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Latvia

**Background Paper**

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## INTRODUCTION

As part of an ongoing review of public administration reform in Central and Eastern Europe, a program of interview-based research was undertaken in Lithuania and Latvia to examine the progress that each country has made with their efforts to introduce strategic planning and more systematic approaches to policy management. Since independence from the Soviet Union these small countries have had great challenges to face, not least the need to build their own capacity in areas such as Foreign Affairs that were previously the preserve of Moscow. This distinguishes Latvia and Lithuania from other EU8 countries such as Poland and Hungary, where there has been greater continuity in the offices of State. It is within this wider context of State-building that both Baltic countries have been striving to improve the quality of public administration, largely to good effect. The differences between the two countries' experience of managing this change is clear from the detailed descriptions in the study, but can be briefly summarized as follows:

Latvia has favored an approach based largely on encouraging the voluntary adoption of good practice;

Lithuania has favored an approach based initially on statute, which has led to common minimum standards being adopted throughout the public sector *and* the subsequent voluntary pursuit of "deeper" reforms / adoption of good practice in many corners of the administration.

Both countries began the process at around the same time and initially it seemed that Latvia was making faster progress. It now appears that Lithuania has caught up after a slower start. Many authors have noted (e.g. Verheijen, 2004) that Latvia had initially been the most adventurous of the EU8 countries in terms of its pursuit of administrative reform and has been far more radical in this regard than Lithuania and Poland. Problems had however been noted in relation to effectively sustaining the radical reforms as attempts were made to introduce sophisticated New Public Management systems prior to the establishment of a fully-functioning public administration base. From the literature it appeared that Lithuania had been the slowest of the Baltic States in terms of starting meaningful transition to a free-market liberal democracy and a reformed system of public administration, but the published evidence also suggested that it had 'caught-up' in recent years (see Clark, 2000; Evans, 2005). The above points were confirmed by the research team's experience, especially in relation to strategic planning.

In addition to differences in approach to the introduction of the new systems there were more fundamental forces at work related to differences in the post transition development of the civil service systems in both countries. The research team's findings tend to confirm previous reports that the large-scale removal of Russians from the Latvian system of administration had helped to reduce resistance to change from officials who

had been embedded in the old system and thus to bring in reform quickly. On the other hand, it also led to a loss of personnel with long experience of implementation, followed by a situation where the Civil Service there has become a 'revolving door' for personnel, and giving rise (in part at least) to a rapid pace of reform which was not sustainable. Lithuania, with its far-smaller Russian population at the time of transition, has seen the retention of many more experienced officials from Soviet times, and, whilst it was repeatedly stated by respondents that these experienced staff had been initially hostile to change (and some still are), they have brought with them considerable experience of implementation and have come to embrace new working methods over time, with considerable success. As one interviewee noted when comparing the Lithuanian Civil Service with the Latvian, the former is "Older but stronger" and the research team can only conclude that this has been of significance in relation to Lithuania's reform successes.

# 1. LITHUANIA

## 1.1 Policy

1.1 In terms of policy and performance management, strategic planning, policy co-ordination and budgeting, the public administration of Lithuania can be regarded as a beacon of good practice in terms of the EU8. In other respects (such as in relation to the implementation of EU legislation) Lithuanian systems have been named by the European Union as being the most effective in terms of the EU25 i.e. more effective than those of any of the established EU15 States. This is not to suggest that Lithuanian public administration systems are perfect, rather, they are better-described as nearly always good, sometimes excellent and, critically, showing signs of continuous improvement.

1.2 Lithuania's successes have been hard-won as noted in the Introduction to this report, but now appear to be firmly-embedded throughout the public sector. If a single word can sum-up the differences between Lithuania's public administration systems in comparison with those of Latvia and Poland, it is implementation. The extent to which Lithuania has managed to not only design but actually implement common systems for policy analysis, strategic planning, the measurement of performance outputs, integrating European law into domestic statute etc. is admirable, especially when one considers that the financial constraints within which the State apparatus is operating are severe when compared with the EU15. Section 1 of this report addresses four main themes (policy management, policy co-ordination, performance management and EU implementation) and reference will be made throughout to factors that the research team witnessed time and again and which seem to underpin the effectiveness found in the Lithuanian system, namely that:

- i. Despite regular changes in the political make-up of Lithuania's coalition central government, greater stability in the public administration was evident when compared with Latvia and Poland, which has undoubtedly aided the effectiveness of the implementation of reformed systems;
- ii. Having taken examples of good practice from around the globe, the Lithuanian administration has adopted then adapted these, building on the experience of others and ensuring *appropriate* policy transfer;
- iii. The implementation of policy analysis, strategic management, budgeting systems etc. has, in the first place, been underpinned by the force of statute, thus, although standards of implementation do vary, there are compatible basic systems of administration in place across the public sector;

- iv. These systems have been designed and introduced in an integrated rather than a piecemeal fashion, ensuring compatibility within organisations as well as across them;
- v. Leadership from those responsible for introducing and embedding reformed systems (e.g. the State Chancellery, the Lithuanian Institute of Public Administration) has been strong e.g. ‘practising that which they preach’, being self-critical and seeking continuous improvement within their own organisations;
- vi. Perseverance has been the order of the day in terms of implementing systemic reform – initial resistance to change has not been allowed to hamper progress towards the overall goals of performance improvement;
- vii. The use of external consultants has been limited - organisations have generally used self-managed teams of internal secondees to implement reforms, creating an internal commitment to the new systems and an internal capacity to operate the systems effectively.

1.3 Many of these characteristics had been noted in nascent form by Evans and Evans at a much earlier stage in the reform process (2001) and the authors had at that time expressed a hope that the Lithuanian government would manage to maintain their commitment and take forward the reform process on which they had embarked. In general, before considering progress in each individual element of these reforms, it can only be concluded by the current research team that the Government of Lithuania has indeed maintained its commitment to reform and achieved considerable successes in performance terms as a result.

## ***1.2 Policy Management & Strategic Planning***

1.4 In a review of the policy management reforms that have taken place in Lithuania since the year 2000, Gordon Evans (2005) asks, “Did the new policy management system make a difference?” and answers this question thus, “. . . beyond new structures and processes, Lithuania experienced a tangible and significant improvement in the quality of policy management by the centre of government . . . a picture emerged of a modern, well-managed, coherent policy management system, all dots connected.” The current research team concur wholeheartedly with the sentiments expressed by Evans and with his words of warning as regards the future of the Lithuanian system, i.e. “that policy and fiscal discipline are entropic and must be constantly reasserted.”

1.5 There is much to be learned from the successes of the Lithuanian experience, and not only by the governments of the EU8, but it is however, as Evans noted, critical that the gains made since the Millennium are maintained and built-upon in a cycle of continuous improvement. This Section of the report essentially serves as an update on Evans’s 2005 conclusions and will consider in turn the systems in use in Lithuania’s public sector for policy analysis, strategic planning, budget management and internal and external audit.

### **1.3 Policy Analysis**

1.6 In 2001 Evans and Evans had noted that policy analysis was almost unknown in the Lithuanian Government, even at the very centre, that there was a serious disconnection between finance and policy and that there was a “. . . combination of poor global planning at the centre, unrealistic planning in line ministries, and a chronically overloaded policy agenda.” To say that there appears to have been a marked improvement in recent years would be an understatement, in particular as a consequence of the introduction of a formalized system of policy analysis that is now used at the policy formulation stage (as previously documented by Evans, 2005).

