

COUNTRY STUDIES

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Structural and Organizational Reform: The Experience of Latvia

MASTERING DECENTRALIZATION
AND PUBLIC ADMINISTRATION REFORMS
IN CENTRAL AND EASTERN EUROPE

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INTRODUCTION

This paper emphasizes establishment of the civil service and the structural and organizational reform of public administration in Latvia during 1993–2001. The content of the paper is based on a six-year personal experience of the author in designing, managing and implementing reforms in Latvia. The views and opinions expressed in this paper reflect the views of the author, occasionally supported by the opinions of international experts familiar with the process of public administration reforms in Latvia.

During 1995–2001, due to the Government course on integration into the European Union, Latvian administration has been increasingly subjected to the influence of the Western European countries and particularly EU member states and the European Commission. This influence stems from the obligation of Latvia as an EU candidate state to implement internal reforms and ensure compatibility of Latvia with the Copenhagen (1993) political, economic and administrative accession criteria. Implementation of the administrative criteria requires that Latvia develop a sustainable and reliable administration capable of implementing the European Treaties, EU policies and the *acquis communautaire* in Latvia to the same standards as in any EU Member State.

Administrative capacity, both sectoral and horizontal, has become an enormous challenge for Latvia. Therefore, implementation of the internal administrative reforms takes place in close cooperation with and assistance from the European Commission, Member States, and SIGMA/OECD. Moreover, the reform process is closely scrutinized and evaluated by the Commission in the annual Regular Reports on the progress achieved in preparation for accession. Such Regular Reports serve as a guiding document regarding the priorities of internal reforms and areas, which are considerably lagging behind the expectations

of the EU Commission and EU member states. The Regular Reports act as monitoring tool to measure the progress and identify problems as well as set a benchmarking mechanism for comparison among the candidate states.

Although there is no *acquis* in the area of public administration and National Government retains its sovereignty in establishing the structures of public administration and regulating the civil service as well as deciding on the model of decentralization of the state, there is a convergence in the systems of public administration in Europe caused by the obligation to ensure effective implementation of the *acquis*, integration of EU members within the four freedoms of movement,¹ rulings of the European Court of Justice supplementing the European law. All this provides for a more close integration of national public administrations based on recognized common administrative principles. Since 1997 Rotterdam conference on Governance and European Integration, experts of public administration have started to refer to the European Administrative Space, which characterizes an administrative system capable of the implementation of the EU legislation and meeting such criteria as democracy, predictability, reliability, adherence to the rule of law, proportionality, transparency, effectiveness and efficiency.

Reform of public administration in Latvia is driven by the internal challenges: need to improve coherence of policy making and policy implementation, need to ensure effective management of public finance, need to improve responsiveness and quality of public services, need to improve ethical standards and combat corruption, need to facilitate economic growth and welfare of society. At the same time, public administration reform is driven by the integration process, which requires strengthening of politically neutral civil service system, implementation of rules on administrative procedures, improvement of policy coordination, ensuring sound management of public finances within a medium term framework, developing

internal and external financial control, implementing transparent public procurement rules. While implementing public administration reform, Latvia uses EU-stated requirements for the administrative capacity as a benchmark and ensures that the reforms are in compliance with the European administrative principles.

It is important to note though that the application of the good governance principles is not an easy task in a country, which is in the process of building of administrative culture based on democratic values. Reforms require a considerable degree of learning on the part of administration and legislature. The EU legal acts usually state the desired outcome but do not offer the countries any specific guidance on how the effective implementation of the letter and spirit of law can be achieved. It is presumed that the national administrations should establish the implementing structures that fit the tradition, political and administrative culture and effectiveness and efficiency criteria in their own countries, thus showing respect to the fact of sovereignty of the national administration. Designing the structures to implement the acquis is often linked to the establishment of specific procedures, embedded in western administrative culture. Therefore, the transfer of know how from the EU member states serves as a key element of success of public administration reform.

In this paper the author attempts to review the structural and organizational reform, which enabled to transform Latvian public sector from a single producer of goods and services for the citizens, the sector which implemented the policies decided outside Latvia (in Moscow), into the public sector, which promotes development of the private initiative and the sector which implements nationally adopted policies in the interests of the Latvian society. The author also pays attention to the success and failure in designing and implementing of the reforms, which may serve as a good lessons to those who follow the same route of transformation from a centralized authoritarian society to a market based democracy.

The paper describes the experiences of Latvia in reforming administration and also suggests (in Chapter 5) the common approach to designing and managing the reforms of administration, which may be useful for the countries at earlier stages in the reform process.

STRUCTURAL AND CIVIL SERVICE REFORM IN LATVIA IN 1993–1997

First Program of Reform of Public Administration in Latvia

Preparation of reform of public administration started in 1993, when Latvia took a decision to de-politicize the state administration and establish professional civil service. The *Program of Latvian Public Administration Reform* (adopted by the Cabinet of Ministers on 28 March 1995) [1] stated that Latvian State and public administration were in transition from totalitarian regime to a democratic state based on the rule of law. The *Program* envisaged establishment of an administration that is derived from the structure of the state stipulated in the Constitution (*SATVERSME*) and which should perform entrusted public functions with integrity, effectiveness and justice towards the citizens.

The Program proclaimed the following strategic directions of the reform:

- reform in relations between the society and the state;
- reform of public administration functions,
- reform of the structure of public administration,
- reform in basic operational principles of public administration;
- reform of main instruments of public administration:
 - public finance management;
 - personnel management;
 - preparation and implementation of normative acts.

The *Program* was to be implemented with the use of the following means: legal acts, systems analysis, management of change, financial resources, training of personnel, informing of the society and public servants.

The principles of structural reform of public administration were stated in the *Program*. The following provisions were made for the public administration. The Cabinet of Ministers exercises the political leadership of public administration and adopts secondary legislation aimed at implementation of the laws passed by the Parliament. Ministers are members of the Cabinet and political leaders of respective ministries. A ministry is the highest organization in the institutional hierarchy responsible for policy making for the sector, budget allocation within a sector, organization of implementation of the public policies through management of the subordinated institutional system. The institu-

tions, which are under direct subordination and supervision of the ministry, are responsible for implementation of the public policy or exercising control functions. Institutional system is based on principle of hierarchical management and control. For the purpose of horizontal coordination, various mechanisms are employed: ad hoc task groups, coordinating councils, institutionalized system of exchange of information.

Implementation of the structural and organizational reform started with *clarifying the roles and functions* of institutions of public administration even before the official approval of the Program of Latvian Public Administration Reform. Notwithstanding the fact that the Program stated that entrepreneurial activities are not an objective and part of public administration, the use of entrepreneurial legislation was made to establish state non-profit companies under management of ministries to administer state programs and deliver public services. As it will be discussed further, not all the measures had been well substantiated by a comprehensive analysis of the impact, because the lack of the experience in building new public administration, weak theoretical knowledge of the basics of democratic governance, economic and fiscal pressures produced a mix of circumstances, in which experimenting was an alternative option to inaction.

The *Program* addresses *civil service reform* as an essential element of transformation of the state to a democratic rule of law. The objective of the civil service reform is to establish politically neutral, professional, accountable and regulated by the law administration, whose decisions can be reviewed and challenged through certain stated procedures. The basic *principles for civil service* included:

- principle of trust—the state entrusts civil servants with the rights to exercise public authority with a framework of law and with a reasonable discretion;
- general applicability—a civil servant should be able to perform his/her duties within a wider context of public administration and can be transferred or seconded to another post in the administration;
- principle of career—the state ensures an opportunity for a civil servant to develop a career through a progression within the civil service ranks, linked to the professional growth and continuous learning; the state undertakes an obligation not to dismiss a civil servant unless he has committed an offence as stated in the law;
- principle of state care and social protection of civil servants—the state provides certain social guarantees

to the civil servant in return for his loyalty and dedication to the state interests;

- Principle of ethics—avoidance of the conflict of interest to ensure that civil servants performs his duties in the interests of the state and the society and his performance is not interfered by any personal interest and wish to attain private gains through compromising his/her position.

To ensure the establishment of legal framework for the civil service, a set of laws was to be passed and implemented: *The Civil Service Law, Law on Disciplinary Procedures, Law on Administrative Procedures, Law on Conflict of Interest, The Law on Access and Protection of Information* together with the Cabinet regulations on civil service. For the implementation of the Civil Service Law, coordination and development of career based civil service system the Government established a central coordinating institution—Civil Service Administration. The change from the old soviet type administration working under strict control of the Communist party to the professional civil service required new types of knowledge, skills and attitudes. To enable the public servants acquire such skills, a government-funded training institution for in-service training—Latvian School of Public Administration was established simultaneously with the Civil Service Administration, in December 1993.

The School has developed into a sustainable and developing training institution, which follows the reform, needs and develops and delivers training programs to civil servants within broad range of reform agenda. Till present, the School resisted suggestions to change a status from public institution financed by the Government to a more relaxed agency status for the reason of serving primarily as a reform tool for the public administration which should facilitate the growth of professionalism in public administration without focus on entrepreneurial activities aimed at earning revenues through delivery of training for a fee.

The *Program* made a very general provision for management of public administration reform by stating that the Cabinet of Ministers ensures the implementation of public administration reform with all the available means and tools. Later in the paper we will see how such an uncertain provision influenced the pace of the reform and attitudes of politicians, administration and the society towards reform initiatives.

