountability measures. Finally, enhancing collaboration between municipal governments, non-governmental stakeholders and citizens may help enable innovation to occur.

Research findings

Team and organisational enablers

Municipal level team and immediate work environments were cited as a key enabler of innovation: including ways in which colleagues contribute to innovative projects and cross-organisational collaboration (see Figure 3.3. *Barriers and promoters of innovation in municipal governments*). In particular, team culture, relations and management are seen by the majority as the main enabler for taking up new approaches in municipal institutions. As

many as 95% of respondents declared that their team environment and relations are ‘always’, ‘often’ or ‘sometimes’ enabling them to innovate, and 92% chose these answers for the team management (see Figure 3.4. *Enablers of innovation in municipal government*). This makes it a stronger driver in municipalities than in the central level, where the positive responses were 91% and 83% respectively. Nevertheless, research participants noted that the sector is not perceived as a place conducive to innovation by citizens and civil servants alike (explanatory factors will be explored later in this chapter).

67% of survey respondents declared that innovative approaches to be sometimes (45%), often (18%) or always (4%) accepted and expected in their organisations (OECD OPSI, 2023^[6]).

“There is no innovation in my profession. We think how to make things better for our citizens, but we forget about innovating our work.” – Interviewee from this project

Box 3.18. Municipalities in the Latvian public sector administration

Striking the balance between effective decentralisation, provision of quality services and citizens' sense of belonging.

The relationships between the central and the municipal level of administration is complex, especially when the elected leaders are from opposing political circles (Chmielewski, 2023). The administrative division of power in Latvia underwent a reform in 2021, which aimed to streamline and optimise the administrative division, resulting in significant changes. The number of administrative units was reduced from the 110 municipalities and nine republic cities, to 43 local government units consisting of 36 municipalities (novadi) and seven state cities.

Municipal governments hold significant administrative power: they are responsible for local governance, public services, and infrastructure within their territories. The municipal councils, elected by the residents of each municipality, have decision-making powers regarding local matters, including education, healthcare, transportation, and cultural affairs. The municipal executive authority, led by the mayor or the chairman of the council, is responsible for implementing the decisions made by the council and managing the day-to-day operations of the municipality. Municipalities come together under five planning regions (plānošanas reģioni) which are important in development and implementation of spatial planning and investment programmes (including EU funding), organisation of public transport and facilitation of collaboration with local governments and national level institutions on regional development (CoR, n/d).

While this reform showcases potential benefits in the availability of more centralised services to simplify administrative burdens and provide access to more tools and training for innovation, however, the effects of the reform are yet to be determined. Research undertaken through this project highlighted that this reform may have created additional administrative burden on local governments to implement their new duties (taking potential time away from innovative processes) and has raised additional tensions between the municipal and national levels.

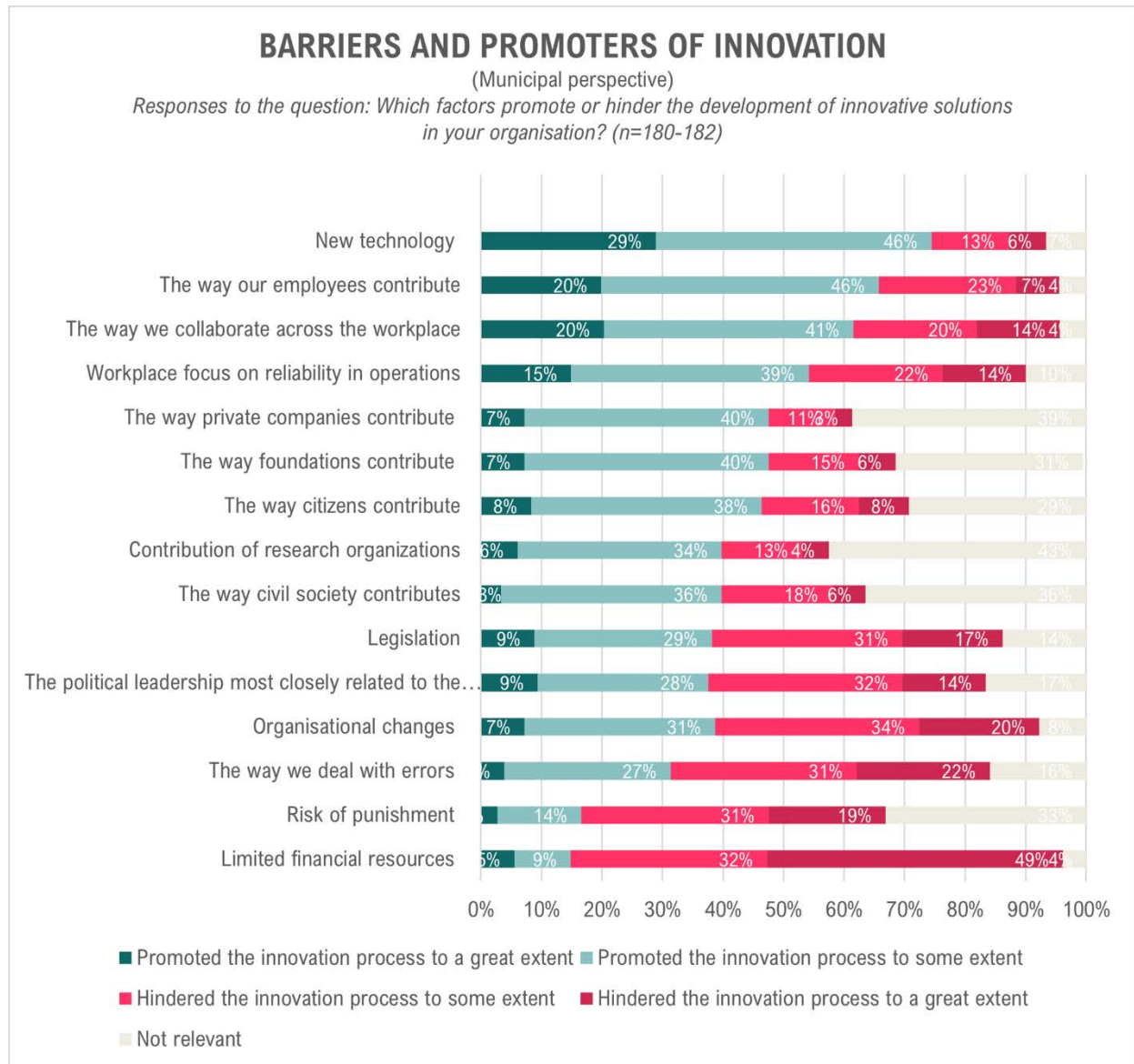
"New ideas are also hindered by the fact that local governments still have to adapt to the new situation after the last territorial reform. It's not that easy. New duties that are imposed on local governments require a lot of resources (financial, human capital), which does not allow us to look at something new as much as we would like and need." – Interviewee from this project

Source: (Chmielewski, B, 2023^[19]; European Committee of the Regions, n.d.^[20])

Digitalisation and new technologies

Digitalisation in Latvia municipalities has proven to be both a driver and enabler of innovation. **New technologies are seen as a leading factor promoting innovation in municipal public sector** with 75% of positive responses (see Figure 3.3. *Barriers and promoters of innovation in municipal governments*) (OECD OPSI, 2023^[6]). Capacity factors related to digital government, data gathering, and data and digital interoperability are raised in the *Capacity* section of this chapter.