1.7 The source of this system of policy analysis is, in keeping with the norms of the system of government in Lithuania, statute. A Resolution (number 276 of 2003) of the Government has established a system of policy analysis, to be followed by all central Ministries and central government agencies and which is also recommended for use by Counties and municipalities. The system was developed under the auspices of the State Chancellery’s Strategic Planning Unit, with input from Ministries and agencies. Although experience from Ontario was considered in preparing it, the use of an inclusive and self-managed development process has resulted in a system that: fits with Lithuania’s style of government; is fully integrated with the public sector’s other policy and performance systems; and, has broad support amongst those that are to use it. Moreover, the Lithuanian Institute of Public Administration has designed and delivers training programs to ensure that there is sufficient human resource capacity in the public service to implement the policy analysis process effectively.

1.8 All new policy proposals must be subjected to a system of basic impact assessment at the formulation stage, which requires the body sponsoring the initiative to demonstrate that the proposal in hand has resulted from the assessment of a number of options and that it ‘fits’ with overall national policy direction and with that of the European Union. The sponsoring body must then assess the likely impact of the new proposal both in terms of the specific area of policy / activity as well as in more general economic, social and fiscal terms, including ‘fit’ with the National Development Plan / Single Programming Document. In the circumstances that a proposal is deemed to have ‘significant’ potential impacts, it is then subjected to an extended appraisal, where a more extensive evaluation is made of the criteria addressed in the basic impact assessment and a number of extra criteria are also addressed (e.g. impact on the natural environment and on corruption). Importantly, all policy analyses are reviewed by both the State Chancellery and the Ministry of Finance, hence ensuring that a centralized overview is maintained by the Government, both of new policy proposals and the costs associated with them.

1.9 It was reported by a commentator representing an organization that was not required by law to use the central policy analysis system (City of Vilnius) that the process was felt by this municipality to be unduly prescriptive and restrictive and, whilst the City did undertake rigorous policy analyses, it preferred to use a more sophisticated mixture of methods rather than the official process only. It was found that this view of the current system as limited was not contested by the staff of the State Chancellery, rather, the view

from the centre was that the policy analysis system has generally worked well, but that it is now time to build upon it. Information was received that the system was currently being reviewed and that the following are being considered in particular with a view to enhancing effectiveness:

- i. It was reported that the policy analysis process could be applied more rigorously in some of the central agencies than it is at present;
- ii. It is hoped that the scope of the legislation can be extended to make the revised system's use obligatory for those whose engagement is currently voluntary (e.g. Counties and municipalities – not all of those organizations currently failing to use the policy analysis process are in this position because they have their own, more sophisticated systems);
- iii. It was reported that the policy analysis process could be applied more effectively by Parliament itself when preparing its legislative program (particularly important in a system where so much policy is codified in legislation); and, finally
- iv. It was hoped that a feedback system can be built-in to evaluate the degree to which the impacts that actually result from implementation of policy proposals were accurately identified in the *ex-ante* policy assessment.

1.10 To summarize then, the Lithuanian Government operates a system of rational policy analysis that must be applied by most central government bodies at the formulation stage to ensure policy consistency and to better-anticipate the costs and benefits that will ensue from new policy proposals. The system was locally-designed, is closely integrated with the strategic planning process, is supported by appropriate training schemes and there is a commitment to strengthening and continuously improving the current system.

#### **1.4 Strategic Planning**

1.11 The strategic planning system used by the Lithuanian public sector stands at the heart of the process of Government, central and local. The strategic planning process is, as noted above, fully integrated with the system of policy analysis and, as will be seen below, is also fully integrated with the Government's Planned, Programmed Budgetary System (PPBS). As with the system for policy analysis, the requirement for strategic planning has been framed in law (Law on Government and Law on Budget) and by Governmental Resolution 827 of 2002 and once again places a requirement on public authorities to act in accordance with the National Development Plan / Single Programming Document, which clearly assists in terms of improving horizontal co-ordination with national and European policy objectives.

1.12 The strategic planning process was initially introduced in 1999 as a pilot; following difficulties faced by the Government of Lithuania as a result of the Russian economic crisis at that time and was fully implemented in an integrated fashion with PPBS in 2000, when budget allocation to public bodies was made conditional on

engagement with strategic planning. Strategic planning is required of all Ministries and central agencies and local authorities are encouraged to engage. The system requires organisations to take account of a hierarchy of objectives, with European and Government priorities driving the system, followed by the priorities of Line Ministries etc. (as developed via the policy impact process previously described). This again contributes to the effectiveness of horizontal and vertical policy co-ordination throughout the public sector, as plans which are inconsistent with over-arching goals will not be approved. Performance evaluation and reporting is built-in to the system and reports on the achievement of organizational performance targets are published in a standardized format on the internet.

1.13 As with the system of policy analysis, the strategic management process as originally introduced drew heavily on Canadian experience but has also integrated practice from the UK, the US and New Zealand and has been adapted to better-suit the Lithuanian public sector. Again in common with the policy analysis system, the strategic planning system was developed with inputs from across the public sector and is run from the very centre of Government by the State Chancellery, in close collaboration with the Ministry of Finance.

1.14 In common with other EU8 countries, initial attempts at introducing strategic planning proved difficult, as planning is often interpreted as a process associated with the Soviet system. Perseverance on the part of the State Chancellery has been crucial to the system's successful implementation, as has been the enactment of the requirement to engage. It was reported by staff of the Chancellery that in post-Soviet countries it is of central importance to ensure that key priorities are enshrined in legislation, as the culture of public administration has traditionally involved, above all else, a focus on implementing statutory provisions, over and above the degree of attention that one may expect in more established member States of the European Union, where processes such as strategic planning would not normally be introduced by legislation. Combined with the Chancellery's perseverance and the legislation, the integration of strategic planning into the formal budgetary round has meant that the Ministries have had little option but to comply – no strategic plan, no money.

### ***1.5 Central Support for Strategic Planning***

1.15 The strategic planning system is run by a small unit in the State Chancellery, comprising only four staff, which is considerably smaller than the equivalent unit in Latvia. The lack of centrally located personnel is however compensated by the presence of a unit in charge of strategic planning in each Ministry, with which close relationships have tended to develop. In this way there has been a good deal of 'buy-in' to the process of strategic planning from most Ministries and the staff of the Chancellery's unit reported that they try to maintain regular contact and good relations with senior Civil Servants and junior Ministers in the Line Ministries.

1.16 The gravitas of the strategic planning process is assured by the fact that key decision-making body (the Strategic Planning Committee) is a Cabinet Committee that meets regularly (usually fortnightly), Chaired by the Prime Minister. Changes in coalition

government (six Governments since 1999 at the time of study in May 2006) have threatened the existence of the system, but on each occasion the incoming Government has been minded to keep it. It was reported that an element of stability has been maintained at senior levels as approximately half of the Cabinet Ministers have been in post for several years, having belonged to a number of different coalition Governments.