Early Transformation of Public Administration

After the 1993 elections of the 5th Saeima,² the Cabinet of Ministers established a Ministry of State Reforms (with a limited two-year mandate) to develop policy on public administration and civil service reform and to coordinate its implementation. Other sectors of economy and social sphere were entrusted to twelve ministries: Ministry of Finance, Ministry of Justice, Ministry of Foreign Affairs, Ministry of Economy, Ministry of Agriculture, Ministry of Transport and Communications, Ministry of Welfare, Ministry of Education and Science, Ministry of Culture, Ministry of Interior, Ministry of Defense and Ministry of Environmental Protection and Regional Development.

The State Chancellery acts as a central administrative institution and ensures necessary professional support for work of the Cabinet of Ministers and the Prime Minister. One of the critical roles that the State Chancellery plays is to ensure the quality of the normative acts submitted for adoption by the Cabinet. The policy advice function at the State Chancellery has been underdeveloped till the beginning of 2000.

In order to ensure the most comprehensive review of the legal drafts and National Programs before adopting by the Cabinet Members, the Cabinet of Ministers established a Committee, which is a discussion forum for Members of Cabinet and civil servants from all ministries and central institutions. This forum assists government in coordination of various sector policies and prepares the ministers for voting on policy decisions of the Cabinet of Ministers. For a government lead by a coalition, this is an important instrument to express political and professional concerns and influence the contents of the final draft submitted to the Cabinet meeting for approval.

The structure of ministries reflects the functional approach to the setting up of administrative system. The ministries in Latvia are comparatively small to those in countries of the continental Europe (France, Germany) and are comparable in size to the Scandinavian ministries. This reflects the trend of de-concentrating and decentralizing the functions of the state to avoid the concentration of power at the center and to establish public administration bodies under supervision and subordination to the ministry for carrying out specific functions which fall within the remit of the ministerial mandate. These functions are related to implementation of policies and to exercising control and monitoring over the implementation of law.

The legal status of the supervised and subordinated bodies is different. The basic principle employed in establishing the status of the public administration institution refers to the desired degree of political influence on performance of a certain function of public administration. If the function requires a direct access to the political decision-making and is closely involved with policy implementation, coordination of activities of public bodies within the institutional system of a ministry, the institution is placed under the *direct subordination* of the ministry. This means that the minister or other authorized top civil servant (State Secretary of Director of Department) has a legal right to give direct orders regarding the operation of the subordinated institution as well as has a right to review any administrative decision and revoke or suspend it through exercising a superior hierarchical authority.

On the contrary, the institutions that should operate under the provisions of the law and perform functions that should be protected from any political influence (interference) of the minister are placed under *supervision* of the ministry. Such supervised institutions perform regulatory and control functions under the provisions of the law. The ministerial authority is limited to (1) proposing the director (head) for nomination by the Cabinet of Ministers, (2) proposing the budget for approval of the Cabinet within a framework of the government budget, (3) exercising a legal oversight over operation of the institution with the right to suspend or revoke the decision contradictory to the law. All Latvian inspectorates³ are placed under the supervised status, which ensures their autonomy and responsibility for carrying the functions stipulated, by the law.

Establishment of Civil Service. Training

Civil service system was introduced in Latvia in 1994, upon adoption by the Parliament the *Law on State Civil Service* (21.04.1994). The law provided for establishment of a career civil service in central administration and after the transitional period in the local governments.⁴ The law emphasized separation between the political and administrative roles in public administration. The selection of civil servants was based on a principle of open competition and meritocracy. The selection criteria accentuated the professional qualifications, education, loyalty to the legally established government and absence of a record of service within intelligence organizations of other countries and banned organizations in Latvia after proclaiming of independence.

To perform a transition from the existing in 1994 administration to the new system defined by the Civil Service Law, all persons employed in administration had to pass a qualifying test and undergo the check of compliance with the obligatory requirements stated for civil service candidates. During 1994–1996 all the employees serving in ministries and subordinated and supervised public bodies underwent the documentation and qualification tests. Those who passed those tests were nominated to a civil servant position as a candidate to the civil service status.

To establish a unified civil service, a common general system of civil service positions was established by the Cabinet regulations with a remuneration system linked to the position. However, the civil service grades and ranks have not been introduced, thus preventing from development of careers based on rank progression. Instead, the carriers developed in relation to the positions. Carrier development was a matter for individual or organization concern, with much lesser role for the Civil Service Administration, which failed to ensure rotation and secondments system facilitating the allocation of civil servants with the proper skills across the civil service in the interest of the state.

The rationale for the civil servant candidate status was connected with the fact that it was not possible for the people in civil service positions to meet all the high professional standards that should determine a civil servant. Therefore, training was considered a priority measure to allow the civil service candidates to develop their management, policy development, legal drafting, administrative procedure and other relevant skills. Training also was meant to serve as a tool of changing attitudes of employees.

A comprehensive compulsory training program was developed by the School of Public Administration and delivered during the 1994–1998 to all civil service candidates. The basic training curriculum included tailor made courses aimed at development of practical skills and imparting the most essential knowledge in modern theory of management, office and documentation management, basics of market economy, administrative law, psychology and ethics, budget management, communication and IT skills, rules on public procurement, etc. The School also provides language training for those who work with the EU institutions and documentation.

The approach to training of top civil service managers (State Secretaries and Heads of civil service institutions) and the rest civil servants was different. The 240 top civil

servants were trained separately from the rest of the civil service through specially designed courses and delivered by the external experts on public administration. The major introductory training coincided with the PHARE Public Administration Reform Program (1994–1996), which devoted special attention to assisting in training capacity building. To train the medium and lower level of civil servant candidates (~12000 candidates), the School implemented the train-the-trainer program and trained Latvian teaching staff, developed a uniform set of training materials and organized training in the compulsory curriculum within 23 regional training centers.

Training served as a common basis for all civil servants, which helped to forger common views, skills and attitudes within civil service. With years, the training curriculum of the School expanded to include emerging priorities of public administration reform. This was possible due to the fact that the School worked for the needs of raising the professional qualifications of civil servants. The new courses included wide range of areas: project management, strategic management, foreign languages, personnel management, internal control, European Institutions and policies, management of the EU policies, presentation skills, psychology, conflict resolution, public procurement, etc.

The priorities in training program include such topics as EU institutions and policies; administrative procedures (this course is aimed at improving knowledge and understanding of the basic principles and procedures of civil servant work), ethics, strategic planning, project management, client oriented service, personnel appraisal, etc.

Presently implemented training program for inspectorates supports a program of institutional development of inspectorates aimed at improving the regulatory environment in Latvia, reducing administrative barriers to investors and improving client orientation of the public administration. The program contains a set of courses that support development of strategic thinking and client orientation of inspectorates, attempts to develop client orientation culture, facilitates establishment of better communication links between the inspectorates, trains in developing clear and transparent procedures and internal control systems, and focuses on development of interpersonal skills of inspectors while dealing with difficult clients.

Training is an essential instrument of building administrative capacities. However, one should not rely on training only, because in isolation from the policy and legal framework as well as accountability and monitoring

mechanisms the skills may not be demanded by the Heads of institutions and the civil servants will fall back on their traditional behaviors thus leaving the things unchanged. Therefore, there should be sustained pressure from the central coordinating institution to implement reforms as well as the system of incentives linking the reform efforts with the benefits for the institution and individual.

Commercialization of the Public Sector. State Non-Profit Companies

Even in the market society, the state remains responsible for delivery of public services related to education, health-care, culture, public transportation, etc. These functions are delivered by public bodies placed under the supervision of respective ministries or by bodies established by local municipalities. Other publicly established and state financed institutions deliver professional services either to the public or to the state and enables the public administration to perform their objectives. In Latvia such institutions are under the management of the ministry, which exercises policy guidance, manages these institutions according to the Cabinet regulations, oversees allocation and usage of the state budget resources and ensures that these bodies implement public policies properly and attain established goals. Examples of such bodies are State information network agency, State health insurance agency, State assets agency, Highway agency, etc.

During 1996–1997, under the influence of the market trends in Latvia, severe fiscal constraints within the state budget, as well as inspired by the process of commercialization of public services in OECD countries,⁵ Latvia started to establish public bodies with a commercial type of organization—non profit state stockholding companies. The Ministry assumed the role of the shareholder on behalf of the state and organized the management of such state companies through the nominated proxies, who represented the interests of the owner. The management elements for such public bodies of a commercial type have been quite heavy: the State proxies (the highest management authority), reporting to the Ministry (sometimes the Minister exercised a role of a proxy), Management Councils with an intermediate management authority and Management Board headed by the Director, which exercised operative management of the company while not going beyond the framework set up by the two higher authorities.

Such state companies were either financed from the state budget or allowed to earn their own revenues through

the fees for services or tax levies. In case, the financial management and accountability was the exact replica of those in business enterprises. State non-profit shareholding companies used accrual accounting allowing accounting for the value of assets, while the sworn auditors reviewed the annual reports. Such companies also were registered in the State Registrar as any other commercial body, operating on the territory of the Republic of Latvia.