Figure 3.13. Barriers and promoters of innovation in municipal governments

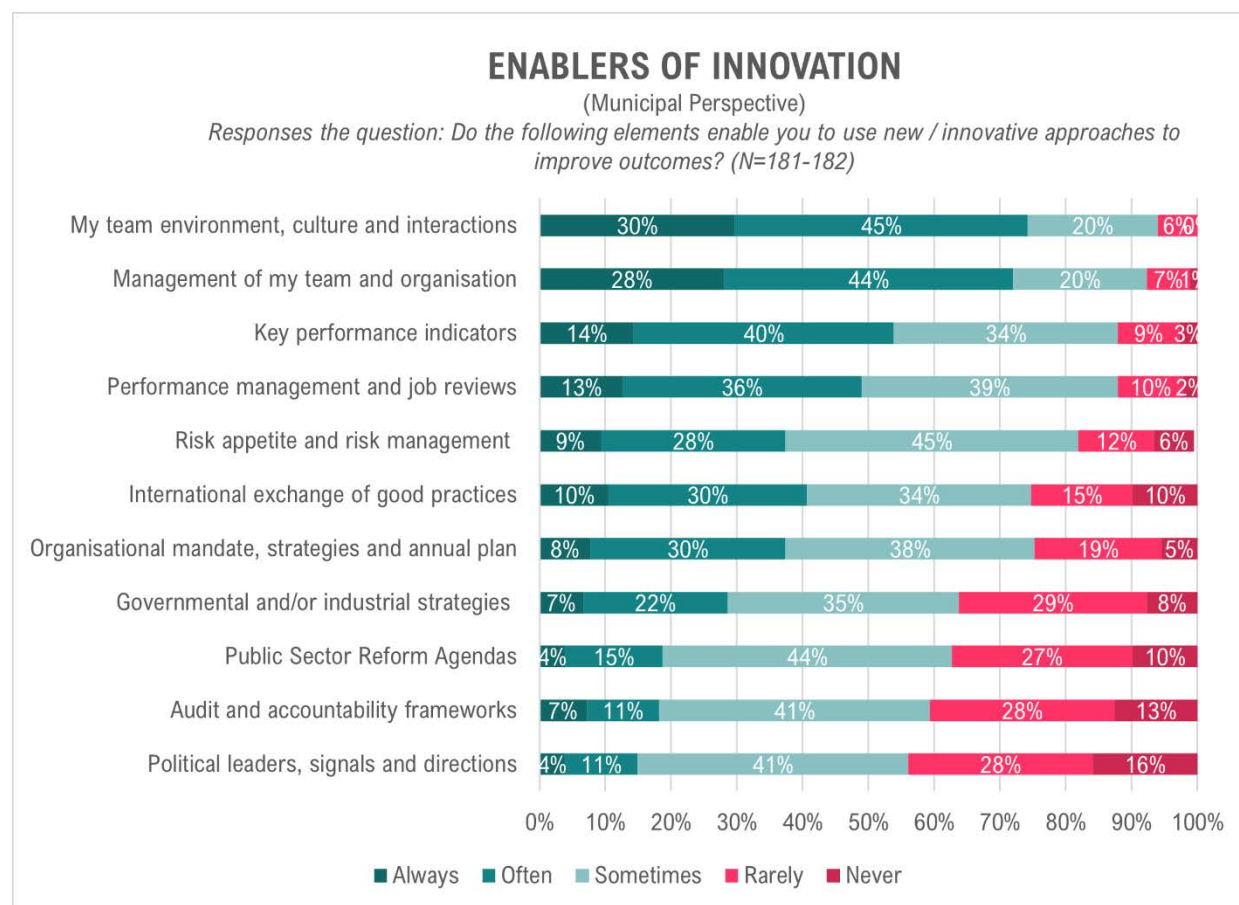


Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=180-182.

Public Governance Frameworks

Despite openness to change and innovation, research participants indicated feeling restricted by the legal frameworks they operate within and expectations on how they complete their jobs, which are not always conducive to innovation. Designing jobs towards objectives, autonomy and accountability for results may help empower public servants to work in creative and innovative ways to deliver, without prescribed methods on how (OECD, 2021^[21]). When innovation (which in itself can be a difficult concept to grasp as the outcomes are often unknown) is not included explicitly in public servant job frameworks, it might be perceived to be too risky to undertake (OECD, 2021^[21]). Furthermore, increasing flexibility in how employees achieve their objectives and priorities may also help enable them to work in innovative ways (OECD, 2021^[21]). Over-regulation, lengthy and rigid procedures limit the scope of possible actions.

Figure 3.14. Enablers of innovation in municipal government



Source: (OECD OPSI, 2023^[6])

“If you want to work and live peacefully and comfortably, without problems, audits and controls, you don't do anything new, just abide by the rules and maintain the status quo.” – Interviewee from this project

Risk management

The risk-aversion is exacerbated by a fear of failure when doing something new and unknown. As many as half of the respondents claim that **the way that errors are dealt** (53%) with **and the risk of punishment** (50%) **are hindering the innovation** (see Figure 3.3. *Factors promoting and hindering innovation in municipal government*). Participants cited this arising from the oppressive image of the state control and anti-corruption bodies, which will be explored further in the impact evaluation section. Increasing autonomy and protection from personal punishment may be needed to adjust the culture towards risk taking, such as considering alternatives to the National Audit's fines for individual civil servants, training on risk management, and creating safe spaces for risk taking (incubators, experimental projects).

“Currently innovative ideas seem too ambitious and risky to be allocated funding due to the risk that they will not be realised or will not have support. We need a research centre where the state/municipal institution

could meet with the target audience for its innovation, discuss and study how relevant it might be, what corrections it might need.”

Resources

“The insufficiency of budget funds to meet all needs is one of the key challenges of local and regional governments.” (State Audit Office of the Republic of Latvia, 2022^[7])

A dominant stumbling block in the municipal public service is the aspect of limited resources – 81% of survey respondents pointed to financial resources as a barrier to innovation (see Figure 3.3). This insufficient funding has a cascading effect on many other aspects of municipal work, such as staff remuneration (and associated retention challenges) as well as excessive workloads due to understaffed teams. While significant funding for innovative initiatives is available from external funding sources, the diversity of projects with competing priorities, demands on time and intents can lead to fragmentation and often lead to implementation challenges as staff are pulled across many projects⁴.

Limited financial resources are seen as the biggest factor hindering innovation in municipalities. **81% of survey respondents stated that lack of funding is blocking innovation project** (OECD OPSI, 2023^[22]). Tight municipal budgets not only affect direct investment in innovation, but also salaries and workload meaning that municipal teams might lack skills or time to start new projects.

Administrative burden and time constraints

Participants also cited bureaucracy and time constraints as obstacles to innovation. Those obstacles, such as administrative burden, limited resources, and time constraints, can quickly diminish enthusiasm for innovation, even in the most capable and creative teams (OECD, 2017^[8]). Innovation does not fit well in public frameworks, ways of working and tight rules of public resource planning that is often strictly earmarked for providing basic services in yearly budget timeframes. There are currently few incentives for municipal civil servants to engage in innovation activities. There is an opportunity to empower staff members to initiate bottom-up interventions through calls for ideas, innovation competitions, incentives, collaborative key performance indicators, awards and annual review process (see Box 2.3. *Rewarding innovative behaviour at individual and organisational levels*). Opportunities to normalise innovation, such as through the use of Innovation Awards (as is included in the RRP work of the Innovation Laboratory), and the use of events such as the Office for the Future conferences in 2020, 2021 and 2022 (organised by the Innovation Laboratory) could help to enable a culture of innovation, in spite of systemic and governance barriers.

“Every day work in public sector doesn’t allow for innovative thinking.”- Interviewee from this project

Strategy design approaches

This research revealed a widespread lack of confidence in strategies, particularly strategies developed by national institutions. Participants cited poor implementation processes, lack of leadership promoting the strategy agenda, or retrofitting initiatives to strategy goals. These challenges could be addressed through more participatory approaches to strategy design, where municipalities and key actors across sectors are engaged from the inception to the implementation of key strategic agendas. Furthermore, strategies will

need to be backed by sustainable resourcing and staff with the necessary time to implement them in order to reach their full potential, particularly in stimulating and enabling innovative activities to occur.

"We can write everything we want in a strategy, but are we going have time to implement it? I don't think so..."

"Strategies are just empty words on paper." - Interviewees from this project

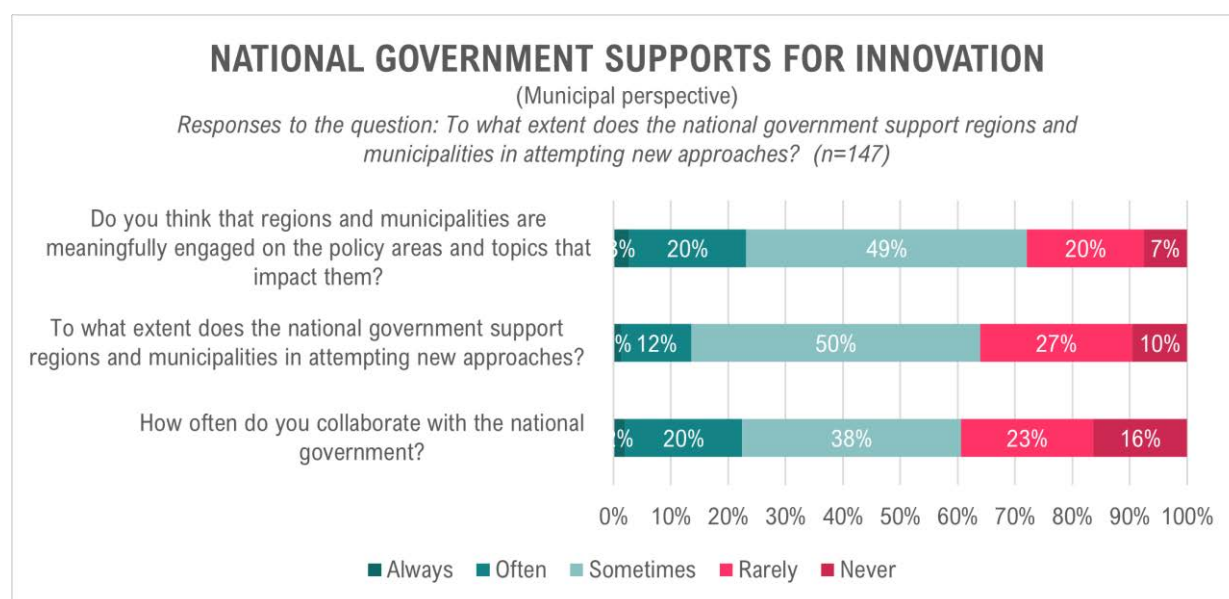
Furthermore, the creation of an explicit strategy, specific goals or a dedicated innovation fund at the municipal level could help normalise and enable innovation to occur. The OECD and Bloomberg Philanthropies study on enhancing innovation in cities (2019) found that a dedicated strategy encourages cities to stimulate their long-term capacity for innovation, by setting goals and demonstrating accountability (OECD, 2019^[9]). The lack of confidence in strategic documents, could be addressed through innovative methods. For instance, by combining strategy design with co-creation approaches, cities can harness the collective wisdom and expertise of their communities, fostering a culture of innovation and ensuring that municipal innovation strategies truly reflect the needs and aspirations of all stakeholders involved (see Box 3.2. *City innovation strategies*).