1.17 Finally, in respect of central support for strategic planning, the Lithuanian Institute of Public Administration is again engaged in providing appropriate training courses in the strategic planning process to the public sector, these having been instituted shortly after the introduction of the strategic planning process itself.

### ***1.6 Strategic Planning in Central Government***

1.18 It was reported by the staff of the State Chancellery that the strategic planning process is firmly embedded in the day-to-day management of central government and has now been accepted by the vast majority of actors therein, despite it having taken a long time to be accepted by the Civil Service. It was reported that Civil Service support has developed as people have discovered the structured way of working to be helpful to them in discharging their duties, although support is still by no means universal. It was stated that planning is still viewed by some as tarnished by Soviet-era experiences and by others as an unwelcome change that they wish to resist, especially given the focus on target-setting and public reporting of outputs and outcomes.

1.19 Additionally, although all thirteen Line Ministries participate in the strategic planning process, some are less committed than others. The committed Ministries are in the majority and were reported to include Finance, Education, Environment, National Defense (see Box 1-2 in Section 1.9 in relation to PPBS) as well as agencies like Statistics Lithuania (see Box 1-3 in Section 1.14 on Performance Management for more information). The Ministries that are less deeply engaged include Culture and Justice. The commitments of the Minister and of the senior Civil Servants were reported as being the key factors in relation to lack of commitment to the strategic planning process.

1.20 Finally, in relation to Territorial Central Government (Counties), these bodies are fully included in the strategic planning process are required to prepare and submit their plans for approval up through their lead Ministry (Ministry of Interior).

### ***1.7 Strategic Planning in Central Agencies***

1.21 As with Territorial Central Government, Line Ministries take the lead here as regards overseeing the strategic plans of their sponsored agencies<sup>1</sup>, although brief summaries of the plans, activities, budgets and accomplishments of each agency is provided to the Strategic Planning Unit in the State Chancellery. Although Ministers are held personally responsible for the conduct of central agencies, there was a frank admission from staff in both the State Chancellery and the Ministry of Finance that standards are not equal across the board and, as had also been the case in relation to

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<sup>1</sup> NB many agencies are not accountable to a Line Ministry – see 1.43.

policy analysis processes, there was a recognition of problems existing with some agencies in terms of compliance with strategic planning and PPBS.

### **1.8 Strategic Planning in Local Government**

1.22 Local authorities are encouraged to engage with the strategic planning system, but are not compelled to do so. Despite this, it was estimated by the State Chancellery that over 50% of them are now engaging on a voluntary basis and that the number is increasing all of the time (the first municipalities started to get engaged over the period 2000-02 and it is estimated that about 30% had been engaged in 2004). It was reported that fewer political tensions exist between central and local government than would be the case in many other countries (such as Poland) and it was reported that those local authorities that have engaged with the strategic planning process are keen to see the introduction of unified, national planning and performance systems for municipalities. The City of Vilnius has adopted (more or less wholesale) the Government's approach to strategic planning and PPBS and was the first municipality in the country to do so. Others have subsequently followed, although Vilnius is still regarded as something of a 'best practice' Council in regard to strategic planning, a fact that has been widely acknowledged in Lithuania.

#### **Box 1-1: Case Study: City of Vilnius**

The City of Vilnius began undertaking planning activities in the mid 1990s, following a period in which management had been failing as a result of the lack of planning which had become commonplace in the immediate post-Soviet years. The Council's policy, planning and performance systems were initially fragmented but, following the implementation of the State system of strategic planning and an external consultant's report in 2000, the City started to work on combining all of its plans into one strategy and created a Division of Analysis and Strategic Planning in 2001.

The Council uses the State's 'pyramid' approach to strategic planning. An overall long-term plan sits atop the pyramid (Vilnius City Strategic Plan 2002-2011) and within this long-term plan, three-year mid-term plans are conceived (which are financed and updated on a rolling annual basis). The municipality's strategy is now fully complemented by the 'Vilnius and Kaunas Dipolis Strategic Plan 02-25', which foresees the development of a 'City Region' encompassing both urban centers and their hinterlands and which fits European policy priorities. The current Vilnius City Strategic Plan has four priorities:

- 1) Increasing the International Competitiveness of Vilnius** –the aim is to keep ahead of other Cities within a 300 km radius (e.g. Kaliningrad, Riga, and Minsk). Main outputs so far include the Vilnius & Kaunas Dipolis Strategic Plan and significant re-development.
- 2) Developing a New Economy** – e.g. encouraging technology park developments to try and increase the non-manufacturing base (IT, biotech etc).
- 3) Creating an Advanced Society** – e.g. building community centers, community development work, improving housing and people's living environments; and, promoting the creation of the information society (including internet access points for citizens and multilingual Information Stations for visitors, with tourist information delivered to mobile phones).
- 4) Developing Transportation and Engineering its Infrastructure** – e.g. new bypasses and tram system.

In terms of political leadership there is a strong strategic planning committee (18 members, cross-party) and the Strategic Plan is approved by the full Council. On the executive side, the central division for policy analysis and strategy is aided in its efforts by responsible officers in service departments. Stakeholders from outside the municipality have fed into the Strategic Plan, e.g. via visioning exercises, business breakfasts etc. The authority had produced multimedia means of communicating its plan and has sought feedback via a dedicated website on proposals, reportedly to good effect.

1.23 It can be seen from this Section of the report that Lithuania has made significant advances in terms of strategic planning, managing to roll this process out across most of the public sector, having used a mixture of carrots and sticks to do so. After five years of the current system having been operational, there appears to have been a definite shift away from the ‘silo’ mentality that had previously been recorded in the literature by Lucking (2003). The State Chancellery reported signs of there now being evidence of organizations voluntarily pursuing continuous improvement in their strategic planning, noting that the more they engage in the strategic planning process, the more they value it. As with the policy assessment system however, the Government is not sitting back on its laurels, but has decided to review the system, with the following considered to be particularly important in terms of trying to enhance effectiveness:

- i. Better integration of Single Programming Document priorities in domestic policy;
- ii. Improving priority-setting and performance monitoring / review / evaluation;
- iii. Decreasing the number of strategic plans and improving scrutiny of the same;
- iv. Improving the strategic planning performance of the central agencies;
- v. Aligning departmental plans / performance measure with those of individuals.

1.24 To summarize then, the Lithuanian Government operates a system of structured strategic planning that must be applied by most central government bodies and which is applied voluntarily by at least half of local authorities, in a manner that is integrated with its policy analysis, budgeting and performance management. The system was locally-designed and supported by appropriate training schemes and there is a commitment to strengthening and continuously improving the current system.

## **1.9 PPBS**

1.25 Lithuania’s Planned, Programmed Budgetary System was piloted from 1998 by the Ministry of Finance and implementation was rolled-out hand-in-glove with the strategic planning process in 2000. The Ministry’s staff reported that at the outset there was little interest in either strategic planning or PPBS outside those groups of staff actively engaged in promoting them, but noted that this has changed significantly since then and that many more people are now engaged, which they find heartening. Of particular significance, it was reported that the political / Ministerial class are now closely involved.