The personnel issues of such state companies were not bound by the civil service rules and the remuneration was set according to the private sector benchmarks. Often revenues of such companies have been quite impressive and allowed for a much faster investment growth and development than otherwise it would have been possible to do from the state budget appropriations. The central Treasury Control over the financial management of such public commercial bodies has been significantly weakened. In fact, many such ‘agencies’ have been outside of the state budget and it resulted in a situation when more than a half of the public expenditure was taken outside of the Parliamentary allocating and controlling authority. Proliferation of the extra-budgetary funds (special budgets made with the earmarked revenues) used to finance the operations of state non-profit companies significantly reduced the state control over fiscal macro-economic situation and facilitated disproportion’s in financing levels within public sector.

The evaluation of the impact of the commercialization started with the involvement of the World Bank experts during 1999. As a result the recommendations for clarifying the status of the state non-profit companies were formulated and further incorporated into a draft law on Public Agencies. Chapter two of this paper deals with the problems identified in the new semi-commercial state structures and recommendations for improving of transparency, accountability and management systems of autonomous agencies.

Administrative Territorial Reform

The administrative territorial reform started in early 1990.⁷ Instead of the old Soviet type municipalities that acted as a part of a unitary state hierarchically linked to the center, locally elected self-governments were established with their own administration taking full care of the local matters. The Law on Local Self-Governments stipulated the division of responsibilities between the state and self-governments regarding implementation of the state functions. Local self-governments assumed a managerial respons-

ibility for implementation of such functions as general secondary education, primary health care and social care, etc. The law provides for the state funding of these public functions. At the same time, local self-governments assumed full responsibility for organization and management of local matters: local infrastructure, housing, utilities, local transportation, pre-school care, etc.

While the law grants certain authority to local governments in performing public functions, it should be realized that managerial, personnel and financial capacity limit the ability for implementation of these decentralized functions. For a country with a total population of slightly below 2.5 million inhabitants, the number of first level municipalities around 500 is too big. This means that the small municipalities are not able to properly organize all the necessary services and ensure the necessary standard of service due to the inadequate budget size, and limited property tax level.

This in turn leads to undesirable economic and social consequences. The young people strive to leave the remote municipalities in search for a better education and challenging employment in the capital city and other big cities, leaving behind the elderly and the ones who are trying to put up with the possibilities to earn by farming or employment in the local public service sector. Lack of investments, due to the shortage of capital, conserve the unfavorable economic and social conditions and retard the development of the private sector in the underdeveloped infrastructure. With years social and economic disparities among municipalities become sharper.

In 1998 the Parliament passed a Law on Administrative Territorial Reform (ATR), providing for amalgamations of small municipalities into bigger and economically sustainable local governments. The Law provides for voluntary amalgamations till end December 2003, after which the process of merging municipalities will be the centralized and accomplished by the central government. As a first step to ATR, the law provides for investigation of all Latvian territory and collecting the data on economic, social, ethnical, cultural, geo-physical preconditions and incentives for amalgamations and planning of new administrative territories. By the end of the year 2000 all Latvian municipalities have been investigated and Minister for Public Administration Reform submitted to the Cabinet a project of future administrative territorial division of Latvia into 102 self administering territories—novads—future first level municipalities. The criteria for setting such municipalities are:

- minimum number of inhabitants—5,000;

- the territory has a development center with the population between 2,000–25,000 inhabitants;
- the administrative center is approachable by the existing transport network;
- the center is within 30-km reach from the boundaries of the municipality.

Latvian government set up an amalgamation support fund within the state budget,⁶ which could help new municipalities to establish the new structures. However in 2000 and 2001 only a small share of this fund was used, because the amalgamation process is slow. Apart from purely objective difficulties of amalgamation, internal open and latent resistance from the local politicians serves as an important impeding factor for the administrative territorial reform. Lack of clear and persuasive information to the local citizens leaves them indifferent and skeptical to the Administrative Territorial reform.

Therefore, the efficiency, access and quality of the public services remain a serious problem for the citizens. It is not feasible to introduce civil service either in local municipalities, which are, still non-reformed and oppose to most of the changes initiated from the center. Without a proper information, incentive system and facilitation from the center, ATR will likely to remain a problem for the years to come. At the same time, conservation of the small municipalities presents an efficiency problem and a barrier to the influx of investments and EU money for economic and social cohesion.

From the structural point of view, decentralization of the central government is not possible if at the receiving end we have administratively, economically and financially weak municipalities. Such decentralization can reduce the economic efficiency of delivery of public services and cause decline in the quality of delivery. Today's sharp contrast in a standard of life in the Capital City and remote municipalities is striking. It is reflected in accessibility to public services, employment, level of income, demographic situation, business activities, transport and mobility.

Economic and social development of Latvia depends on the success of the Administrative Territorial Reform. The Economic Development Report prepared by the Ministry of Economy of Latvia [2] states that for the reduction of social and economic disproportion's, (among other things) should be achieved through '*encouraging a balanced regional development and employment by promoting SME, improving infrastructure, strengthening of municipalities both financially and legally...*' (p. 130).

EVALUATION OF IMPLEMENTATION OF THE FIRST REFORMS (1997–1998)

Fragmentation versus Centralization

Establishment and strengthening of the line ministries, permanency of the State Secretary of a ministry granted by the Civil Service law, respect for hierarchy, frequent changes of the coalition governments,⁷ weak role of the Prime Minister⁸ granted by the Constitution, weak coordinating center at the State Chancellery and the lack of the strong central body coordinating public administration reform—all these factors have contributed to development of strong and influential line ministries, which present a problem for horizontal coordination in public administration.

Authority to prepare sector policies, to form sector institutional system performing public functions, to prepare and distribute state budget for the ministerial system, decentralized authority to hire and fire civil servants makes ministries quite powerful. The political factor also acts as a reinforcement for the fragmentation, since each of the political parties represented in the government claims the political responsibility for a particular sector of public life: economy, welfare, education, environment, transport, etc. This means that apart from the collegial Cabinet decision-making on policy and legal issues, *the party* represented by the minister has influence on the ministry.

The coordination system, established to ensure the coherence of policies and legal drafts, have been designed as a special procedure on preparation the documents for adoption by the Cabinet of Ministers (Cabinet Regulation #160). This Regulation provides for coordination among the ministries of any policy or legal issue to be submitted to the Cabinet. Although this coordination instrument is perceived quite efficient in balancing ministerial proposals and improving of the quality of the documents that reach the Cabinet level, the problem with the shared interest of the government is still open, since reviewing the contents of a particular draft from sector perspectives does not ensure the observance of government priorities and identification of conflicts with the already adopted policies. Till recently, the State Chancellery performed only legal quality checks of the submitted documents without analysis of policy implications.

Since September 2000, Latvian government establishes a central strategic planning and policy coordination capacity

in the State Chancellery—Department of Policy Co-ordination. This unit has three main functions: (1) preparation of medium- to long-term Government plan concerning the future policy and legislative agenda; (2) coordination of ministries in their preparation of draft policies in accord with the medium term policy framework and to ensuring the coherence of the new policies with the already adopted ones; and (3) undertaking the development of policies on the emerging issues, which do not fall under the responsibility of any ministry.

OECD research on policy coordination also pays attention to the capacity to evaluate the policies during their implementation and formulate the necessary amendments, as well as to carrying out a comprehensive impact analysis. There is awareness in Latvian administration that impact analysis of economic, social, financial, political and legal consequences is a real need. Therefore, the Regulation of the Cabinet procedure #160 was amended formulating the requirement for a comprehensive impact analysis to be done and submitted to the Cabinet together with the policy draft or legal draft. The State Chancellery is responsible for reviewing the Annotations to the submissions and checking whether the submitting institution did a quality impact analysis. However, the legal need for evaluation during the implementation of policies is not a legal requirement, which diminishes the role of mid-evaluation.

Implementation of policies and legal acts is linked to the operation of public institutions and consequently to their budgets. The allocation of budget resources in Latvia is a combination of a top down and bottom up approaches. Initially, early in the budget cycle, the Ministry of Finance performs macroeconomic forecasting for the coming year and submits to the Cabinet for approval the ceilings for each spending ministry or central body. During this process, the government makes an attempt to link the emerging policy priorities (like integration to the EU, accession to NATO, etc.) to the spending limits. However, this process is quite strenuous and politically highly charged, therefore the result of the process is more or less incremental budget within the same broad targets as for the previous year. The competition for state funds among the ministries is based on rational, emotional and political arguments and never ends in a complete satisfaction by all.

The link between the government agenda, ministries' agenda and the budget is not quite obvious. Often, declarations of government priorities do not reflect the budget allocation, but the need to keep the budget deficit under

a stringent control results in under-financing of important areas. The World Bank in its review (1996) of public administration in Latvia insisted, that government allocates and reallocate capacity should be tied with the government priorities. One of the suggestions how to cope with the multiple priorities and reduce their number to realistically implementable was to review what and how the government institutions do. As a result of such reviews activities that do not contribute to the mission and main objectives of a ministry should be reduced, dropped or shifted to the private sector. Another reserve for savings could be better allocation of functions and responsibilities across the government, carefully avoiding unnecessary duplications and overlapping responsibilities. Latvian administration has carried out a limited number of such reviews.⁹ The ministry of Agriculture as a result of this review introduced structural changes and allocated staff and finances to the new priority areas without increasing the total budget lid.