Collaboration

As was seen at the national level, a high proportion of the survey responses indicated that participation of research institutions, civil society, private sector organisations and citizens are considered not relevant to innovation (between 43% and 29% respectively – see Figure 3.3) (OECD OPSI, 2023^[6]). This is contrary to a general trend in innovation to encourage participatory, collaborative and user-centred approaches (OECD, 2019^[2]) (OECD, 2023^[23]). The explanation as to why there is a lack of desire to engage such actors in innovative initiatives will be explored further in the development of an innovation strategy and action plan as part of this project.

National and municipal engagement

Figure 3.15. National government supports for innovation



Source: (OECD OPSI, 2023^[6])

Municipal level research respondents indicated not feeling systematically supported by the national government in innovation efforts. When asked to what extent the national government supports regions and municipalities in attempting new approaches, 'always' and 'often' received only 1% and 12% respectively, while 'never' and 'rarely' – 10% and 27% (see Figure 3.5. *National government supports for innovation* and Box 19. *Public servants' ideas for better cross-government collaboration*) (OECD OPSI, 2023^[6]). Challenges in collaboration between levels of government was cited by both national and municipal research participants as a barrier to innovation (OECD OPSI, 2023^[1]). National ministries were often perceived by municipal staff as distant from municipalities and, lacking the proper understanding of local challenges, while having direct influence on their functioning in ways that can impede innovation (at times limiting the development of local, bottom-up solutions) (see Box 3.4. *Municipalities in the Latvian public sector administration*). When there is a lack of knowledge-sharing, cooperation, and joint problem-solving, it becomes harder to leverage collective expertise and resources to drive innovation at scale (OECD Observatory of Public Sector Innovation, 2022^[24]) (OECD, 2023^[25]).

"The system is old-fashioned and stagnant; government is not innovative. Nobody wants to be a collaborative partner because they are afraid of losing control, that's why they only want to go by the old-fashioned rules." – Interviewees from this project

"Mutual dialogue and cooperation should be established, currently there is only confrontation between the state administration and the local government." – Interviewees from this project

Box 3.19. Public servants' ideas for better cross-government collaboration

The survey of municipal government staff asked respondents for ideas on how the national government can better work with municipalities to deliver the best possible outcomes to citizens. Overall, respondents felt there was a strong need for greater cooperation, trust, and communication between state institutions and municipalities, as well for more accessible and user-friendly information and services for citizens. Suggestions for improving cooperation between the state administration and municipalities included:

- Increase communication and collaboration between national government and municipalities, including regular meetings, working groups and information-sharing.
- Leveraging national funding at a municipal level to deliver innovation projects that also enabled greater cooperation.
- Involve local communities in national decision-making processes and encourage their participation in the planning and delivery of services and projects.
- Make clearer the lines of accountability and responsibility between national government and municipalities in order to provide a clearer foundation for collaboration.
- Use national-level investment in training and capacity-building programs for local government officials to reinforce the skills and knowledge needed to effectively manage local affairs and in partnership.

Use 'staff exchanges' to enable national government employees to work on temporary placements in municipal government to improve trust and knowledge exchange. Among the suggestions for improvements, respondents raised concerns on the distribution of resources and services across the country, where many felt that the periphery is neglected in favour of Riga and its suburban neighbourhoods.

"Considering that the state administration is largely concentrated in Riga, it lacks feedback from the residents of the regions, it is necessary to find ways to receive information about the needs and problems of the residents in the regions." – Interviewee from this project

"Customer service centres should be moved to the regions in order to be closer to the residents of the regions. Not all residents of Latvia can travel to Riga to receive the necessary services." – Interviewee from this project

The regional disparities in Latvia are stark when looking at the economic and social development indicators. Riga and neighbouring municipalities generate as much as 69% of the Country's GDP (OECD, 2019), which is reflected in the average income of a household which in a wealthy suburban area of the capital is almost twice that of a household in the Latgale region (Chmielewski, 2023). This concentration of resources and economic activity has a negative effect on other parts of the country, which are underserved in terms of public services and overall quality of life, and as a result slows down the Latvian economy as a whole (ibid.).

Source: (OECD OPSI, 2023^[1]; Chmielewski, B, 2023^[19]; OECD, 2019^[26])

Considerations

- **Establish nation-wide initiatives to encourage and enable bottom-up innovative initiatives** (e.g., a national innovation fund, innovation competitions, innovation awards).
- **Fully implement the pilot project on Public Sector Innovation Awards** (due to be completed through the RRP funding of the Innovation Laboratory) **and integrate specific categories for municipal innovation**. Consider organizing an event, such as a Festival of Innovation for showcasing winners, sharing lessons learned and presenting the awards. Refine and adapt the initiative for future years based on an evaluation of its impact.
- **Establish a network or working group to exchange best practices on implementing innovations through externally financed initiatives** (e.g., network or working group for exchange on innovation practices between municipalities who already benefit from EU funding and those looking to apply for EU funding to increase the number of applications from Latvian municipalities and the effective use of funds to support innovative efforts).
- **Consider areas where municipalities could be key partners in delivering innovative initiatives**, including those originally hosted at the national level (e.g., running citizen labs to understand user needs, finding new ways of delivering services on the ground to citizens).
- **Extend the Innovation Network operating at national level to Municipalities** to enhance exchange between public servants at multiple levels of governance and provide financing for collaborative projects.
- **Consider measures to alleviate the pressure of audit and regulations in municipalities in a safe and controlled manner**, such as introducing an initiative similar to the [Danish Free Municipality Experiment](#) or conduct an impact assessment on the temporarily suspension of fines from the National Audit office, so individual civil servants are more free to innovate.

Capacity for Innovation: What is needed to carry out innovative efforts and integrate them into everyday practice?

Summary: *The pandemic showed that the municipal government can act swiftly, creatively and adaptively. Nevertheless, innovation remains an exception rather than a norm due to limited finances, lack of funding for experimentation, workforce gaps, and rigid legal, procurement and regulatory frameworks.*

The study emphasised a lack of common guidance, tools, and processes for innovative approaches, resulting in innovation happening through overcoming barriers rather than a supported process. There is also a shortage of innovation expertise in the municipal public sector as the public sector is often not an employer of choice due to low salaries and reputation.

There is little awareness of formalised structures or training programs for municipal employees related to innovation and minimal awareness and collaboration with the State Chancellery Innovation Lab in municipalities, showcasing the opportunity for increased training, skills building, resourcing and information sharing for effective implementation of new solutions. There are mixed opinions on the benefit of a centralised support system for innovation as the benefits of access to increased training, spreading and scaling of solutions, and supports often stands in contrast with concerns of lost municipal autonomy.

Research findings

Public governance frameworks and funding

As detailed in the potential section, a lack of sustainable funding for innovation, paired with an absence of legal and operational frameworks encouraging the development and testing of innovative solutions make

it difficult to manage the unknowns of innovation, including potential risks, failures and uncertainties associated with innovation. Only 41% of respondents claim that the financial resources for experimentation with new approaches are normally available (4% 'always', 6% 'often', 31% 'sometimes') versus 58% saying 'never' or 'rarely'.

Research participants indicated that there is lack of guidance, common tools, and processes for municipal staff to adopt new and innovative approaches. Therefore, when innovation happens it is a result of 'fighting battles against rules' and overcoming barriers, not a specific supported process. Only 50% (3% 'always', 8% 'often', 39% 'sometimes') perceived legal frameworks to be flexible enough to incorporate innovative solutions (see Figure 3.6. *Resources and capabilities for innovation (Municipal perspective)*⁵). Many research participants also perceived procurement rules as inflexible and prohibitive to innovation commissioning. Teams responsible for procurement are often overworked and struggle to maintain a workforce (as with many disciplines in the Latvian public sector), potentially making it even more difficult to get answers on how to navigate the procurement system (European Commission, n.d.^[27]). Furthermore, more emphasis is placed on ex-post controls and audits of procurement issues, rather than on guiding actors through the procurement process and preventing problems (European Commission, n.d.^[27]).