1.26 The system in use is a relatively standard type of PPBS where the Ministry of Finance prepares proposals regarding the availability of funds and then holds discussions with politicians in relation to priorities. It was reported that as a consequence of the extent to which policy is formally codified in legislation there can be mismatches between budget allocation and political priorities, resulting from the requirement to meet legal obligations before policy preferences (and this is exacerbated by unstable and changing coalitions).

1.27 According to informants from the Ministry of Finance, the greatest success of the programmed approach to budgeting was achieving NATO membership and accession to the EU. It was maintained that these goals simply could not have been achieved using the previous incremental budgetary system as there was not enough money in the system to make the necessary investments required for NATO and EU membership whilst maintaining all other activities. Tough decisions had to be made and PPBS allowed them to be made in as clear, rigorous, efficient and fair a manner as possible.

1.28 Programmed budgeting has of course led to a significant increase in the workload of the Ministry of Finance, but has also greatly aided financial and non-financial decision-making processes as the quantity of management information available to evaluate policy proposals, set targets etc. for Ministries is now considerable.

1.29 Line Ministries were reported to have ‘grown to love’ the system - it had caused a lot of discontent as it had been introduced very rapidly in response to the Russian economic crisis and took a full three or four years to settle down. As with the State Chancellery in relation to strategic planning however, the Ministry of Finance was tenacious. Less positively, it was again reported that the management of the financial affairs of the central agencies is more problematic than the Ministries and that the agencies are generally less well prepared vis-à-vis the strategic planning system and PPBS. One Ministry that is well-regarded however, by both the State Chancellery and the Ministry of Finance in relation to its application of strategic planning and PPBS is the Ministry of National Defense, which makes an interesting case study as this Ministry can experience rapid and unexpected changes in calls on its resources as a result of NATO and UN deployments – exactly the type of situation which critics of programmed approaches state that PPBS is ill-equipped to deal with.

**Box 1-2: Case Study – Ministry of National Defense**

The Ministry of National Defense (MoND) manages complex defence financial planning and expenditure through a Planned, Programmed Budgetary System (PPBS). Implementation of the PPBS was started within the MoND in 1998. It is an internal MoND process and it meets the requirements of the national strategic planning system and ensures compatibility with NATO planning processes. The system is milestone-oriented and ultimately influences nearly all levels of activity. The main aims of introducing the PPBS system were to:

- Increase value-for-money;
- Ensure clarity in terms of aims, objectives, tasks and activities;
- Improve transparency;
- Ensure compatibility with NATO’s planning systems.

The requirements for the military forces are established within national and NATO plans, such as the *National Security Strategy*, *National Military Strategy*, and Lithuania’s commitments to *NATO’s Force Goals*. These documents define the national military objectives, establish a strategy to accomplish these objectives and address the Lithuanian military capabilities required to execute this strategy. Within the *National Military Strategy* there are, at present, eight priority programs (land forces; special operations; air forces; naval forces; logistics; training; central support systems; policy) that are implemented by military / administrative units.

Lithuania remains committed to spending 2% of GDP on defence. This objective was agreed between Parliamentary parties in 2001 and repeated by the highest State officers during the meeting of the State Defence Council in February 2006. It is agreed that pre-scheduled expenditures for national defence should account for no less than 2% of GDP. Despite the promise to allocate 2% of GDP for national defence, in 2005 overall defence expenditure reached just 1.24%. In 2006 overall Lithuanian defence expenditures stand at 1.26% of GDP. Allocations directly to the MoND amount to 1.25% of GDP.

The budget of the MoND will have to increase in order to successfully continue defence reforms / build up modern capabilities. The modernisation and professionalisation of the Armed Forces and implementation of international commitments, in particular meeting NATO Force Goals and participating in international operations, will depend directly upon the growth of the defence budget. In planning defence expenditure the assumption is that the proportion of GDP assigned to national defence will increase annually by 0.05% until it reaches 2% of GDP. This long term plan was approved by Lithuanian Parliament.

In 2006 the Ministry's approved budget is circa 1 billion Litas or €280 million per annum, of which: approximately 50% is spent on personnel costs, operations and maintenance; 28% on procurement; and, 18% on military hardware. The army is by far and away the largest of the 3 forces, their funding for personnel and operations & maintenance being 300M LTL / annum compared to 90M LTL / annum for the air force and only 33M LTL / annum for the small Lithuanian Navy. There is still a system of National Service (National Defense Volunteers) but these personnel are being reorganized into a modern active reserve, which will correspond to the needs of the Lithuanian Armed Forces. The MoND continues to reduce the number of conscripts over 2000 to 2008 and increase the number of professionals, but due to financial restrictions the MoND does not have the possibility of a fully professional army in the near future.

In such an austere financial climate, where the State has only a small annual budget for military hardware, new demands are constantly being made on the limited resources available as a consequence of unplanned calls for sending troops and equipment at short notice by the UN and NATO. It is difficult for the Ministry to predict when or where trouble will break out in the world, Parliament will not vote extra monies to cover the costs of Lithuanian troops' participation in international operations and, unlike most other public bodies, the MoND does not enjoy the luxury of being able to access EU monies either (only very small amounts are available for fringe activities such as training of administrative staff). Consequently, rapid re-prioritization becomes the order of the day within the PPBS, making the MoND an interesting case study in relation to the flexibility and robustness of the system.

The PPBS involves mid- and short-term planning, resource programming, financial management and performance evaluation. The system helps to achieve efficiency in the decision-making process by setting up clear tasks and responsibilities. It also helps to ensure transparency of defence plans and policies and in the use of national resources. The PPBS integrates a complex process of planning, programming, and budgeting into a comprehensive and responsive system that provides the greatest defence capability for Lithuania within the resources that are provided by Parliament.

The PPBS in use in Lithuania involves 28-month overlapping cycles of formulation, implementation and evaluation for every 12-month period of activity:

- 1) *Planning Guidance* (about 5 months) – used to determine the military capability that will be required in 6-10 years to continue to meet the National Security and National Military Strategies. This phase is informed by phase 5 of the previous cycle.
- 2) *Planning* (about 5 months) – this period is used to create / update a series of related documents – the mid-term plan and investment program (both six years) and the budget and activity plan (both three years). *It is this stage which is crucial in terms of linking resources to strategic intent.*
- 3) *Government Budgeting* (about 6 months) – the documents listed above are transmitted to the Ministry of Finance and thence to the Government and Parliament thereafter. At the end of this period outputs are (a) money and (b) amended versions of the documents from phase two (in keeping with the monies actually voted by Parliament).
- 4) *Implementation* (12 months).
- 5) *Reporting & evaluation* – feeding into / overlapping with the phase 1 of the next cycle.

To summarise, staff of the MoND noted 4 main benefits that accrue from the implementation of PPBS:

- 1) The system supports MoND decision-making needs. It provides timely, reliable information that enables leaders to make informed decisions on how to use available resources in an effective and efficient manner to provide required military capability;
- 2) The system definitely helps the MoND make tough decisions when constantly re-prioritizing to meet NATO commitments;
- 3) The system integrates efforts of key individuals and organizations within the MoND and the Armed Forces to accomplish objectives and priorities;
- 4) The system encourages a clear focus on efficiency (of great importance in such a resource-limited environment).