Unified or Decentralized Civil Service

Latvian civil service was designed as a unified civil service with the central management and coordination. The law on Civil Service of 1994 has been implemented with the exception of some provisions during 1994–1996. Importantly, that the basis for professional, merit-based, separated from political influence and interference civil service exists and not challenged. Civil servants establish and develop their careers in public administration. According to the SIGMA opinion [3], Latvia had number of problems in implementation of the Civil Service law:

- the scope of the civil servants defined in the law (1994) was too wide and did not match the existing financial capacity;
- the labor regulation was used as a substitute for the civil service by many institutions to avoid financial constraints under which civil service was operating;
- the inadequate pay structure which resulted in introduction of non-transparent pay arrangements with management contracts;
- the lack of motivation and perspectives for career development among the candidate civil servants; and
- The weak role-played by Civil Service Administration (CSA) in managing civil service.

The recommendations provided by the SIGMA experts suggested restricting the applicability of the law to the core public administration; developing a scale of ranks for job positions; establishing new pay structure based on legally defined pay concepts ensuring transparency and

predictability to the system. Additional general recommendation was to establish strong political back up for the CSA, so that it can fulfil its function as a horizontal instrument for managing the civil service and ascertain a uniform legal treatment of every civil servant across the system. The link between CSA and the School was perceived important in designing and implementing training pro-grams for putting forward credible and sustainable reform policies.

Based on SIGMA recommendations, the Cabinet of Ministers set up a working group that drafted a new Civil Service Law. It defined the scope of civil service in relation to the core functions of public administration, providing more coherent arrangements for mobility of civil servants, setting the norm for performance evaluation of civil servants as a precondition for the career development. The law was adopted by the Parliament in 2000 and entered into force on 1 January 2001.

During the last stages of the preparation of the law the issue of senior civil service has become quite acute. First, in his report to the Prime Minister Sir Robin¹⁰ Mountfield identified the need for strong central coordination through the State Secretaries. The State Secretaries¹¹ have responsibility for their performance to the minister and a collective responsibility to the Cabinet of Ministers as a whole for their progress on implementation of the Government program. Sir Robin suggests that the Chancellery needs to be the center of strong co-ordination through the State Secretaries.

Establishment of senior civil service puts a new strong responsibility on the Chancellery: to co-ordinate public administration and to develop corporate or collective culture among the State Secretaries and other top officials that goes beyond their loyalty to their own Ministry. State Chancellery needs to develop a collective emphasis on medium-term policy planning and collective lead on Public Administration Reform matters.

It is believed that establishment of coordination mechanisms among the State Secretaries will help to overcome the fragmentation and excessive decentralization trends in Latvian public administration and improve government capacity to develop and implement sustainable, well coordinated and coherent policies. The culture that should develop in time through implementing of the new coordination mechanisms will help to ensure that the ministries are driven by the common purpose of the state rather than by their narrow sector priorities. This will result in strengthening the efficiency and effectiveness of public administ-

ration, better budget preparation and better position of Latvia *vis a vis* the European Union.

As for the civil service management, there is still need for the central coordinating institution like the Civil Service Administration, which should be responsible for the developing of procedures and regulations, exercising the monitoring of the implementation of the law in public administration, serving as an institution for disciplinary reviews and appeals, maintaining the statistics and facilitating the mobility of civil servants. Civil Service Administration also should serve as a center of expertise and advice on personnel management issues and a champion of the best practice in civil service management issues.

To answer the question of whether to have a centralized or decentralized civil service the answer is that there should be a good balance between the two. The issues to be centralized are: setting the procedures, establishing regulations, coordinating the work through strategic plans, managing the reform process, monitoring of compliance with the law and established procedures, facilitating of the mobility of civil servants, designing and delivering training programs. The responsibility for the public institutions will be associated with the selecting and recruiting, developing of civil servants, planning careers and keeping the carrier tracks, evaluating performance, applying disciplinary procedures, designing job descriptions, promoting ethical behavior and administering rewards and sanctions.

Transparency, Accountability and Steering of Public Bodies

Transparency of public administration has a legal basis in the Law on Access and Openness of Information. The information that is not classified as restricted or confidential is accessible by public and private entities. However, the desired state of transparency will be achieved when institutions design and implement public information programs. The evidence of increasing transparency is the growing use of Internet sites to inform on the institutional missions, basic functions and strategies. All ministries have their web home pages with the links to the subordinated institutions. Institutions serving public (in health, social sphere, and transport) also provide interactive opportunities for the public. The Cabinet plans to adopt a Regulation on the structure and access to the ministerial web sites.

To improve accountability of public institutions, in 1998 Cabinet of Ministers adopted an Instruction requiring

all public institutions to prepare their Public Annual Reports on the performance during the year. The instruction lays out the basic items of the contents and set out the dissemination procedure. Latvian administration bodies have been preparing their Annual reports since 1999. Similar practice was implemented earlier for the state non-profit companies, which produced verified by the certified auditor's Annual reports on performance and financial management results. The improvements are planned in the quality of Annual reports through linking the performance results to the budget allocations, reporting on the cost-efficiency of performance, reporting on performance within the government priority objectives, reporting on the outputs and outcomes rather than reporting on the process and functions.

Transparency and accountability of public service bodies increase significantly if institutions develop special information for customers. Road Traffic Safety Directorate provides the best example in Latvian public sector on how client oriented service is established and customers can assess the performance and influence it through using the client rights provided by the Clients' Charter. The Standards of service are set up for all services provided by the Directorate. If any of the standards is not observed (especially the standards on service time), the customer may be relieved from paying for the service.

The assessment of reporting arrangements in public bodies was performed during the World Bank survey of the state non-profit companies in November 1999. The Survey revealed that not all state companies had adequate financial reporting documentation. Moreover, often Ministry was not controlling the financial statements and monitoring performance of the agency. This meant that while establishing public companies at the arm length from the center, and creating a cumbersome management system with Proxies, Councils and Management Boards, the Ministry itself was isolated from the managing the agency and supervising performance. A break in the accountability system was quite dangerous if senior public officials delegated the management and control responsibilities too far and reduced their own involvement in management of public bodies. This means that the implementation of public policies, use of public finance, *observance of the law was effectively taken away from the administrative and political control of the government.*

Such conclusions called for re-thinking of the status of semi-autonomous public agencies and applicability of the private sector company model for such bodies. It was

concluded that there is a different philosophy behind the management, accountability and control of public bodies and that of private companies. Therefore, Public Agencies Law was passed in March 2001 to provide a proper legal basis for establishment, management, operation, accountability and control of public agencies. The basic concept of Public Agency allows for separation of the roles of the ministry and agency. The ministry approves the operational framework of an agency, which includes operational strategy, business plans and budgets (as well as levels of charges for public services, if agency is allowed to collect fees for its services). Preparation of such a framework is a common responsibility of an agency and the ministry, which results in signing of a performance agreement between the minister and the executive director. The performance agreement specifies the expected outcomes and outputs, resources to be used, incentives and sanction related to performance and targets against which the performance will be evaluated.

The agency is given the necessary managerial flexibility in organizing its operations and is bound only by the law and the targets set out in the performance agreement. Steering and rowing is separated for the purpose of achieving greater economic efficiency and quality of service delivery. The law provides also for eliminating of a multiplier management structure, which proved to be inefficient. Instead the head of the agency is directly responsible to the minister, who in turn appoints a liaison person in a ministry. The liaison person as part of his/her regular duties should monitor the implementation of the business plan, state of financial management and should timely inform the minister if his involvement is required. At the end of the fiscal year the liaison persons analyze the Annual report and advise the minister on the evaluation of implementation of the annual performance agreement.

According to the transitional provisions of the Public Agency Law, the structural reorganization will concern some 170-state non-profit stockholding companies within the period lasting till the beginning of 2003. The functions of these bodies will be analyzed and one of the following decision taken and implemented:

- creating a public agency;
- privatizing the whole 'business';
- returning the function to the core public administration;
- transforming into a trading company (for profit).

The implementation of Public Agencies Law will ensure better transparency and accountability in the administration. The role of Ministry *Vis a Vis* the agency will be made quite clear and a link between the political accountability and service delivery will be established. Currently, the im-

plementing regulations are in the process of adoption by government, concerning the criteria for establishing the agencies, the process of transformation of non-profit stock companies to the agency status, the template for the performance agreement, the regulation on annual reports of the public agencies, the pay system in agencies and the methodology for setting the user charges for the public services.

New Public Administration Reform Program

The first Program of Public Administration Reform of 1995 concentrated on structures, functions, principles and civil service. For a considerable period of time the public administration reform agenda did not go beyond the formal building blocks of administration: institutions, personnel, procedures and reform management. The difficulties to implement such a narrow reform agenda answering the question of *how* to establish administration without paying attention to *what* is the substance of work of administration have been evident in the long run. It is not enough to create abstract schemes and to subject the administration to perfect models. It is essential to achieve a fit between the real administrative structures and personnel policies to the tasks of administration, namely, policy development, policy implementation, improving performance and quality of public service delivery, improving the efficiency of the public sector, introducing the innovations in public service and establishing ethical and accountable environment.

The World Bank influenced the administrative reform policy agenda by agreeing with the Government on measures to be implemented under the Programmatic Structural Adjustment Loan (PSAL). Apart from traditional reform measures, like improving structures and strengthening civil service, the World Bank supports such reforms as ensuring transparency and access to information, strengthening the judiciary, prevention of corruption, improving management of public service, establishing medium term public expenditure framework, improving of state regulatory functions, improving the business environment and reducing the administrative barriers to investments.