Research participants noted that the lack of flexibility of public governance frameworks makes it particularly important to work with open-minded legal advisors to understand how innovation can be made possible within existing governance systems. As noted at the national level, these challenges highlight opportunities to enhance the relationship between innovators and procurement specialists and lawyers to find opportunities for innovation, as well as the need for safe spaces for innovative activities such as incubators, accelerators, innovation design processes or experimentation spaces. Enhancing this relationship could include providing consultative support to municipalities on how to navigate the legislative, regulatory and procurement systems when implementing innovative initiatives (see box below).

Box 3.20. Collaborating to identify improved legislative frameworks and infrastructure for testing 'Smart City' solutions in Riga

Adapting existing legislative frameworks and infrastructure required to pilot new approaches is difficult. It requires a wide lens on the potential consequences – intended and unintended – of changes.

In 2020, the OECD, Investment and Development Agency of Latvia and the Danish Design Centre worked together to tackle some of the problems faced by municipalities in Latvia when trying to push forward 'Smart City' agendas. Recognising that projects faced challenges when moving from the 'idea' to 'testing' phase, the partnership identified that a more adaptive approach to legal frameworks may be necessary. To address this, the partnership held a series of workshops with a wide range of stakeholders – across municipal government, national government, academia and industry – to design an approach to adapting legislative frameworks within the Smart City context.

This process highlighted the importance of wide stakeholder engagement in managing uncertainty inherent in adaptive legislative frameworks and in ensuring that approaches taken forwards were suitable for all stakeholders.

Source: (SISCODE, 2020^[28])

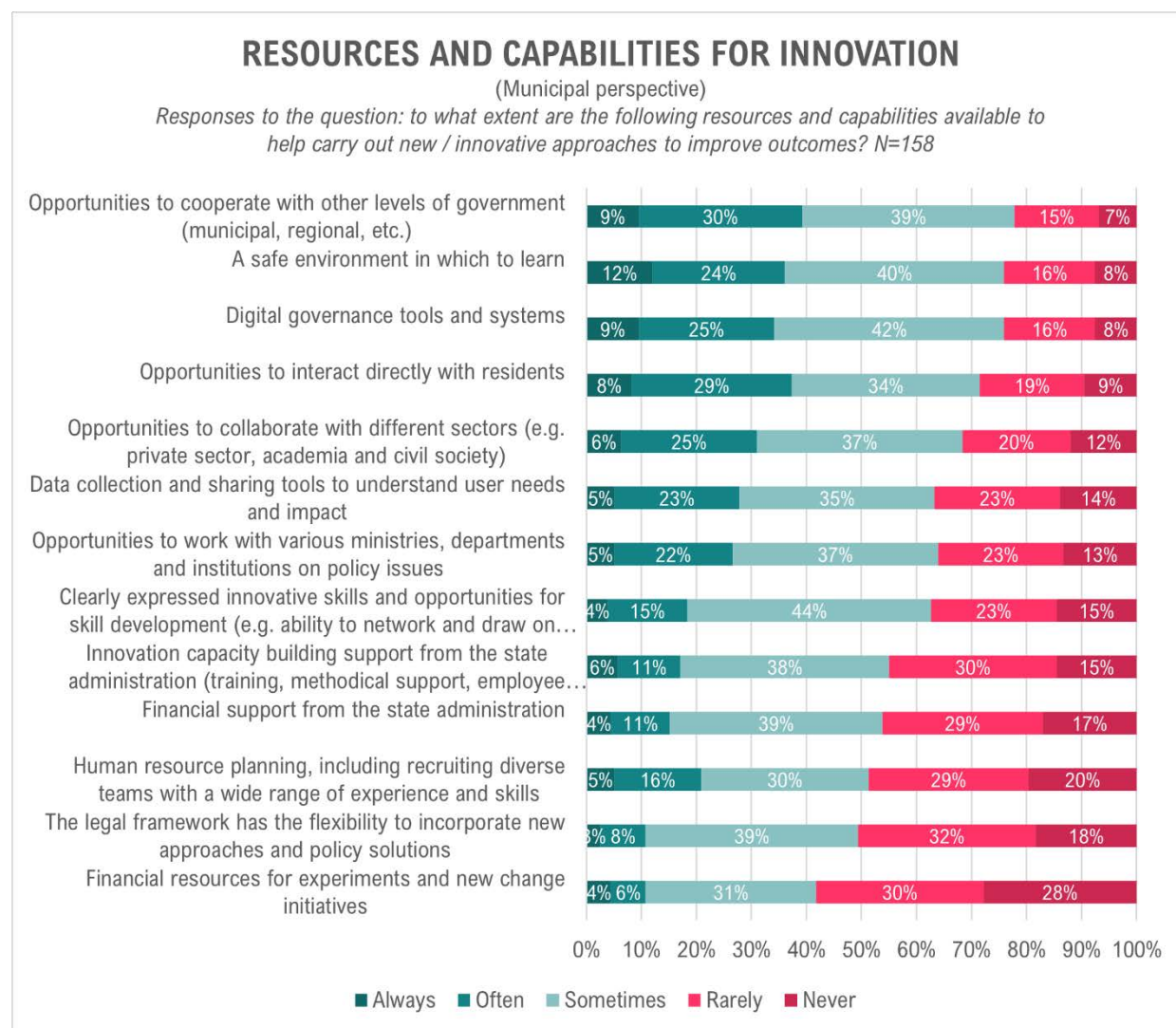
Workforce and innovation skills

The study revealed a lack of human resource strategies, specialised innovation skills (e.g., behavioural and foresight expertise), and overall training opportunities in local and regional government. The state audit office has indicated an absence of human resource strategies, trained human resource personnel and training plans in municipal governments (State Audit Office of the Republic of Latvia, 2022^[7]). Awareness of upskilling opportunities is low with few respondents indicating that they were aware of formalised structures or training programs for municipal employees related to innovation or innovative skills, while others were not aware of any such programs or structures or felt that they were not relevant to their work.

“There is a chronic lack of qualified workforce, lack of government demand for targeted research, and a full-fledged innovation-promoting infrastructure has not been created.” – Interviewee from this project

Specific training programs that were mentioned in the survey and interviews conducted through this project included design thinking facilitator training for state administration employees, courses on administrative burden reduction and training programs at the Latvian School of Public Administration (VAS). Respondents felt these courses provided good training in the field of innovation. However, the fact that the VAS is based in Riga and in a context of limited resources, the offer seemed inaccessible for many municipal staff. Other respondents mentioned availability of upskilling opportunities in general approaches to innovation or innovative skills, such as Lean, Agile, and creativity techniques, mainly through the use of distance learning, self-study, and various European funded knowledge exchange projects and study visits.

“The deficiencies detected during the audit in human resource management processes in former and newly established local and regional governments show that the understanding of the significance of human resource management in ensuring the performance of municipal functions needs to be improved significantly in local and regional governments.” (State Audit Office of the Republic of Latvia, 2022^[7])

Figure 3.16. Resources and capabilities for innovation (Municipal perspective)

Source: (OECD OPSI, 2023^[22])

However, despite the appetite to learn new approaches and collaborate with external experts, many respondents indicated that they were not familiar with any formalised structures or training programs for municipal employees related to innovation or innovative skills, or that they did not work in the municipal sector and therefore did not have direct experience with such programs.

Information sharing and database coordination was often mentioned as problematic. Obtaining necessary information requires lengthy and sometimes paid for procedures. This not only adds unnecessary bureaucratic burden but also slows innovation projects requiring multi-organisational collaboration. 37% of municipal survey respondents noted a lack of data collection and sharing tools to understand user needs and impact (see Figure 3.6. *Resources and capabilities for innovation in municipalities*) (OECD OPSI, 2023^[6]).