1.30 From the case of the Ministry of National Defense, it can be seen not only that the ‘hierarchy’ of strategies required by the Government is effective in practice (with the Military Strategy conceived within the broader Security Strategy) but that the budgetary system is clearly related to the planning cycle in an iterative fashion and, in this case, also to external (NATO) planning and budgetary cycles. One key conclusion that can be drawn is that the application of PPBS in a severely resource-constrained system has helped to *solve* the problems associated with changing demands on resources, whereas in wealthier States (e.g. the UK, see Glynn, 1993) the implementation of PPBS has on occasion been associated with the creation of top-heavy structures, loss of responsiveness, ossification and eventually paralysis. That the Lithuanian State has managed to avoid these pitfalls is a matter worthy of note, especially when the implementation of PPBS has failed in many other parts of the world.

1.31 Finally, although radical reform of the existing PPBS is not foreseen at present, the Ministry of Finance is considering incremental improvements to the system and will seek better co-ordination of European and domestic budget lines in line with the improved integration of EU and domestic policy priorities that is being sought by the Chancellery.

### ***1.10 Policy Coordination***

1.32 Prior to research being undertaken in Lithuania, an examination of previously published findings had been suggested that policy co-ordination in Lithuania would be less-well-developed and less effective than in Latvia, but this was not to be substantiated by the research undertaken, reflecting in part the speed at which changes can take place in EU8 public administration systems, especially given that some of the papers reviewed were published quite recently. Lucking (2003) characterized Latvia as a State that was strategic in its outlook, explaining that of a number of CEE countries surveyed,

Latvia provides the clearest example of strong political support for public administration reform, which was evident at the very beginning of the process. This commitment sustained the momentum of reform for several years, and the original vision was never lost . . . political support was a critical factor . . . . . Latvia pursued an early strategic vision in public administration reform, and achieved an efficient, functioning and stable structure for coordination of the civil service . . . Latvia’s strategic approach also side-stepped the internal problems of government coordination by introducing a more goal-oriented approach . . .

1.33 In contrast with Latvia, Lucking (2003) characterized Lithuania as being governed by very strong but relatively independent Ministries with a “silo” mentality. He notes that there was an, “. . . isolated centralized style of decision-making in each ministry, largely uncoordinated with other branches of government”<sup>2</sup>. Furthermore, Clark (2000) suggested that the degree to which the policies and actions of central and local government in Lithuania are co-coordinated is variable to say the least, with only very minimal attention paid by central government to the work of municipalities other than Vilnius and Kaunas.

1.34 On the other hand, Evans (2005) noted that significant strides had been made in Lithuania in terms of improving policy co-ordination in recent years and a review of recent resolutions made by the Lithuanian Government (especially Resolution 827 of 2002 on strategic planning and Resolution 276 of 2003 on policy analysis) also suggested that the Government had formulated improved systems for policy co-ordination (both horizontal and vertical). Thus, on balance, an initial examination of the literature gave rise to the expectation that in 2006 policy co-ordination in Lithuania would have improved to a level where it was similar to that of Latvia i.e. considerably better than in Poland in both instances despite the fact that the two Baltic States had also experienced a succession of unstable coalition governments since regaining independence.

1.35 A similar process was adopted in determining the degree of policy co-ordination as in the previous Polish study, and the technical detail appended to that report will not be reproduced again here for purposes of brevity. It is suffice to state that the ‘Policy Co-ordination Scale’ (Metcalf, 1993), which allows a ranked assessment to be made of the degree of policy co-ordination that exists in “*Organizational Networks for Multilevel Regulation*” has again been used as a means of assessing policy co-ordination throughout Lithuanian Government.

1.36 With reference to the diagrammatic representation of the ‘Policy Co-ordination Scale’ below, a ranking of “1” would imply that governmental organizations are acting independently, without ensuring that the rules of the game are consistently applied. A ranking of “9” however would suggest that governmental organizations are all working with the same rules and applying them consistently.

**Figure 1-1: The Policy Co-ordination Scale**

9. Overall Strategy
8. Establishing Priorities
7. Setting Parameters for Action
6. Arbitration of Policy Differences
5. Search for Agreement on Policies
4. Avoiding Divergences among Organizations
3. Consultation with other Organizations (Feedback)
2. Communication to other Organizations (Information Exchange)
1. Independent Organizational Decision-Making

Source: Based on Metcalf, 1993

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<sup>2</sup> NB in the course of the project the work of Lucking was criticised by commentators in Lithuania.

1.37 The key thing to note in relation to the policy co-ordination scale is that rankings are made with reference to “*The Weakest Link*”. For instance, if there is a perfect overall strategy within central government (9) and the local government network is working with a set of fully agreed and perfectly congruent priorities (8), the ranking is not 8.5. In this scenario, even if there is perfect co-ordination between such central and local government networks the overall ranking of the public administration system as a whole cannot be higher than the weakest link, i.e. 8. Alternatively, if central and local government networks are acting independently of one another the overall ranking of the public administration system as a whole cannot be higher than “1”, regardless of the fact that each network may be well-integrated in its own right.

1.38 Before considering the findings from the Lithuanian study, it is also worth noting that the policy co-ordination scale was applied in the same manner to different policy arenas, i.e. both domestic and European. It is the case however that different rankings can be regarded as desirable, according to which arena is being evaluated, e.g. with respect to European Union policy co-ordination, it is the case that attaining Level 8 (common policy priorities) or Level 9 (unified policy) is the appropriate aim, given that in areas where the Union has sovereignty it wishes to ensure similar standards of regulation to ensure that the integrity of the Common Market is not threatened. In relation to improving the effectiveness of central-local relations in domestic policy areas however, it may well be more appropriate for reasons of democratic robustness that pursuit of Level 5 (building long-term broad consensus) or Level 6 (creating formal mechanisms to arbitrate in cases of disagreement) is more appropriate.

### **1.11 Key Findings**

1.39 The key finding is that there was evidence of strong co-ordination within central government networks and local government networks and that the interface between these was strong, especially in comparison with Poland. For example, it was reported that good relations exist in the heart of government between political advisers and senior Civil Servants and that this acts as a significant aid to effective policy co-ordination in Lithuania, quite the opposite of the situation found in Poland. Co-ordination appeared to be equally good in both vertical and horizontal terms, and there is little point on dwelling on this distinction as the policy analysis, strategic planning and PPBS systems as constituted help to ensure both. For example, Resolution 827 of 2002 (strategic planning) places clear requirements on all public authorities to act in accordance with the National Development Plan / Single Programming Document, and therefore improves horizontal co-ordination. Resolution 276 of 2003 (policy analysis) places further horizontal co-ordination requirements on all public authorities to engage in policy analysis *prior* to implementation, so as to ensure consistency with domestic and European priorities but also requires improved vertical co-ordination as regards the policy priorities of the lead Ministry in the area concerned and the needs of key stakeholders.

1.40 The combined requirements of strategic planning / policy analysis / PPBS mean that priorities filter down through Line Ministries in a clear and coherent fashion and from there to Territorial Central Government and municipalities. Despite the fact that

municipalities are not required to engage in these processes, most of them do so on a voluntary basis, and, given that local government has been streamlined into a single-tier system of only 60 municipalities, it is easier for central government to co-ordinate with them than in Poland where an enormous number of small local authorities exist in 3 tiers.