The Program of agreed measures with the World Bank creates a new aspect of the reforms of public sector, which goes beyond the traditional package of public administration. As a result of the measures in the agreed program, Latvian administration is expected to streamline the structures of public administration by clarifying the mission

and strategic objectives of ministries, to improve the framework for the budget management and link the government allocate capacity to the strategic planning. The program also aims at improving the performance of regulatory bodies by clarifying their missions, improving strategic planning capacity, ensuring the stability and clearness of the inspecting procedures, ensuring effective appeal mechanisms, enhancing the client orientation of the regulatory bodies and providing the information on the performance.

In August 2000, a World Bank consultant Mr. Denis Ives¹² conducted an analysis of public administration reform in Latvia and suggested the following framework for a balanced approach to public sector reform, including:

1. Overall strategy, objectives and expectations;
2. Institutional and structural reform (including devolution and decentralization);
3. Financial management an Budget management reform;
4. People management reform (including employment rules, staff quality and capacity building, particularly for senior executives);
5. Performance management (including result-based management);
6. IT initiatives and improvement programs;
7. Service delivery improvements initiatives;
8. Accountability, ethics and anti-corruption.

To add to this list, the reform agenda should not overlook the issue of reform management and evaluation. This means that effective implementation of the reforms depends on the created steering and co-ordinating capacity. This conclusion matches the recommendations by Sir Robin Mountfield, who emphasized in his report the strategic role of the center of government for policy co-ordination, top civil service management, link between the government priorities and public budget management.

The influence of the European Commission on the course of public administration reforms reflects:

- the assumptions of the Commission about the characteristics of reliable and predictable public administration;
- the concern for the transparency and credibility of financial management and financial control procedures, explained by the requirements to ensure transparent and effective use of the Phare and pre-structural assistance;
- the structure of the European Commission, which determines sometimes uncoordinated demands made on various aspects of public administration;
- the EU legislation.

Latvian task is to prepare a comprehensive reform program, which takes account of the existing problems, partially recognized and illuminated by the World Bank, and demands exerted by the EU. After the first Program of reforms in 1995, in 1998 the Cabinet passed the second framework document—Strategy 2000. This document provided for reforms in policy co-ordination, budget management, civil service development and training, implementation of administrative territorial reform and improving accountability and appeal mechanisms. Unfortunately, lack of political interest to public administration reforms, inadequate allocation of financial resources to implementation of reforms significantly delayed and weakened the implementation. As a result, the Strategy 2000 was only partially implemented.

With the date of accession approaching, the EU attention to the administrative capacity is growing, which requires especially co-ordinated and result-based implementation of reforms. To ensure effective implementation of reforms the Government requires establishing the framework for medium term reform agenda. During the first part of 2001 a cross-ministerial working group, established by a Decree of the Prime Minister, had developed *Strategy of Public Administration Reform for the Years 2001–2006*, which was adopted by the Cabinet of Ministers on 10 July 2001.

The Strategy states five comprehensive goals:

- *improving policy development and policy coordination process,*
- *introducing medium terms expenditure management linked to policy priority targets;*
- *improving administrative process and enhancing the role of society in public administration;*
- *improving the quality of public services; and*
- *strengthening civil service and human resource management in public administration.*

Some of the expected outcomes of the Strategy of public administration reform will be:

- improved government capacity to adopt strategic objectives, making framework for coherent and coordinated public policies;
- improved implementation of government policies through central strategic planning system and coordination;
- implemented program budget planning and management linked to the politically accepted outcomes and specified performance targets;
- improved accountability of public bodies for the delivery of planned performance targets;

- improved administrative process and better respect of the rule of law in daily work of public administration;
- improved responsiveness and quality of public services;
- better skilled, professional, ethical and accountable personnel, who develop careers in civil service and ensure good performance of public service.

Recent developments related to the Strategy include the development of action plan for implementation of the strategy with indication of timing, resources and responsible institutions. The process of development of the action plan is a coordinate by the Secretariat of Public Administration Reform. The Cabinet of Ministers established the Coordinating Council of Public Administration Reform, which should coordinate implementation of the Strategy. The coordinated action on implementation of the Strategy has already started.

MODELS OF MANAGEMENT OF PUBLIC SECTOR REFORMS

Ministry of State Reforms

In 1993 the first government established by the democratically elected Parliament in the independent Latvia set up under a sunset law¹³ the Ministry of State Reforms. The mandate of the ministry was to develop state policy of the public administration reform, to prepare a Program of reforms and draft the basic legislation regulating civil service, institutions of public administration, and to coordinate Civil Service Administration and Latvian School of Public Administration (LSPA) in their policy implementing functions. On 25 June 1995 the Ministry of State Reforms was liquidated. The CSA and LSPA were subordinated to the State Chancellery, which established a department of state reform.

Left without the political leadership, the reforms quickly came to a halt. This was a period when Latvia received a shock of the bank crisis (1995), involving huge losses to the public bodies and private persons. The crisis caused the fall in GDP and economic performance, public administration reform was deemed as a luxury, which could be postponed or sacrificed for a while. The budget of LSPA was cut three times during the two years 1996–1997. Ministries quickly learned that they should experiment in reforms by themselves since there was no central co-ordinating institution that cared about the state of play. Department

of State Reforms in State Chancellery did not have any concrete agenda. This was the time when even European Commission turned their back on Latvia and refused to finance the planned Public Administration Reform project.

In retrospect, the majority of civil servants and politicians agreed that it was a mistake to abolish the ministry, which started reforms in a confident and effective way. After the dissolution of the ministry, the momentum was lost and commitment to continuation reforms considerably weakened. During the period in 1996, when some core administration services, Like State Revenue Service, left the civil service and returned to the labor relations for the employees. At the same time a belief in efficiency of the private sector and fiscal constraints pushed for establishing of the state non-profit companies outside the state budget and with inadequate controls and accountability.

Changes in Reform Management Model during 1995–2000

After dissolution of the Ministry of State Reform in 1995, the model for central management of the reform changed several times. Civil Service Administration and School of Public Administration also changed their subordination depending on which body was in charge of policy and coordination of public administration reform. Below a short review of the changes in PAR management structures are described and assessed.

June 1995–November 1996. Immediately after the Ministry was liquidated, the Department of State Reforms was established at the State Chancellery. CSA and LSPA were subordinated to the State Chancellery and continued to operate within their mandate, though without having a political support from any of the ministers. This model seemed well from the point of view that central position close to the Cabinet and the Prime Minister was ensured. However, in reality the Prime Minister was too busy with the business of running the state and could not devote serious and adequate attention to the political leadership of the public administration reform. One might just speculate whether in a country with a stable political and economic regime with the term of government office equal to that of the Parliament such arrangement could be feasible. Probably, yes provided, that the Department of State Reform is professional and dedicated, the rest of public administration recognizes the authority of such a Department, and there is a respected leader who communicates the strategies and drives the reform forward.

In practice the pre-conditions for successful implementation of reform have not been established. Gradually, the reform initiatives have drowned under the pressures of the economic and financial crisis following the collapse of one of the biggest Latvian commercial banks. The reform leadership could have been saved had the Head of the State Chancellery been more committed to the reform process and had more political backing. However, politicians were not ready to support the reforms, since other more pressing issues dominated and there was a belief that the reforms are more or less completed with the establishment of civil service and clarifying the roles and status of ministries. Their belief also was reflected in budgetary cuts for civil service training followed in 1996-1997.

November 1996–March 1997. The Cabinet recognized the need for a minister politically responsible for public sector reforms. The awareness was also pushed forward by the need to nominate a political counterpart for negotiations of conditions in the public sector reform under the World Bank Structural Adjustment Loan. The choice of the responsible minister was dictated by the two arguments: not to create a new ministerial post and personal qualities of the minister who could be unselfish enough to undertake a leadership of the reform that by that time became politically quite unpopular. State minister¹⁴ of Labor at the Ministry of Welfare was nominated as responsible for the public sector reform. He was indeed a strong personality who undertook his responsibility with rigor. The Department of State Reform was transferred to the Ministry of Welfare under responsibility of the State minister of Labor. LSPA and CSA have been subordinated to the State Minister of Labor. However, major reshuffle of the Cabinet in February 1997 resulted in cutting the State ministers posts all across the Government and the positive changes initiated by the State Minister remained half designed and not implemented.

May 1997–April 1998. Undertaken commitments with the World Bank required continuity in reform management. On April 1, 1997 Deputy Prime minister was placed in charge of the reform. He needed administrative body to design policies and co-ordinate implementation of public administration reform. The Department of State Reform in the Ministry of Welfare was liquidated but a new body—Bureau of Public Administration Reform was established on 1 July 1997. LSPA and CSA have been re-subordinated to the Deputy Prime minister. The Head of the Bureau had the status equal to that of the State Secretary, which enabled the Bureau to be represented in the same way as all other ministries in the government

co-ordination structures. The Bureau started its difficult path of gaining competencies and recognition from administration, which was tired of all the manipulations of the government with the reform management.

A political status of Deputy Prime minister—in the center of government and close to the Prime Minister was an excellent pre-condition to get through the reform initiatives. Indeed, in spite of a lack of experience of the Bureau, the reform was again activated and a number of important political and legal documents have been prepared and adopted by the Cabinet within only several months. Political Council of Public Administration Reform was established for co-ordination and raising political awareness purposes. Regular monthly meetings of the Council served as a launching pad for many new reform initiatives, which were critically assessed by ministers and later supported by them in the Cabinet. During this period amendments to the Civil Service law have been prepared. A government reform strategy—Strategy 2000—was adopted. A review of state functions across the government has been carried out and recommendations for the government on elimination of the overlaps presented.