"It is complicated to obtain simple information from the central government. Sometimes we lack information to start a project." – Interviewee from this project

"It is so bureaucratic! There is an entire chain of paperwork to get one simple piece of information. Even if your colleague on another floor holds it. You could use this time to engage with citizens and think about innovation." – Interviewee from this project

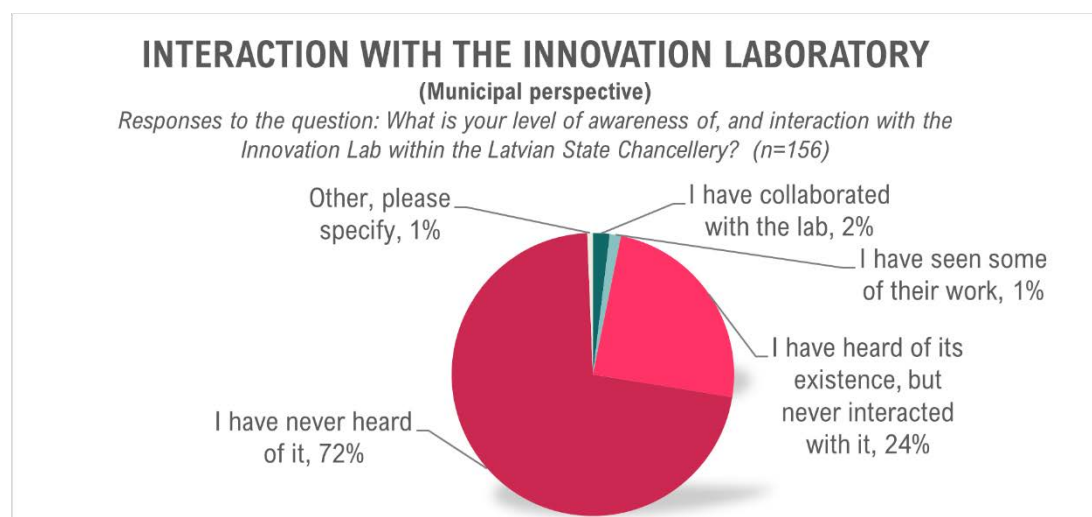
Another issue raised was the existence of various incompatible IT systems used by different municipalities and central administration institutions. A starting point for improved information sharing would be to assess where there is the greatest need and for implementation of interoperable systems.

"At the local government level, it is necessary to ensure that common systems and electronic solutions are created in all local governments at the same time, and separate systems for each should not be created, which could be considered an inefficient use of funds on the scale of Latvia. – Interviewee from this project

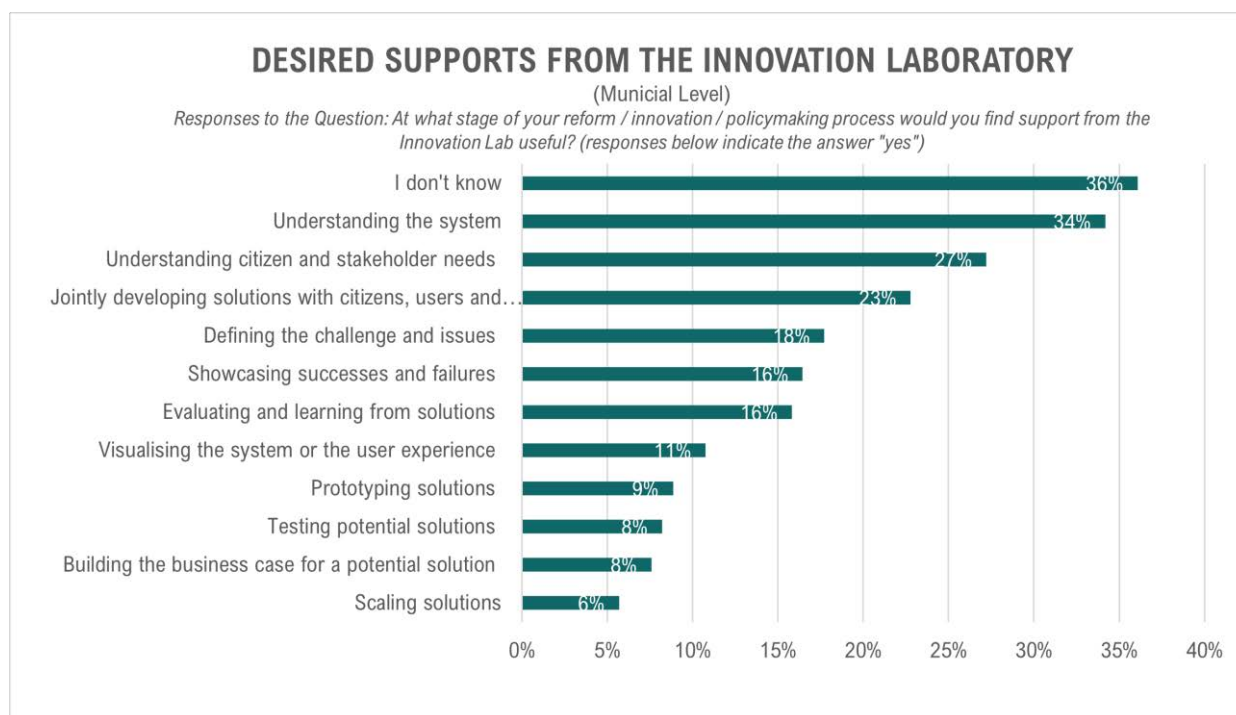
The role of the Innovation Laboratory in enhancing innovative capacity on municipal level and general views on central support system for innovation

The awareness of the Innovation Laboratory in municipalities amongst survey respondents was very low, and collaboration with the Laboratory very minimal. Nearly three quarters of respondents never heard of the Laboratory while almost the entire remainder 'heard of it but never interacted with it' (OECD OPSI, 2023^[6]). While these numbers are low, this is considerably higher than at the national level where 60% of respondents declared unfamiliarity with the Laboratory and 33% heard of it but not interacted. When asked at what element of stage of work the support of the Laboratory would be the most useful, the dominant answer was 'don't know' (see Figure 3.7), this may be as a result of a lack of awareness of the Laboratory's service offer and what elements are included in innovative initiatives. The following top answers were: understanding the system (34%), understanding the needs of citizens and stakeholders (27%), and jointly developing solutions with users (23%) (OECD OPSI, 2023^[6]).

Figure 3.17. Interaction with the Innovation Laboratory



Source: (OECD OPSI, 2023^[6])

Figure 3.18. Desired supports from the Innovation Laboratory (Municipal level)

Source: (OECD OPSI, 2023^[6])

When asked for opinion on the centralised support system for innovation in Latvia, while the majority of respondents showcased appetite for some centralised innovation supports, a significant number raised that a one-size-fits-all approach may not be effective, and that support should be tailored to the needs and requirements of each institution. Meanwhile a smaller segment argued that a uniform approach is necessary to prevent fragmentation and duplication of efforts. These differences in responses reflect the varied opinions at both the municipal and national level on how these levels of government should interact. Strong differences of opinion were present across all open-ended survey questions pertaining to the relationship between municipal and national governments (OECD OPSI, 2023^[1]) (OECD OPSI, 2023^[6]).

The emphasis of respondents was on support in addressing systemic issues: the need for clearly defined goals, financial and legal support, reduction of bureaucracy and repressive measures, and training opportunities for employees and managers. The 'pro' voices emphasise that centralised support that it would lead to greater efficiency, more standardized approaches, and better access to resources. It could also be beneficial in providing specialist support, facilitating the exchange of experience and information, and creating platforms for cooperation. The opposing opinions argued that innovation leadership should be decentralised and that the focus should be on promoting the use of innovative approaches in every organisation, rather than creating a potential new institution for innovation.

This reflects that the barriers to innovation delivery identified in municipal governments include those which are likely to be most effectively addressed centrally (financial and legal support, accountability frameworks to manage innovation risk, dissemination of best practice, tools and processes) as well as those most effectively addressed at organisational or municipal levels (implementation within specific policy areas). Navigating the opportunities for national government support in this area will require extensive engagement throughout the development of the upcoming innovation strategy and action plan to ensure municipal interests are well reflected in these approaches.

Considerations

- **Explore options to build the Innovation Laboratory's municipality-focused package of work** (e.g., adding targeted trainings on design, prototyping, systems thinking, innovation measurement and guiding municipalities through the use of innovative procurement solutions, creating toolkits for navigating procurement, legislative and regulatory systems).
- **Pilot an Innovation Exchange program** for national and municipal civil servants and expand the national Innovation Network to include municipal colleagues in to address the lack of collaboration identified by participants.
- **Implement short and accessible courses on innovation methods** across all municipalities through the School of Public Administration (VAS) or Innovation Laboratory such as on Systems Thinking, Big Data, User-centred Design, Foresight, Agile. This should be based on a gap analysis of what training is most needed.
- **Establish common tools, processes, and guidelines for innovation** and consider where the best repository might be, such as, the Innovation Lab.

Impact of Innovation: How is the impact of innovative efforts understood and fed into future practice?