1.41 The degree of policy co-ordination found within central government and within individual local authorities in Lithuania was impressive, most commonly at level 9 (Overall Strategy). However, as ranking on the policy co-ordination scale must be made with reference to *'The Weakest Link'* the overall evaluation of policy co-ordination in Lithuania (domestic and European<sup>3</sup>, vertical and horizontal alike) is at level 6 (Arbitration of Policy Differences).

1.42 This assessment has been made as a result of the fact that there was evidence of significant 'pulling-together' of central and local governments, even when these were managed by groupings of differing political complexions and, as noted above, level 5 or 6 is an appropriate degree of co-ordination between central and local government (i.e. it would be unusual to find domestic policy co-ordination at a higher level within a meaningfully democratic system, although the same is not true for European policy).

1.43 The weakest link in the system does however appear to be the relationship that exists between Ministries and some of the central agencies, as many of these report direct to the Government rather than through Ministries. Again level 6 (Arbitration of Policy Differences) is an accurate assessment of the degree of coordination found, but unlike in the case of local government, this is not an *appropriate* degree of co-ordination, as central agencies ought to be discharging their duties within an 'Overall Strategy' as determined by an appropriate parent Ministry. This issue of lack of control of central agencies was consistently repeated by informants as regards the operation of the policy analysis system, the strategic planning system and the PPBS and is undoubtedly one of the few glaringly weak areas of Lithuanian public administration that ought to be addressed as a matter of urgency, i.e. in advance of the 2007-2013 European budgetary round, to ensure that any allocation of the increased quantities of Structural Fund monies is spent by central agencies in full accord with European and State policies and practices.

1.44 In summary however, there is undoubted evidence from Lithuania that supports the 2005 findings of Evans about there having been dramatic improvements in Lithuanian systems of policy co-ordination (both horizontal and vertical) in recent years, and this is to be commended.

### **1.12 Performance Management**

1.45 Prior to undertaking field work, a confusing picture emerged from previously published in relation to performance management regimes in the Baltics. At a macro-level there was evidence in the literature (Jacobs, 2004) that Latvia had introduced an over-arching system into its public administration that sought to effectively link

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<sup>3</sup> NB European Metcalfe assessment relates to in-country implementation and evaluation of EU policy rather than to formulation issues (e.g. detailed assessment of the effectiveness of negotiations in Brussels).

performance management with decision-making and budgets in an integrated fashion and, more importantly, evidence (see Rosenfeld *et al*, 2005) that this system is effectively implemented. On the other hand, some published evidence suggested that performance within the Lithuanian State has been generally poor, with Lucking (2003) noting that, “. . . the services which have improved most markedly in Lithuania over the last four years were those which had been transferred to new agencies outside the main system of public administration.” Conversely, Evans (2005) has suggested that there have been significant improvements in the effectiveness of performance management at the very heart of Lithuanian Government.

1.46 The findings of the research team were consistent with those of Evans rather than those of Lucking. The systems of performance management found in Lithuania, whilst less well-developed than the Latvian in relation to the control and measurement of inputs and throughputs (partly a consequence of Latvian reliance on ISO 9000), were, on the whole, robust and widespread. Moreover, as noted previously in this report, the quality of management within agencies in Lithuania is more problematic than within Ministries, again confirming the findings of Evans rather than those reported by Lucking.

1.47 The Lithuanian system of performance management has, unsurprisingly, been developed primarily within the auspices of legislation requiring organizational performance audit to be undertaken (over and above financial audit), by both internal and external auditors. These statutory systems of audit are, as ever, integrated with the systems of strategic planning, PPBS etc. The weakness of such an audit-based system is of course that it tends to be very focused on *post-hoc* evaluation of performance. Additionally, where the scope does exist (in the extant PPBS and strategic planning process) for ongoing performance monitoring and improvement, the focus is almost entirely on outputs and outcomes, with less attention paid to inputs and throughputs.

1.48 To reiterate however, the overall picture found by the research team is far more akin to that described by Evans than that described by Lucking and the main findings from Lithuania are presented below in two sections on audit-based and non-audit-based performance management, together with a vignette on the highly advanced performance management system that has been introduced at Statistics Lithuania.

### ***1.13 Audit-based Performance Management***

#### **Internal Audit**

1.49 As with PPBS, internal audit and review systems were developed by the Ministry of Finance (which has oversight) in an integrated fashion at broadly the same time as the strategic planning process. As all of these systems had been developed at the same time, as part of the same process, it was reported that this had helped to embed consideration of value-for-money and performance management at the heart of all central government activities. Correspondingly, it was reported that over time there has been a significant increase in the use of internal audit data for managerial purposes throughout the State and that in recent times evidence has started to emerge that the same is now starting to be achieved in local government.

1.50 As ever, the internal audit system has a statutory basis (the 2002 Law on Internal Control and Internal Audit), which introduced the idea of responsible, accountable managers and requires that heads of institutions accept responsibility for the economic, efficient and effective management of their organization. This same law introduced a requirement for basic risk management to be put in place throughout central government and it was stressed by interviewees in the Ministry of Finance that the requirements of this law have definitely been implemented across the central government as a whole.

1.51 It was reported that more than half of the work of internal auditors is now concerned with performance review (rather than financial audit) and that there are approximately 400 internal auditors employed by the State and a further 100 in local government. EU membership has placed new requirements on internal auditors (e.g. ensuring compliance with rules on State Aids etc.) and it was reported that the European Commission has expressed its confidence in the internal audit function in Lithuania.

1.52 Finally, as the Ministry of Finance is responsible for oversight of internal audit, a separation of powers exists. The Ministry of Finance has an internal audit methodology and monitoring unit with responsibility for overseeing training / raising standards / ensuring consistency (including harmonization of methodological issues) across the sector, but does not control internal auditors, who are attached directly to Ministries / agencies. Furthermore, it was reported that relations between the Ministry's internal audit unit and the external auditor (NAO) had not always been entirely cordial, but that over the last year priority had been attached to remedying this and that there have been significant improvements in respect of their working relationships.

### **External Audit**

1.53 The National Audit Office (NAO) of the Republic of Lithuania appears to have been strongly modeled on the work of the National Audit Office in the UK. Its functions and its reporting lines are broadly similar and all of its professional audit staff are now trained and qualified in the UK, according to UK standards.

1.54 In relation to financial audit, the NAO audits all central bodies except itself (it is audited by external contractors). The NAO is responsible for auditing Counties (Territorial Central Government) but is not responsible for the external audit of municipalities – each has its own (public sector) external auditor. Finally, the NAO currently also has responsibility for auditing the use of EU monies on behalf of the European Commission (although this role will be transferred to a new body in preparation for the large inflow of European monies in 2007, to avoid potential conflicts of interest in relation to auditing for both the EU and the match-funders in the shape of the Government of Lithuania).

1.55 Every year the NAO undertakes around 100 financial audits and about 44 performance audits. With a staffing complement of 320, 23% of the staff are employed on performance audit, 53% of the staff on financial audit and 6% on EU audit (the

balance of the staff are engaged in administration). The continued dominance of financial auditing in the work of the external auditor results from performance auditing being a relatively new area of work and it appeared that a transition from a focus on financial control to a broader workload involving performance audit is ongoing.