However, the political environment changed with the change of the Prime Minister in August 1997, and the Deputy Prime Minister was no longer well accepted by the Prime Minister. The climax of differences in views between the parties represented by Prime Minister and Deputy Prime Minister resulted in resignation of the Deputy Prime Minister and his party left the Government coalition. The Bureau of Public Administration Reform was left without firm connection to the Cabinet and policy process. Only two months later the Prime Minister assumed a responsibility for PAR, however his commitment was overshadowed by the approaching parliamentary elections, therefore his support to the draft laws on Framework of Public Administration and on Public Agencies was rather cautious. General lack of political interest for public administration reform was even deeper during the pre-election rush.

November 1998–May 1999. Arrival of a new government with centrist Prime Minister produced new hopes for activation of public administration reform. The Prime Minister did not hurry to assume the leadership of the reform, but tried to find a reasonable solution with nominating a responsible minister. The opportunity was created in May 1999 by introducing four new members of Cabinet, one of which was a Minister of Special Assignment on Public Administration and Local Government Reform. However,

after only 6 weeks the Cabinet fell. The fears were that the new Cabinet might not retain the post of the Minister in charge of the administrative reforms. Evidently, the EU loud voices about weak administrative capacity and the need to perform reforms of public administration before the accession served as an argument in favor of the assigning the responsibility for the public administration reform to a Member of the Cabinet, Minister of Special Assignment on Public Administration and Local Government Reform.

July 1999–January 2000. Since July 1999, the following structure of the reform management was created. The Minister had a Secretariat to ensure him political advice and administrative support. Subordinated to the Minister were Bureau of Public Administration Reform, Civil Service Administration, Latvian School of Public Administration and Local Government Administration. The Minister started to develop strategies for central government and local government reform. A number of important laws and concept issues on public administration passed the Cabinet. Again the reforms have been recognized as a priority.

This was the time when the demands for the reform results started to appear not only from the international organizations, but also from the Government. The Government started to feel *internal* problems that required action: negative impact of the non-profit organizations on consolidates budget management; lack of transparency and accountability; fragmentation of the government causing dissipation of resources and additional expenditures; overburdened state budget and inefficient public sector. The Prime Minister's support for the reform was in place, however, the Minister and his institutions had to count with and overcome the resistance from the line ministries to the proposed changes. During this period the Minister decided to rationalize the institutional structure under his responsibility and a decision was passed to merge the Secretariat with the Bureau of Public Administration starting with 1 January 2000.

January 2000–present. The Reform Secretariat assumed a place in the same category as ministries, becoming one of central institutions, but still having the '*line*' position. It means that the reform agenda comes not from the center of government, but from a line institution, which is weaker than line ministries. The weakness is in the fact that the object and subject of public administration reform is the same and it is outside the direct control and management of the Minister: it is the public administration itself. The authority of Minister of Special Assignment on Public Administration Reform is limited to proposing issues to

the Cabinet for approval and to implementing the Cabinet decisions. Any proposal before adopting needs to be agreed among all the ministries and central bodies, which complicates and delays the process of reforms.

Another weakness of the system that existed till November 2001 was that there was no co-ordination body established to discuss, debate and forge commitments to the reform. Inadequate informing of ministries resulted in their avoidance of implementing changes. Ministries are working under an immense pressure created by the need to transpose and implement EU legislation in their particular sectors. This is a challenge, which requires considerable financial, people and institutional resources. The co-ordinating Council should help to bridge the positions of line ministries and Reform Secretariat, thus facilitating broader support for adoption and implementation of reforms.

According to the advice given by Sir Robin Mounfield, the reform should be steered from the center of government; therefore, Sir Robin's model includes State Chancellery into the managing scheme for public sector reforms. The arguments are strong: the center exercises policy co-ordination, links policy priorities to the budget process and ensures that the public administration structures and procedures conform to the tasks. However rational this advice may seem, the ambition of the Reform Minister is to strengthen his position by transforming the Reform Secretariat into a Ministry, possibly adding the responsibility for steering of the regional development reform. Whatever the intentions are, the decision on the structural changes yet is a privilege of a coalition government.

Optimal Reform Management Model

Lessons learned about the public administration reform management:

- A political consensus about the importance of the reform is key.
- Political leadership is essential to get the reform initiative through the Cabinet in order to ensure implementation.
- Apart from strong political leadership (preferably as close to the Prime Minister as possible) there needs to be an administrative unit staffed with the professionals, capable of developing policy, legal drafting, communicating and consulting the administration.
- A co-ordinating forum at the high political and civil service level is essential to raise awareness, recognize the needs and build commitments.

- Public administration reform management placed in a line position bears the risk of marginalizing its influence and reducing recognition of importance of the reform initiated outside the Government center.
- Reforms require a clear strategy, which is generally agreed on and accepted by the Cabinet.
- All major reform initiatives need receive Cabinet approval to be effective.
- Reform cannot rely on adopting declarations, but also needs developing and implementing procedures, everyday monitoring and counseling. Evaluations of reform achievements need to be organized on a regular, annual or semi-annual basis.
- Strong and targeted communication policy should be implemented to rally the widest possible understanding and support for the reforms.

FUNCTIONAL REVIEWS

Functional reviews developed into a tool of evaluating the functioning sectors of public administration and proposing the rationalization of the functions and improving the effectiveness of allocation of public resources to attaining strategic objectives of the sector. Below is a description of the functional reviews implemented since 1999 in Latvian administration?

Objectives of Functional Reviews

Review of functions of public bodies (ministries and institutions under ministerial subordination, supervision and management) were designed to review how well the structures match the missions, strategic objectives, and functions assigned to various public bodies. The functional review aims to look for possible overlap and duplications of functions, lack of co-ordination among the public bodies and for a possibility to hive off the functions that could be better performed by the private sector.

Latvian administration has experience only of the vertical functional review in Agriculture, Economy and Justice. However other governments—Slovakia, Lithuania, Republic of Macedonia have undertaken also wider horizontal reviews assessing the effectiveness and efficiency of the allocation of competencies and responsibilities across the public administration and rationality of structures established to fulfil government functions.

The functional reviews start with the clarifying of the roles, missions and objectives of the administrative bodies in a

wider context of the government work. Then analyzing the legal documents and interviewing the heads of these structural units review team collects information on the functions performed by all structural units. Then information is being analyzed against the framework of the missions and strategic goals, using a methodology developed by the UK experts. The recommendations based on the analysis are then presented to the management and possibilities for feasible changes are discussed. The finalized report to the ministry contains the analysis of the functions performed and structures, and presents final recommendations for restructuring.

If as a results of restructuring some functions are devolved and units closed, the financial and human resources liberated in this process are not taken away from the Ministry but are reallocated to the structures whose role is growing and is considered as government priority. Thus rationalization helps to reallocate more efficiently the existing resources and strengthen the administrative capacity of a ministry. Positive results have been attained in the implementation of recommendations in the Ministry of Agriculture. This ministry strengthened its policy development functions, established internal audit functions, rationalized the regional de-concentrated structures of agricultural departments, and created from anew a Rural Development Support Agency by shifting the staff positions from low priority tasks to this new priority.

Management of Functional Reviews

In Latvian case, for the vertical functional review agreement with the ministry in question was reached before the functional review was planned and initiated. This agreement was critical to ensure that the ministry is positive and is involved in the review at various stages: formulation of the scope of review, developing the mission statement, analysis of stakeholders and formulating strategic objectives. Then real involvement was needed during collection of information, discussion of the finding and formulation the recommendations. It should be remembered that the key success factor is the sense of ownership by the ministry of the review and its results. Lack of the ownership creates an undesired alienated position on the part of the ministry, which tries to shift a responsibility for action (inaction) as well as to put the blame for failures on the external consultants. Therefore, high degree of ministry's participation is a pre-requisite for the successful analysis and feasibility of the recommendations.

The functional reviews of ministries in Latvia were commissioned and co-ordinated by Bureau of Public Administ-

ration Reform. A team of external management consultants and local management consultants were commissioned to conduct the functional review. The Bureau ensured that all stages of the planned review are performed according to the terms of reference. The Bureau also undertook a role of the trouble-shooter and facilitator when needed.

The ministry established a monitoring group, which was closely involved in all stages of the review, especially at those critical stages that required ministerial decision-making on the mission, strategy, and evaluation of alternative options for restructuring. External consultants were responsible for the design of methodology and leading of the process of analysis. The local consultants did interviews and performed analysis under the guidance from the external consultants. It proved to be highly important and successful to include a sector specialist from other (EU member or EU candidate) country into the functional review team. Such expert in Agriculture or in Justice helped ministry to define their role and place within the administration more precisely and in accord to the EU practice and tradition.

It may be a subjective view, but it is felt that the impartial co-ordination of the functional review by an outside body (The Bureau) has advantages to the ministerial management of its functional review. The arguments for that are the following. Ministry has or may have some acute concerns that can overshadow the objective approach and may be biased towards some decisions on restructuring which are not well rooted in analysis of mission and functions. Also the ministries benefit from the fact that uninterested outsiders, who do not sacrifice their objectivity to some inherent interests, perform the mapping of functions and structures.