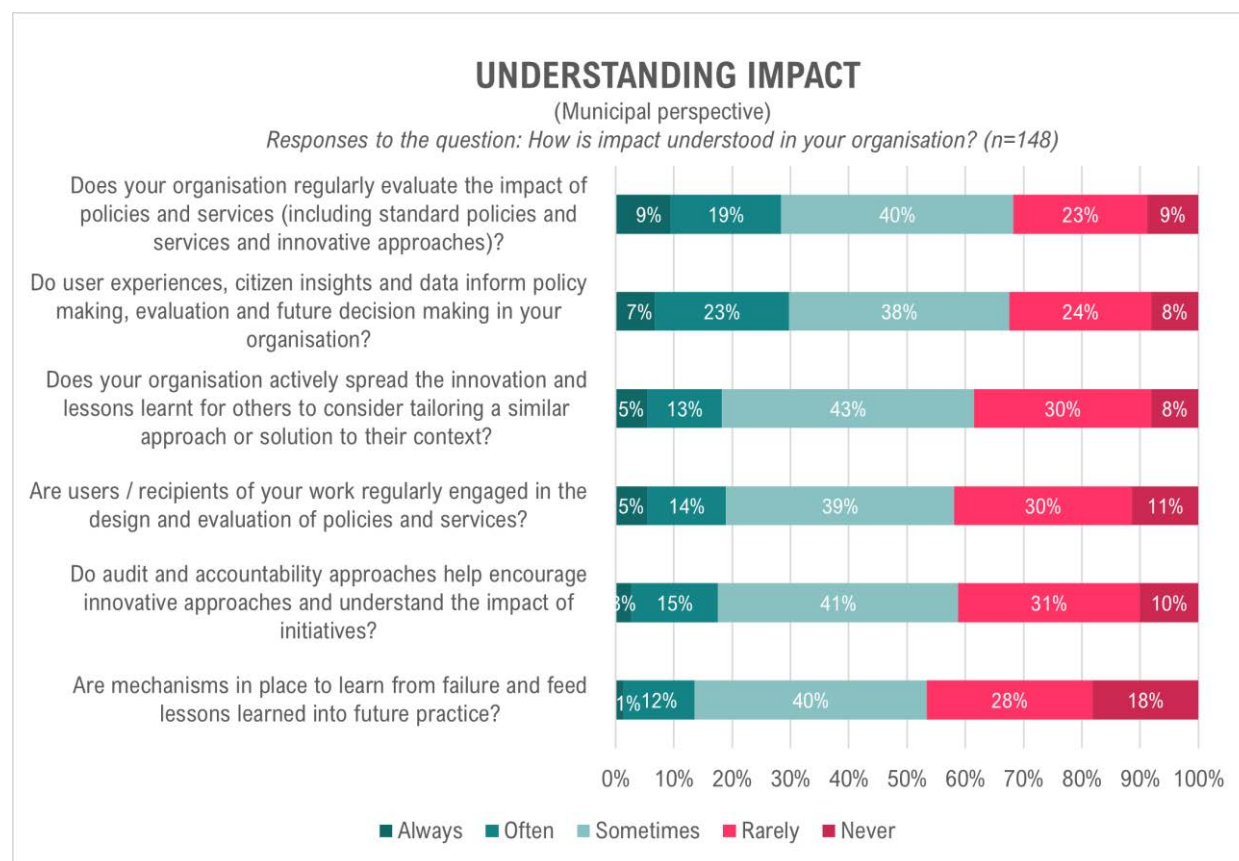
Summary: While informal feedback from citizens has been a driver for innovative activities to date in municipalities, there is a need for more systemic approaches to monitoring and evaluation to ensure that innovation is occurring where it is needed most (and that those innovations are meeting user needs). Official evaluation approaches are considered to be cumbersome, linked to a perceived reporting overload, which is not focused on meaningful reflection on impact, nor perceived as an opportunity to constructively share insights to improve future programmes. Furthermore, learning loops are lacking in municipalities with only 13% of respondents reflecting that there are always and often (1% and 12%) organisational mechanisms in place to learn from failure and use the lessons in the future practice (OECD OPSI, 2023^[6]). Internal information sharing on innovation processes and impacts is rather informal, revealing opportunities for information sharing and deliberate learning loops to enhance institutional memory.

Research findings

Evaluation and measurement

In evaluating the effectiveness of municipal initiatives, multiple measures of success were mentioned. These included measuring tangible outcomes such as the development of new infrastructure, and increased investments, as well as intangible indicators like positive feedback from citizens and support from local businesses. However, these outcomes are still not consistently evaluated and measured: 68% of survey respondents mentioned that their organisations do evaluate the impact of their policies and services regularly (9% 'always', 19% 'often', 40% 'sometimes') (see Figure 3.9. *Understanding impact*). Research participants also noted that evaluation activities do not always prompt meaningful understanding of impact of the policies and activities.

"We need to do too many reports for the central administration, and we don't even know what these reports are for – public agencies often ask for the same things." – Interviewee from this project

Figure 3.19. Understanding impact (municipal perspective)

Source: (OECD OPSI, 2023^[6])

Audit

Similarly to respondents at the national level, research participants did not see audit as a key contributor to informing future innovative efforts, despite the fact that many audits do explicitly highlight opportunities for innovation (State Audit Office of the Republic of Latvia, 2023^[29]) (State Audit Office of the Republic of Latvia, 2022^[7]). State audit and anti-corruption controls were referred to by some research participants as fixed on identifying minor deviations from the law rather than an occasion to identify opportunities for improved impact and outcomes.

Both the highly critical nature of audits, and the potential of audits for identifying opportunities for innovation can be observed in the audit on citizen participation in local and regional government (State Audit Office of the Republic of Latvia, 2023^[29]). The audit uses critical and harsh language such as “failure to foresee citizen participation in significant issues” and “low-quality decisions” but also highlights best practices for citizen participation in some municipalities and encouraging the use of innovative approaches (State Audit Office of the Republic of Latvia, 2023^[29]). Moreover, the municipalities reported that negative audit findings in one municipality can have consequences for all municipalities. This can be observed in the Audit: *After the reform, improving HR management in local and regional governments is relevant*, which extrapolates findings from some municipalities and applies them to others (Latvia, 2022^[30]). Nevertheless, the survey showed that 59% of respondents see audit approaches as helpful to understand impact and encourage innovative approaches (3% ‘always’, 15% ‘often’, 41% ‘sometimes’). Rebuilding the relationship between auditors and public servants and enhancing communication between the audit office and local governments will be crucial for audits to be effective sources of inspiration for innovative initiatives.

User insights

41% of survey respondents reported that users and recipients of work are rarely or never consulted in the design and evaluation of policies and services (OECD OPSI, 2023^[22]). Furthermore, the audit office has indicated that citizen consultation in the development of projects and planning documents is rare at the local and regional levels (State Audit Office of the Republic of Latvia, 2023^[29]).

Despite this, research participants indicated that municipal leaders and employees take pride in receiving informal positive feedback from citizens and see it as a highly rewarding aspect of their work. This feedback serves as validation that the initiatives and services provided by the municipality are making a difference in people's lives. Nevertheless, citizen complaints can be perceived as obstacles rather than opportunities for improvement. When complaints are viewed solely as impediments to efficiency, it becomes challenging to gather valuable feedback and address issues constructively.

"We would like to see more meaningful use of the evaluation (OECD criteria) and the data obtained in the evaluation. It is also necessary to change the paradigm of thinking - not everything has to be recorded in the regulatory framework, excessive instrumentalisation can hinder growth, because what is offered does not fit into a specific framework. We would also like to see that the resources that are now invested in control measures (for example, in the acquisition of EU funds) should be diverted a little more to the evaluation of the impact and efficiency, as well as to changes in relevant services." – Interviewee from this project

Learning loops

The success of the municipal innovation was often described as the ability to navigate through numerous obstacles in the system and demonstrate that something new can be implemented despite the system. Navigating this process can be difficult, making more important to share lessons learned in order to spread innovation, build on synergies and avoid duplication and replication of failures. This process of **information sharing on the effects and impacts of initiatives tends to be informal**, with only 18% actively sharing the lessons learnt habitually (5% 'always', 13% 'often')⁶. There is a need for more effective knowledge sharing and cross-learning within and among municipalities to help normalise and simplify innovative efforts in the future.

Only 53% of respondents recognise consistent **mechanisms** in place to **learn from failure and feed those lessons in future practice** (1% 'always', 12% 'often', 40% 'sometimes').

"We share information about what's going good and bad, but it's rather informal." – Interviewee from this project

There are opportunities to create networks and working groups on innovation and repositories of innovation cases and journeys to help ensure that lessons learned are informing future practice.

Considerations

- Establish a case study library of innovative initiatives (including process, best practices and lessons learned) on the Innovation Laboratory website to enhance institutional memory and record lessons learned (e.g. The OECD's Innovation Case Study Library).

- Ensure that monitoring, evaluation and reporting requirements focus on impact indicators as well as operational outcomes (for example, using a ‘Theory of Change’) (see Box 2.12. Examples of approaches to objective setting, measurement and accountability).
- Foster a more constructive and supportive approach to state audits and anti-corruption controls, emphasizing their role as opportunities for improvement rather than punitive action and adding the need for innovation as a specific assessment criterion. Provide innovation guidance and training to auditors and set up collaborative sessions between auditors and innovators to understand and identify opportunities for innovation.
- Develop capacity for gathering feedback systematically and ensuring that it is effectively used to inform current and future initiatives and services (e.g., developing a cyclical policy design process that includes input gathering through multiple project stages, using citizen labs, building capacity for data sharing and data analysis).