1.56 Performance auditing began in 1999 and has grown in importance since. External performance audits are now undertaken on a wide range of topics e.g. culture, transport, environment etc. The outputs from a performance audit normally take the form of recommendations (although formal ‘decisions’ can also be issued, this is rare). Where recommendations / decisions have been issued, Ministries are expected to respond in a convincing fashion and with a plan of action. The responses of Ministries are checked by both the NAO and the strategic planning unit in the State Chancellery and a recent review concluded that levels of non-implementation of recommendations appear to be very low (circa 5%). External performance audit reports are also considered by Parliament.

1.57 In terms of planned extensions of external performance audit, the NAO is looking to undertake more large-scale thematic audits (e.g. of PPBS), across several organizations at once. This work will prove challenging as there will be a need to develop coherent sets of high-level indicators to measure progress against the Government’s main policy priorities, and the NAO are looking for assistance from overseas in this regard.

#### ***1.14 Non-audit-based Performance Management***

1.58 Where Latvia and Poland have both encouraged the voluntaristic use of ISO 9000 as a means of raising performance, Lithuania has tended to avoid this voluntaristic route and has relied to a greater extent on the introduction of management systems by force of statute. One consequence of this has been that there appears to be less of a variety of management systems in use in Lithuania than in some other EU8 countries, but one corollary of this is that there is also much less variety in standards of performance. In recent times however, evidence does seem to have emerged of some pioneering organizations seeking to go beyond the basic statutory requirements of the strategic planning and performance audit systems, and some of these examples are outlined below, particularly as regards the CAF and, overleaf, the highly advanced system of performance management that has been put into place by Statistics Lithuania.

1.59 The European Institute of Public Administration’s 2005 survey of the application of the Common Assessment Framework (CAF) in Europe recorded that there was, at the time of the survey, no evidence of the implementation of CAF in Lithuania. An interviewee from the Lithuanian Institute of Public Administration confirmed that the EIPA had been correct in their assertion that the CAF had not been in use in Lithuania in 2005, but noted that things have moved on since, with the following institutions having implemented it:

- i. State Social Security Fund Management Board;
- ii. Labor Market Training Service;
- iii. Ministry of Health;
- iv. Regional Police Commission, Kaunas.

1.60 Further information was received from an independent source that the CAF is also being used in parts of the Ministry of the Interior. The Institute of Public Administration has undertaken research on the use of CAF in Lithuania and is now involved in training public sector personnel to use it. Interestingly, the Institute is leading by example and is applying the CAF to its own operations (it came up with an initial list of no fewer than 60 areas for quality improvement and these are now being prioritized for implementation). In keeping with this policy of leading by example, the Institute reported that is also engaged in external benchmarking against similar organizations, not from the EU8 but from the EU15, in this case HAUS (the Finnish Institute of Public Management).

**Box 1-3: Case Study – Statistics Lithuania**

Statistics Lithuania is a full Central Government Agency which uses a highly advanced version of the State systems for strategic planning and PPBS and which has customized its own approach beyond the original model in a sophisticated, bespoke fashion. It was again reported that there has been a large change over the last five years, from a situation where staff and management felt that they ‘had to’ engage with strategic planning and PPBS to one where they ‘want to’.

Statistics Lithuania has made use of an amended version of the EFQM (Public Sector) model as a means of improving top-level strategy processes within the senior management cadre and, as a consequence, is well ahead of those organizations previously listed as now beginning to implement the CAF. As with the Institute of Public Administration, Statistics Lithuania has also been involved in benchmarking itself against a EU15 comparator (Statistics Finland) and indeed outperforms their comparator in relation to some aspects of performance. The organization has been publishing its output and outcome measures for a number of years now and is looking to gain ISO 9000 certification shortly, which will improve controls over inputs and throughputs, thus providing a ‘360°’ view of the entire policy / strategy cycle. The Balanced Scorecard approach will be used to pull together all of the data generated by all of the different performance management systems and staff are currently being trained in its application. Once all of this has been accomplished, there are intentions to then continue the full roll-out of EFQM (Public Sector).

There was an acknowledgement that this approach has been criticized as being over-complex, involving the application of too many tools, but it was explained that wholesale application of all these systems was indeed seen as impractical and that the system in place is better regarded as a bespoke one employing the best elements from all.

Statistics Lithuania has already achieved the State Chancellery’s future goal of aligning departmental plans / performance measures with those of individuals and has a very advanced system of workload planning and appraisal where each and every individual has a tailored assessment of their past and future work, informed by strategic objectives, based on the use of electronic timesheets and managed via a computer system that stores all of the performance information centrally and which allows the data to be exported in a variety of reporting formats. It was reported that this system has not been costly in terms of resourcing – there are three permanent members of staff whose role involves running it. Indeed, this approach is typical of the mechanisms used by Statistics Lithuania to introduce new initiatives. The normal means of seeking performance improvements is to second experienced staff from within the organization who have developed a particular expertise that can be utilized in a horizontal fashion. It was reported that ‘initiative fatigue’ has not set in because of the use of high quality training, so that everyone fully understands the reasons for the performance management initiatives and how they will work and training makes use wherever possible of successful examples from comparable organizations overseas so that staff can see the benefits for themselves in a practical sense.

### **1.15 Non-audit-based Performance Management (continued)**

1.61 Whilst the performance management system implemented by Statistics Lithuania is impressive, and would withstand comparison with the systems in use by most organizations in the EU15 (whether public or private), it is not the norm. For all the successes achieved in relation to performance audit and the nascent developments in relation to application of the CAF etc. in Lithuania, there were two areas in which it became apparent that further progress could be made.

#### **Progress against the Public Administration Development Strategy**

1.62 Following the previous World Bank study of Lithuanian administration, the Ministry of the Interior produced a Public Administration Development Strategy in 2004 (to cover the period to 2010), with five main objectives:

- Central government improvement (structures & performance);
- Territorial central government improvement (structures & performance);
- Local government improvement (structures & performance);
- Administrative capacity (the main HRM objective);
- E-government and transparency.

1.63 From interviews undertaken within the Ministry of the Interior and in the Parliament, it became apparent that performance improvement in relation to the second objective (Territorial Central Government) has been poor. Lithuania's Territorial Central Government units (Counties – of which there are 10) had been created in 1995, primarily to interact with and inspect local government functions (e.g. health, education etc.) under the leadership of a County Governor, who is an appointed politician. The Counties also serve an important role in ensuring that municipalities do not act in a fashion that is *ultra vires* and play a role in the planning of regional economic development via their involvement in the Regional Development Councils (although these Regional Development Councils are effectively resourceless and powerless).

1.64 The idea in 1995 was that the role of Counties would grow and that further functions would be devolved from Vilnius, but in reality this has not happened. Indeed, there is some evidence of the opposite i.e. of them losing rather than gaining powers (e.g. Counties had possessed the responsibility for land restitution but, as this process is nearly complete, from 2008 this role will be transferred to the municipalities). A major requirement of the 2004 Public Administration Development Strategy had been to address the future of the Counties, as they are weak organizations (which would appear to be becoming weaker - indeed several central Civil Servants interviewed could not explain either what Counties were or what they were for, despite their being a branch of the central government itself). It was admitted in interviews that there had been lots of criticisms of the Counties and reported that there had been many discussions in relation to their future (including ideas of strengthening them as originally planned / re-organizing them into a smaller number of larger units / scrapping them / democratizing them etc.).