Lessons Learned

The horizontal functional reviews have their limitations of effectiveness, especially if not sanctioned by the Cabinet of Ministers. As proved in the case of Ministry of Justice, simultaneous analysis of public expenditure management in the ministry can also lead to more accurate picture of the ministry and the of way it uses money for performing functions and allocation of resources. Both reviews done in parallel lay the foundation not only for structural changes and adjustments, but also towards strategic planning and linking the planned outputs with the resources allocated. It facilitates also result-based management approach, which helps improve effectiveness and efficiency.

Another limitation is connected with the fact that every ministry is linked in many ways to the rest of public administration. Many functions one ministry is responsible for are close to the functions done by the other ministry. For the Ministry of Economy, such functions are in the area of foreign trade, macroeconomic analysis, employment policy, public investment program and regional development program. For the Ministry of Agriculture many functions are linked to regional development policy, economic development policy, food control functions. Such interdependence and overlap of responsibilities require cross-ministerial review, which can be easily blocked by a Minister, who wishes to retain his responsibility for important public functions and expresses his explicit disagreement with the intentions of experts to extend the analysis beyond the ministerial boundaries.

The latter problem could be overcome with a clear authority to perform horizontal functional analysis given by the Cabinet or the Prime Minister. The fact that Latvia has a coalition government accentuates the problem and therefore careful considerations should be made before attempting the review across the government, which may possibly provoke a government crisis.

Coalition government is seen as a problem to initiating and implementing of many decisions, which change the scope of responsibility of a ministry. Therefore, again the conclusions of Sir Robin come to mind that the reform is not a luxury depending on coming and going governments. To ensure sustainability for the course of the reforms, political consensus on the reform issues should be achieved and central government co-ordinating and steering role should be developed. Strong ministries will tend to oppose reforms, if there are no mechanisms how to achieve consensus and in view of the frequently changing governments, the strength and capacity of civil servants cannot be overestimated. To raise this strategic capacity, a unified civil service culture around the common interests of state should be created and effective co-ordination linking government priorities; budget process and implementation of policies and reform initiatives should be put in place.

PROPOSED STRUCTURES FOR MANAGING AND SEQUENCING OF PUBLIC ADMINISTRATION REFORMS

Drawing from international experience and critically assessing Latvian process of public administration reform some common features can be distinguished and suggested

for the governments that find themselves in the early stages of public administration reform. Below the basic elements of the reform will be listed and commented.

The successful reforms should start with critical assessment of the existing situation and formulation of the general but fairly *clear future vision*. Understanding of the destination of the reforms should be shared by the key people in government both politicians and administrators. Since the reform is a lengthy and complex process of change in basic government structures, processes it requires a *sustained commitment* from the top decision-makers to design support and implement necessary changes.

Support of political leadership should be shaped around the values that are important for the whole society. This follows from the logics that politicians are elected officials who should represent interests of society and serve these interests. Therefore, definition of the reform vision should not be purely academic or technocratic, but meaningful for the society. That is the simple and effective way to enlist support from the public, which will help to sustain the commitment of politicians and help in voicing the appreciation or critique of the measures implemented. Since the reforms take time and the fruits of the reform cannot be immediately seen and felt it is important to define the desired *outcomes* of the reform and not to lose sight of them.

A typical mistake of many reformers is that the reform is communicated to the public as a technical exercise that has its impact on the bureaucracy and the structure of the government machinery. To ensure the support needed, the reformers should be extremely careful in spelling out the expected results for the society and honestly indicating the resources needed and time, when the first positive changes are felt. It is useful to be open and frank with the public stating what it takes to achieve the results. Usually the communication strategy is not the key objective of the reform teams, because they are concerned with designing the new legislation, procedures, and institutions. Overlooking the planned *information and communication strategy* may fire back at the later implementation stages when the political fatigue of reforms sets in and the political interests are swept away by other pressing economic issues.

In order to give the reforms needed visibility and ensure the permanent presence of the reform issues on the government agenda, it is extremely important to have a ministerial post in the government associated with public administration reform. Various experiences are found in European countries depending of the historic traditions:

- a) Prime Minister or Deputy Prime Minister is leading public administration reform process;
- b) Minister of Finance is in charge of public administration reform;
- c) Minister of Interior, often combining this responsibility for the management of regions and regional policy;
- d) Minister of Public Administration Reform (with or without a portfolio).

Whatever the arrangements are chosen, it is important to ensure that the responsible minister has full support for his agenda from the Prime Minister and the whole Cabinet (Council) of Ministers.

It is a shared view among many OECD experts on public administration that the experts, not so much politicians, drive the public administration reform. This should be understood from the point of view that the public administration reform follows a number of principles and processes commonly developed by various countries, which gives little scope for independent political decision-making. Therefore, the reform process depends on the competence in the governance issues of the permanent professional *administrative body* reporting to the Minister responsible for reforms. The competencies of such a body should include: preparing the issue papers for the political decision making on vision, goals and strategies of reform; designing the procedures and new legislation; formulating of the training needs; coordinating of implementation of the accepted reform measures and reporting to the government through the responsible minister of the process of implementation of the reform. This body will take the whole volume of responsibility for managing the change process. Therefore, such administrative body should be seen as a *legitimate part of the government system*, staffed with the professionals in governance, civil service reform, law, public management and personnel management.

When enabling structures are established, next step is to develop and politically agree at the government level on the *strategy* of reforms for at least first 5 years, preferably within a framework of the long-term goals. The strategy should be based on assessment of the existing problems and strengths, should look at the ways how to attained the stated vision and long (medium) term strategic goals within specified directions of the reform, and should state the expected outcomes of the reform for the society. Latvian tasks force for formulating the *Strategy of Public Administration Reform for the Years 2001–2006* found the SWOT analysis approach useful for identifying the gaps and measures to achieve the desired outcomes. The strategy is

important because it helps to communicate the values, goals and outcomes of the reform to the politicians, administration, and wide public. It helps to agree on the common agenda of reform among the institutions involved into the reform process, and it gives the basis for the sequenced actions by many players.

It is important to realize that the reforms do not change systems only, but leave a profound impact on the values, norms, beliefs and attitudes of the administration, changing its culture. Therefore, cultural values of the reform should be also clearly understood and stated in the beginning and carefully nurtured during the process of reforms.

Drafting a strategy should not be an exercise limited to the administrative body responsible for the reform (however this body should be a leader in the process), but should have a broader participation base, which gives stronger legitimacy to the final draft and represents more than one professional view angle. The people involved in drafting should be carefully chosen so that they could act as champions of change during the implementation phase. Latvian experience of drafting a strategy during 2001 illustrates that the drafting group has a strong sense of ownership of the strategy and ensures necessary support at various implementation stages. These people were drawn from various ministries, including those playing a central role in policy development and implementation (Ministry of Finance, State Chancellery, Ministry of Education, Ministry of Agriculture, European Integration Bureau, Civil Service Administration, Secretariat of Public Administration Reform, Ministry of Foreign Affairs, Ministry of Justice) and represented a cross section of departments (personnel, internal audit, policy and strategic planning, administrative, financial, legal, EU-integration). For the purpose of effective work, the group was limited to 10 people, but it was occasionally expanded when consultations with some particular policy specialists were required.

For the strategy not to remain a wishful list of nice activities, it should cover the *basic elements of operation* of public administration: systems for policy development, systems for government financial management, systems for civil service development, systems for public service delivery. While developing strategies, recognition should be given to the ways how science (including the social sciences) and information technology change the ways that government operates, ensuring transparency, access to decision making and simplifying the ways services can be delivered to the public.

The general logic of reforms should follow the phased approach. The initial stage should be labeled as *getting*

the basics right. The second stage could be labeled as *developing systems for effective and efficient policy and resources management*. The third stage, which can be overlap with the second stage, should be about *ensuring citizen participation in public governance*. The rate of reforms will be a function of such variables as political support and leadership, allocation of necessary resources to the reform process, efficient management of reform and participation of all administration, availability of relevant outside assistance and capacity for learning from other experience and own mistakes. Realistically, the three stages outlined above can take a decade of sustained development. Even if designing reform measures can be speeded up by use of external international advice, time is needed for a wider community to understand and develop supporting attitude to the goals and objectives, for learning new practices and transforming of organizational changes into institutionalized norms.

Experts also emphasize that two things are important to keep the morale up: ensure early successes in the process and widely publicize the achievements so that people strengthened their belief in own capability to make changes happen.

Getting the basics right. For a proper democratic system of governance it is important to achieve proper separation of the representative political power from the permanent, professional, politically neutral, impartial, ethical and acting under the rule of law administration. Countries emerging from the command economies as a first step of democratic governance establishes *civil service system*. Together with this step *institutional system* of public administration is established under the political leadership of the government with the proper legally determined mandate for policy development within sectors, government regulation, resource management and public service delivery. Both systems should be set in law and institutions responsible for monitoring implementation of these laws should be established.

While forming the institutional system, proper consideration should be given to decentralization issues: determining and divesting the competencies to the regional and local authorities based on the principle of subsidiary (balancing the efficiency and closeness to the citizen/customer). Government should be attentive to the issues of ensuring the effective and uniform implementation of law at all levels of government. Therefore, the delegation of functions and responsibilities to local authorities should be accompanied with the proper accountability and control systems over guaranteeing the citizens rights and equal access to the mandated statutory services irrespective of the level of the

state administration. Within the state administration the measures of separation of policy making from its delivery should be envisaged to ensure more efficient operation and avoiding the conflict of interest at the organizational level.