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Notes

¹ Note that the figure of 24.5% arises from the OECD Survey on Drivers of Trust, which presents data slightly below the OECD Indicators on Trust in Government, which place trust in national government at 29.5%. In this case, data is used from the OECD Survey on Drivers of Trust to provide the comparison with data on trust at a local level.

² Noted in interviews, focus group, short answer survey responses and the validation workshop.

³ Noted in interviews, focus group, short answer survey responses and the validation workshop.

⁴ Noted in interviews and focus groups.

⁵ Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=185.

⁶ Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=148.

Chapter 4: Improving innovative capacity in the Latvian public sector: From insights to action

This conclusion highlights how the above findings on public sector innovation can be translated into action through the upcoming Action Plan and Innovation Strategy, to be co-created as part of this project.

Shifting the direction of the public sector system

The public sector of Latvia is in an important moment where transformation is at its fingertips. With the launch of the National Recovery and Resilience Plan (RRP), Modernisation Plan and a number of extensive EU supported projects, there is a significant influx in funding and appetite for change. The RRP offers 1.8 billion euros of grants targeting digital transformation, green transition, economic and social resilience and more (European Commission, n.d.^[1]). Furthermore, the Modernisation Plan has the potential to have transformative impacts on the effectiveness of the public administration, public sector workforce, quality of public services, innovation and decision-making structures (Latvian State Chancellery, 2023^[2]). This marks a key opportunity to drive a systemic approach to innovation in order to address complex challenges, transform the public sector and find ways to deliver greater impact to citizens.

This assessment report has detailed a number of challenges across each of the four areas included within the OECD Innovation Capacity Framework: purpose, potential, capacity and impact. While the considerations section of each component details specific actions that could be taken, the shifts presented below take a systemic perspective, proposing **directional shifts** to move from the **current state** of the **public sector system** to a **possible future state**. To steer the current system towards the desired future

state, a number of ‘**how might we**’ statements have been included to support the development and prioritisation of concrete actions and interventions throughout future phases of this project.

Table 4.3. Prompting directional shifts in the public sector system

From [current state of public sector system]	To [envisaged state of public sector system]	How might we [prompting questions for the development of an action plan and innovation strategy]
Public sector is focused on immediate functioning in a challenging operational environment: often short staffed, suffering from recruitment and retention issues and with limited time and funding to enhance skillsets	Public sector workforce is equipped with the necessary skills and personnel to deliver public services effectively	<ul style="list-style-type: none"> • ensure public servants have the opportunities and funding to access effective and relevant training and upskilling programmes that can enable them to work in new and more effective ways? • ensure continuity and institutional memory within the public sector workforce?
Innovative efforts are focused on efficiency and cost cutting	Innovation used as a strategic resource to tackle challenges, steer towards better futures and improve public outcomes	<ul style="list-style-type: none"> • shift the focus on innovation to improve efficiency to innovation to improve the effectiveness of government? • diversify the portfolio of innovative activities to include initiatives addressing longer-term challenges and complex issues with a higher degree of uncertainty? • reduce administrative burden to create more space and staff time for innovation?
Strategies and priorities are fragmented drivers of innovative activities	Strategic agendas and EU funded projects are steering a directed portfolio of innovative efforts and capacity building across the public sector system	<ul style="list-style-type: none"> • unify the visions and ambitions of public sector reform agendas, sectoral strategies and European projects to drive innovative approaches, translating strategies into clear implementation plans and accountability measures? • use a diversity of innovative approaches to deliver on key government strategies and ambitions? • build political awareness and ownership around the need for innovation to deliver on key government agendas?
Public governance frameworks, particularly regulatory, legislative and procurement are perceived as incompatible with innovation	Public governance frameworks enable innovative activities to occur, and public servants understand how innovation is possible within the parameters of public sector rules	<ul style="list-style-type: none"> • create transparency and forums for discussion between legislators, regulators, procurement specialists and the larger public service to help all public servants understand where, when and how, innovative initiatives are possible, and when not possible, to work collectively to shift public governance frameworks to be more conducive to innovation? • leverage the Innovation Network to build relationships between policy, technical level and sectoral representatives to understand how to make innovation possible? • leverage and improve data interoperability, IT interoperability and data sharing infrastructure to enable cross cutting and evidence informed innovations?
Fear of risk and punishment, paired with a lack of explicit supports make it difficult to innovate	Risk tolerance is encouraged in the public sector with safe spaces established to test higher risk initiatives in controlled environments	<ul style="list-style-type: none"> • ensure accountability frameworks are designed to enable rather than hinder innovation, making clear the responsibilities for implementing strategies and key innovative initiatives? • establish environments to prototype, test and evaluate new innovative solutions in contexts where failures and unexpected results are controlled before scaling and spreading solutions?

		<ul style="list-style-type: none"> • relieve public servants of individual responsibility for failures that may occur in the innovation process? • establish dedicated funding mechanisms for innovation?
Measurement and evaluation of public services focuses on operational outcomes and outputs rather than impact	Iterative evaluation, measurement and learning loops enable constant evaluation of the impact of public services	<ul style="list-style-type: none"> • blend more realistic KPIs focused on operational outcomes with ambitious measures aimed at understanding and improving the impact of government services? • enhance the sharing of learnings from evaluation and measurement activities, institutional memory and culture of sharing and spreading solutions? • continue to support a culture where discussions of failures and lessons learned is normalised without risk of punishment? • develop and implement an innovative capacity monitoring framework to understand the government's overarching capacity to work in new and novel ways to improve impact?
National and municipal levels of public service do not coordinate in ways that effectively enable innovation	One civil service effectively communicating and collaborating to innovate in the face of common challenges and goals	<ul style="list-style-type: none"> • empower municipalities to innovate, while respecting the autonomy of municipal government? • develop a vision for innovation that spans across levels of government?

Looking forward

This assessment report is the first key deliverable of a larger project aimed at strengthening the innovative capacity of Latvia's public sector system. Such efforts will help support the country to remain competitive, improve social and economic outcomes and contribute to strengthened resilience and recovery from recent crises and shocks (OECD and European Commission, 2022^[3]). The upcoming project activities will help move from insights to action, such activities include:

- A proposal for an action plan to support better innovative capacity awareness, co-ordination, and collaboration
- Development of a national innovation strategy proposal for strengthening the public sector's innovative capacity
- Innovative capacity building projects that include collaboration across the central and regional levels
- An innovative capacity monitoring framework to track progress and increase awareness in Latvia

The above activities will be designed in a consultative manner to ensure that the action plan, strategy, capacity building initiatives and monitoring framework are fit for purpose, user-centred and developed with a keen awareness of sustainability and implementation requirements.

Latvia's innovation journey has already been ongoing for decades and steps have already been taken to support innovation such as the introduction of an Innovation Network, adherence to the OECD's Declaration on Public Sector Innovation and the creation of the Innovation Laboratory. Continuing this journey will require a balance of quick wins to mark progress and maintain momentum (e.g., additional staff in innovation lab, launch of innovation awards) with more systemic changes (e.g. introduction of an innovation strategy, overhaul and improved engagement around procurement and regulatory approaches). Without efforts to steer systems change, transformation in the public sector will be unlikely and a continued emphasis on incremental efficiency improvements will remain. This project, paired with the RRP and

Modernisation Plan prevent a clear opportunity to take a systemic approach to public sector innovation and transformation in Latvia.

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Annex A. List of considerations to improve the innovative capacity of the Latvian public sector

The below list combines all of the considerations listed in the chapters of this report, including both national and municipal level considerations.

National level recommendations

Purpose:

- **Establish an Innovation Strategy**, under the purview of the Director of the State Chancellery, that embeds the principles of the Modernisation Plan into concrete action. Pair the strategy with measurement indicators and clear accountabilities and responsibilities at the organisational and individual levels. (e.g. combining measurement approaches such as the [Innovation Barometer](#), Key Performance and Results planning or key success factors, such as those shown in the [Irish Innovation Strategy](#)).
- **Engage politicians on the need for innovation** to cope with a rapidly changing governance environment, era of crises and shocks and to engage with uncertainty in the present and future. This could include: collaboration between innovation specialists and the Prime Minister's office on how to work in innovative ways to deliver on key priorities nominate a political champion of the work, work alongside executive committees and task forces to support innovative initiatives (e.g. Cross-Parliamentary Group for Innovation such as [that of the UK](#)).
- **Align EU, reform, strategic and innovation agendas clearly to the Modernisation Plan** to ensure a clear narrative and understanding of how each element contributes to innovative public governance and individual public servants' responsibilities (see Box 2. *Innovation and the Latvian Modernisation Plan*).
- **Innovative initiatives (including the innovation strategy) should be aligned to key government priorities such as fighting corruption, the stability programme, key government missions, the priorities of the modernisation plan**; shifting the rhetoric around innovation beyond a purely financially efficient focused narratives to one which considers how innovation can enable improved outcomes and achieve difficult objectives such as establishing a comprehensive and integrated healthcare system, supporting a green and fair economy and supporting social fairness ((European Parliamentary Research Service, 2023^[1]) (European Commission, 2022^[2]).
- **Work with talent management and human resource experts to recognise the individual contributions of public servants in proposing, spearheading and implementing innovative initiatives** through informal and formal recognition such as promotions, innovation awards and performance assessments. Similarly, recognise and disseminate the work of public sector organisations that are on the forefront of innovative practices.

Potential:

- **Leverage the Innovation Network** founded in 2018 alongside the Innovation Laboratory to continue the **spread of innovative culture** while providing consistent resourcing to support the management and sustainability of the network (e.g., offering training to equip them to innovate in their organisations, using the network to disseminate innovative initiatives and lessons learned).
- **Establish domestic budgetary allocations specifically for a diversity of innovation activities;** encouraging innovative efforts that go beyond cost-savings (e.g., Funding innovation accelerators, prototyping or experiments).
- **Foster an environment where innovation is expected of employees and organisations through a clear innovation strategy tied to organisational and individual responsibilities and accountabilities for innovative behaviours** (e.g., ministerial mandates and individual performance objectives). At the individual level, this could be enabled by explicitly identifying ‘innovation activities’ – such as prototyping, piloting or impact measurement – within job families.
- **Create safe spaces for experimentation** where individuals do not need to bear the responsibility that may come from innovations that do not go as planned. Such spaces could include project incubators, innovation labs or innovation accelerators. The [Experimentation Guidelines for the Latvian Public Sector](#) can help to provide an initial framework on how to set up and execute experiments.
- **Build awareness at the political level of Latvia's adherence to the [OECD Declaration on Public Sector Innovation](#)** as well as the need for innovation in order to keep up to international norms and standards.

Capacity:

- **Link the work of the Innovation Laboratory to the Government's key strategic priorities,** including the Modernisation Plan and develop a strong communication, engagement and dissemination approach for the Laboratory which engages relevant stakeholders and communicates clearly the impact of the Laboratory's work (e.g., innovation demonstration cases for key modernisation plan areas, flagship projects linked to Government priorities).
- **Increase dedicated funding and resourcing for the Innovation Laboratory** to ensure its sustainability, ability to deliver on key objectives and priorities and capacity to support the innovation agenda in alignment with key Government priorities.
- **Leverage the role of the Innovation Laboratory as a training body and convener to enhance relationship between auditors, regulators, procurement specialists and public servants** and educate them in finding opportunities and flexibilities for innovation in these frameworks (e.g. through mechanisms such as working groups, workshops and opening of communications channels, exposure and training on international best practices).
- **Create interdisciplinary teams and working groups** that blend knowledge in procurement, regulation, policy and service design to identify how innovations can be implemented within existing public governance frameworks and to identify where frameworks need to be changed.
- **Support employees' desire to learn and build their skillsets by enhancing training opportunities available through the Latvian School of Public Administration and Innovation Laboratory** (including providing sustained resources to these organisations), ensuring that training opportunities are regularly assessed to ensure their impact (e.g. training to technical experts, policy designers, procurement specialists on topics such as user-centred design, innovative workforce management, innovative procurement).
- **Build on workforce development opportunities stemming from the remuneration reform, forthcoming competency framework and creation of innovative job families** to build a diverse

public sector workforce: recognizing that a net-zero approach risks leading to work overload, burnout and retention issues.

- **Develop and test experimental funding mechanisms** to fund experiments and prototypes in a safe space to diversify the innovation portfolio and close the gap on financing for innovative initiatives (see Box 4. *Innovative pilot projects and sandboxes*). Support projects that go beyond enhancement and cost-cutting, such as implementing the experimentation guidelines and creating specific spaces for new ideas to be developed, tested and implemented.
- **Continue efforts in the area of data interoperability, IT interoperability and data sharing** to enable cross-cutting innovations.

Impact:

- **Introduce trainings and capacity building activities on how to design and implement policy evaluations and targets in performance-based budgeting processes** to ensure public servants have the necessary competencies to create meaningful and measurable impact targets that balance achievability with ambition.
- **Integrate user and stakeholder perspectives in the design, implementation and evaluation of innovations to ensure they are meeting user needs and that the impact of innovations is clearly measured and communicated.** This may require more training and tools for public servants to gather and analyse user data.
- **Enhance collaboration, communication and relationships between the state audit office and public servants** to enable audit to be perceived as an identifier of where innovation is needed, rather than a strict control mechanism.
- **Strengthen communication around innovations to build public awareness, spread learnings and spread and scale solutions** (e.g., can leverage the Innovation Network, Lab and potential innovation awards).

Municipal level recommendations

Purpose:

- **Co-create municipal-focused components of a country-wide public sector innovation strategy**, engaging stakeholders across municipalities to define common, goals, objectives and measures and understand how municipal innovation can be best driven, steered and supported by a national public sector innovation strategy.
- **Establish clear goals and priorities for innovation at the municipal level** in alignment with the strategy and government priorities and linking goals and priorities with clear lines of responsibility and measurable targets. Link projects from external funding sources to those key goals and priority areas.
- **Reward individual innovative efforts with recognition and rewards** (e.g., recognition from leaders, explicit indicators and scoring in performance management assessment, innovation awards).
- **Facilitate more intermunicipal cooperation and exchange of practice on innovation** through Latvian Association of Local and Regional Governments or other less formal bodies (e.g., expansion of the Innovation Network) to activate municipal political leaders in promoting innovation.
- **Build innovation literacy among citizens and key stakeholders to accept and demand new and improved ways of delivering public value** (e.g., engaging students through innovation

competitions for primary, second and tertiary students, engaging ecosystems in the development of innovative initiatives, communicating about innovative initiatives through all stages of development).

Potential:

- **Establish nation-wide initiatives to encourage and enable bottom-up innovative initiatives** (e.g., a national innovation fund, innovation competitions, innovation awards).
- **Fully implement the pilot project on Public Sector Innovation Awards** (due to be completed through the RRP funding of the Innovation Laboratory) **and integrate specific categories for municipal innovation.** Consider organizing an event, such as a Festival of Innovation for showcasing winners, sharing lessons learned and presenting the awards. Refine and adapt the initiative for future years based on an evaluation of its impact.
- **Establish a network or working group to exchange best practices on implementing innovations through externally financed initiatives** (e.g., network or working group for exchange on innovation practices between municipalities who already benefit from EU funding and those looking to apply for EU funding to increase the number of applications from Latvian municipalities and the effective use of funds to support innovative efforts).
- **Consider areas where municipalities could be key partners in delivering innovative initiatives**, including those originally hosted at the national level (e.g., running citizen labs to understand user needs, finding new ways of delivering services on the ground to citizens).
- **Extend the Innovation Network operating at national level to Municipalities** to enhance exchange between public servants at multiple levels of governance and provide financing for collaborative projects.
- **Consider measures to alleviate the pressure of audit and regulations in municipalities in a safe and controlled manner**, such as conduct an impact assessment of the temporarily suspend fines from the National Audit for individual civil servants to explore their impact on innovation capacity or introducing an initiative similar to the [Danish Free Municipality Experiment](#).

Capacity:

- **Explore options to build the Innovation Laboratory's municipality-focused package of work** (e.g., adding targeted trainings on design, prototyping, systems thinking, innovation measurement and guiding municipalities through the use of innovative procurement solutions, creating toolkits for navigating procurement, legislative and regulatory systems).
- **Pilot an Innovation Exchange program** for national and municipal civil servants and expand the national Innovation Network to include municipal colleagues in to address the lack of collaboration identified by participants.
- **Implement short and accessible courses on innovation methods** across all municipalities through the School of Public Administration (VAS) or Innovation Laboratory such as on Systems Thinking, Big Data, User-centred Design, Foresight, Agile. This should be based on a gap analysis of what training is most needed.
- **Establish common tools, processes, and guidelines for innovation** and consider where the best repository might be, such as, the Innovation Lab.

Impact:

- **Establish a case study library of innovative initiatives** (including process, best practices and lessons learned) on the Innovation Laboratory website to enhance institutional memory and record lessons learned (e.g. [The OECD's Innovation Case Study Library](#)).
- **Ensure that monitoring, evaluation and reporting requirements focus on impact indicators** as well as operational outcomes (for example, using a 'Theory of Change') (see Box 12. *Examples of approaches to objective setting, measurement and accountability*).
- **Foster a more constructive and supportive approach to state audits and anti-corruption controls**, emphasizing their role as opportunities for improvement rather than punitive action and adding the need for innovation as a specific assessment criterion. Provide innovation guidance and training to auditors and set up collaborative sessions between auditors and innovators to understand and identify opportunities for innovation.
- **Develop capacity for gathering feedback systematically and ensuring that it is effectively used to inform current and future initiatives and services.** (e.g., developing a cyclical policy design process that includes input gathering through multiple project stages, using citizen labs, building capacity for data sharing and data analysis).

OECD Public Governance Reviews

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