Simultaneously, government strives to support the development of the private sector, the cornerstone of the national economy. Within this objective, government gradually withdraws from productive and commercial sector, privatizing state enterprises and changing its role to enabler and regulator. The process of privatization should be treated with maximum openness and transparency. It is beneficial to involve the NGO sector in monitoring how the legislation is observed during the transfer of government assets into the private hands. This is an area most sensitive to corruption and abuse of official power. Managing privatization process well means winning the public support for the government action as such.

The basic *rules and procedures for operation of public administration* system should be legally established and enforced. The most critical issues to pay attention to are: prevention of corruption and conflict on interest, ensuring access to information and establishing the administrative procedures. To establish the rational and transparent use of public funds, Ministry of Finance should work out the procedures for preparation and management of state budget. At the same time financial controls should be set up both internally, within the administration, and externally through the independent from government and reporting to the Parliament National Audit Office.

The law on administrative procedures is seen as a key law for the democratic governance based on the rule of law. It establishes the principles and rules for the operation of administration and ensures the observance of the citizens' rights in dealings with the administration. The law sets standards for making administrative decisions and rules for appeal and revoking of such decisions. Administration should also establish the internal *ex post* legal control mechanisms to guarantee the observance of legality of administrative acts.

Among the possible threats at the stage of establishing the basics of administration, is the insufficient attention to the creating of mechanisms of *vertical and horizontal coordination of administration*. In Latvia a vertical approach to establishing administration at the earlier stages caused problems later in ensuring the uniformity of civil service and ensuring efficient policy coordination among the different sectors based on wider government objectives. There-

fore, it is advisable to plan and design vertical and horizontal coordination and control mechanisms, which will finally result in a more organic and efficient organization built and operating around the all-government strategies and programs.

Developing systems for effective and efficient policy and resources management. Following the establishment of basics, the government should look at the efficiency of its operation related to the effective use of public resources in attaining the government goals. The effectiveness issue relates to how government sets up its medium term goals and priorities, how administration gets involved in implementation of the all-government agenda within their area of competence and how government ensures the coherence between the identification and prioritization of the policy issues and attaining the desired outputs. In a vertically built administration there is a tension between the whole government agenda and self-advanced agenda of the sector ministries. It requires a strong central government capacity to decide on the policy priorities and ensure that the public resources (money, personnel, and equipment) are allocated according to the government set of planned outcomes.

The efficient use of public resources depends on the ability to state government policy outcomes and allocates the resources according to the priorities within a centralized approach. Another facet of efficiency relates to operational efficiency of public administrative bodies, linked to their management and internal control processes. Efficient use of resources means ability to clearly state operation goals within the organizational mandate that can be expressed as a set of measurable outcomes and corresponding set of achievable operational outputs. The operational programs should link the outputs with the resources needed to achieve these outcomes. Efficient resource management is achieved through turning attention from the budgeting for the functions and activities to the budgeting for results. In order for this approach to work effectively, a system of information should be in place as well as accountability for results should be established. Often-traditional administrative rules (based on the accountability for adherence to the proper procedures) fail to work in the output based management environment. Therefore, the reformers must think of establishing and implementing incentives to attain high performance and achieve planned outputs. One way to harness commitment of management to the stated outcomes (outputs) is through the use of the performance contract. It should be mentioned that the separation of the policy delivery from policy making, establishing principal—agent relations based on a non-enforceable contract (which in fact is a hierarchical contract between

the responsible minister as a purchaser of services and the head of agency), should be introduced cautiously so as to avoid the abuse of the delegated authority to the agency and prevent the capture of provider which may be in conflict to the overall government goals.

Introduction of performance management help improve efficiency of administration on condition that the ministries do not lose the capacity to establish clear operational and accountability framework (to steer the process and evaluate the results). Ministries also should not withdraw from responsibility of their supervised autonomous agencies, because it lies in the heart of the democratic governance.

To be successful in improving efficiency of public administration, administrative reforms should go hand in hand with the financial management reforms, which include at least: strengthening of the central coordinating role in public expenditure management of the Ministry of Finance, enforcing of the fiscal discipline, introduction of the medium term expenditure planning, output based resource planning, accrual accounting, clear accountability rules, capacity to monitor and assess the results. All these measures depend on the extensive learning and coordinated implementation.

Important organizational management changes should include: strengthening managerial capacity of planning strategies and outputs, people management strengthening, establishing the internal control systems (rules and procedures to follow), information management systems, client service orientation, etc.

Ensuring citizen participation in public governance. As already mentioned before public participation is important in ensuring constant support to reforms. Developed civil society with the strong non-government sector may play an important role in preparation of political decisions on important issues. NGO can represent interests of the various groups of society and they can get actively involved into activities that improve social welfare of the society. In terms of divesting the government functions to lower layers of governance, NGO can be important partner of the government in such public areas as environmental protection, social assistance, promotion of culture and education, even regulation.

Civil society helps to organize people of common interest and provides the government with a partner to discuss issues and seek involvement. Government should establish a strategy of supporting and involving of the non-government organization into public governance process.

Reform is an evolving process that builds on the already achieved and is cross-fertilized by the innovations all round the world. Therefore the reformers should be alert to the work of international organizations, like OECD/PUMA, UNDP, World Bank, etc. to be able to use the best practices and apply them to the local culture, tradition and economic conditions.

CONCLUSIONS

Since proclaiming independence in May 1990, while still being formally one of the Soviet Republics, Republic of Latvia has dramatically changed. It has undoubtedly broke with its past and established the basics of the democratic state with market economy. Public administration manages the life of the society and is improving its effectiveness and efficiency in spite of the problems and lack of consensus. Political culture is still forming and the results of this process are painfully impacting on the development. The strength of Latvia probably is explained by the dedication of its civil servants that are loyal to the democracy and to the government priority to integrate Latvia into European Union and NATO.

Latvia receives assistance in its reforms from the EU, member states, SIGMA/OECD, World Bank and is learning the lessons of democratic governance. The process of change is slow, it requires shift in mentality, acquisition of new skills, adoption of new doctrines. In a word, the changes require a massive training. Latvia has experimented with its structures and personnel relations and now can draw lessons from own experience. The model of public administration for Latvia is that of Western democracies. However, we also recognized the fact that uncritical adoption of ready-made models created in other countries for other purposes in different environment is a useless game. As all public administrations are uniquely different due to national cultural and historical differences, it is not possible to copy models. At the same time, one should learn to apply principles of good governance and create models that fit these principles.

The principles are based on democratic values and there is a strong convergence among the modern democratic states on the principles. Co-operation with EU member states requires us to adjust our structures and procedures to the European Administrative Space. Benchmarking, training of skills, evaluating ones own progress and failures we can improve public administration that serves the interests of the society and ensures country's competitiveness in the global competition.

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NOTES

- ¹ Freedom of movement of goods, services, persons and capital, established by the Maastricht Treaty in 1992.
- ² Latvian Parliament.
- ³ Central administration established 23 inspectorates for enforcement of the law in various sectors. The examples of inspectorates are: State Labour Inspectorate, State Environmental Inspectorate, State Sanitary Inspectorate, State Education Inspectorate, State Fire and Rescue Inspectorate, etc.
- ⁴ The Civil Service System has not been implemented in the Local Governments up to date due to the inability to overcome a resistance from the separate municipalities and Union of Local Governments.
- ⁵ Establishment of executive agencies in Sweden, Denmark, Next Step agencies in the UK and departmental agencies in New Zealand based on a split between the purchaser and provider and separating the role of principal (minister) and the agent (semi-autonomous public institution, which organises the internal management according to the modern management theory developed by the private sector).
- ⁶ To provide financial incentive for amalgamation, government allocates a lump sum up to 5% of the annual budget of the new municipality.
- ⁷ The previous last governments were in office for 7.5 and 9.5 months respectively. The changes in government have been provoked by disagreement among the coalition partners regarding economic issues and linked with the privatisation process. The process of privatisation of big enterprises: Latvenergo, Riga Shipyards, Ventspils Oil have been significantly slowed down owing to the conflicting party interests.
- ⁸ Latvian Prime minister is responsible for coordination of Cabinet of Ministers work. The law does not give the Prime Minister any specific higher legal authority. The coalition government only emphasises the situation when the Prime Ministers needs to maintain a fine balance of political interests, which prevents him from acting with authority.
- ⁹ Functional review of the Ministry of Agriculture in 1999, functional review of Ministry of Economy and Ministry of Justice in 2000.
- ¹⁰ Sir Robin Mountfield is the former Permanent Secretary of the UK Cabinet Office, invited by EC Delegation in Riga to evaluate the progress of public administration reform in Latvia in February 2000.
- ¹¹ State Secretary is the senior civil servant in a ministry, who reports to the minister, holds the highest rank in civil service.
- ¹² Mr. Denis Ives is a former Public Service Commissioner of Australian public service.
- ¹³ The Ministry of State Reforms was established for two years to develop reform programme and prepare basic legislation.
- ¹⁴ The State minister is a member of the Cabinet with limited voting rights. State minister of Labour reports to the Minister of Welfare.