1.65 Ultimately however, little or no action has been evident and it was reported that there is a distinct lack of political will to tackle this issue seriously. This failure to pursue the requirements of the 2004 Public Administration Development Strategy in relation to the performance and structure of Territorial Central Government is a failing that the Government of Lithuania is aware of and which it ought to address, as per its own agenda.

### **Measurement of Inputs and Throughputs**

1.66 Another area in which further progress on performance management could be made is in relation to the measurement and control of inputs and throughputs to administrative systems. There is clear scope for improvement in relation to the performance management of human resources inputs; however the same is true for inputs more generally, and for throughputs.

1.67 It was reported in interviews that the performance and quality management systems in place prior to the current integrated approach to strategic planning / policy analysis / PPBS / audit etc. had been more akin to the Latvian / Polish ISO-dominated approach, which had focused largely on controlling inputs and throughputs and which had paid less attention to measuring outputs and outcomes. The previous system had failed to deliver the performance improvements in public administration that had been desired, and one consequence of this was that the new system has perhaps been designed in such a way that it is overly-focused on outputs and outcomes, with far less attention paid to the quality of inputs to the system and the efficiency of the throughputs which turn these inputs into outputs.

1.68 Continuous improvements in the public administration system as a whole are unlikely to be sustainable over the long term with a focus only on outputs, indeed, managers will likely learn in time to manage to the indicators, detracting from the value of the current output-focused system of evaluation. The State Chancellery and National Audit office are both aware of this issue and reported that they are looking to address it in future revisions of the strategic planning and audit systems and suggested that there is now sufficient capacity in the public administration to move to more complex systems of 360° performance assessment, as has been the case in Statistics Lithuania.

1.69 In summary, Lithuania has an advanced system of statutory audit-based performance management and evidence of the beginnings of a performance culture. This is to be commended when compared to the picture to be found in some other EU8 States, although there is a need to address issues associated with the limited 'output' focus of current systems and with the lack of progress as regards the performance of Territorial Central Government.

### ***1.16 Performance Management and HRM***

1.70 A new staff evaluation system was introduced in Lithuania in 2002. A subsequent World Bank report pointed out a number of shortcomings in the system including the concentration on individual qualification, scope of work etc rather than on the evaluation

of results or outputs, the focus on rewards, and the lack of a link with career planning and self development. Evaluation is now being actively reviewed because it is an HR priority in the PAR action plan of the government. The Civil Service Department reported, however, that very few changes will be made in the near future because of the link between evaluation and the pay and benefits system which itself is only being amended in small and gradual ways.

1.71 One important change which is being considered is the introduction of a performance management approach using individual objectives and targets as the basis of appraisal. It is however unlikely that any such system will be introduced soon. Several commentators mentioned a time frame of 1-2 years. This is based on judgements as to how quickly two inter-linked laws can go through Parliament. The first (which aims to harmonise the application of the Civil Service Law across the public sector) is still at the stage of inter-Ministerial consultation and only six months after the adoption of that law will proposals on performance management be submitted. Many commentators involved in the strategic planning process expressed disappointment about these delays. A seminar on evaluation systems had been planned for May 2006 (organised by SIGMA) which might lead to some conclusions on the way ahead.

1.72 In the meantime, one Ministry visited is already using a sophisticated performance measurement system (based on Ministerial / departmental / individual objectives) to assess performance and it is judged to be a success. Another Ministry was reported to have considered a similar system but had been informed by its legal team that the system was in contravention of the Civil Service Law.

### ***1.17 EU Implementation***

1.73 The Lithuanian State Chancellery is rightly proud of its record on the implementation of European Union legislation, having been named within the last year as the most effective of all the EU25 in relation to transposing and implementing European statute, thus avoiding many of the infringement issues that can plague other member States, old and new alike.

1.74 Lithuania's progress in terms of the implementation of Structural Funds appears to have been initially slow, resulting in relatively low absorption rates which had nevertheless 'picked up' by the time of this study, three-quarters of the way through the current 04-06 European budgetary period. Lithuanian performance in this regard is however considerably better than that of Poland for example and the evidence gathered suggested that the pace of disbursements is now increasing (albeit late in the day) and that a robust system for managing Structural Funds has nevertheless been established, which ought to be able to cope with the increasing demands that it will face in 2007-2013.

### ***1.18 Adoption of EU Laws***

1.75 The State Chancellery takes the lead in terms of coordinating both the process of contributing to the formulation of European legislation and the transcription and implementation of European Directives and Regulations into domestic law.

1.76 It was reported that there are differences between the operation of the system in Latvia and the system in Lithuania and that the Lithuanian system has been more successful as a result of the strong coordination role of the State Chancellery. Although the system in Latvia is also coordinated (by the Ministry of Foreign Affairs) there has been less success there in terms of timely transcription and implementation of European objectives into the domestic sphere, and this was attributed to poorer co-ordination there.

1.77 With regard to European law-making, the content of Lithuania's negotiating position in Brussels is, in the first instance, proposed by relevant Line Ministries. The co-ordination of positioning is then the responsibility of either the Ministry of Foreign Affairs or the State Chancellery, depending on the stage of negotiation (e.g. the former in relation to COREPER II, the latter in relation to the Council of Ministers). The whole process of inputs to European law-making and of subsequent transcription and implementation is managed using the Chancellery's LINESIS computer system. This system has been central to Lithuania's successes in terms of controlling such a set of complex processes and the system has attracted interest from other EU Member States. LINESIS is an integrated tool which acts not only as a database and a tracking system but which also prompts personnel when they need to undertake an action or have missed a deadline. Critically, LINESIS also ensures real-time communication within Lithuania between Government and Parliament. As soon as a new proposal for European legislation appears this is recorded on LINESIS (regardless of the proposal's origin), followed by a posting of a Governmental position, all of which can be accessed by Parliamentarians. This speedy and transparent way of working means that LINESIS adds considerably to the degree of national democratic scrutiny in relation to European affairs.

1.78 The Chancellery also has some horizontal responsibilities in relation to encouraging the 'Europeanization' of the Government and advises the Lithuanian Institute of Public Administration on the design of programs of EU training. It must be stressed however that it is very much a co-ordination role that the State Chancellery adopts – it is Line Ministries themselves that take the lead in relation to the transposition of EU legislation into their area of the domestic law, the Chancellery's role is to set clear deadlines for them to meet and to regularly monitor their progress. No matter how complex and far-reaching the European legislation concerned, the system requires that there is only one lead Line Ministry responsible, regardless of how many other Ministries are required to make inputs, hence ensuring accountability and improving performance.

1.79 It was reported that the system is not perfect – Lithuania still occasionally faces threats of infringement proceedings from the Commission – but it is, as noted by the Commission itself, better than all the rest. In particular, it was noted that there are differences in the performance of the Line Ministries as regards their discharging their duties. Perhaps unsurprisingly, those Ministries which have less experience of dealing

with European matters (as a result of their areas of competence) such as health and social security are less confident (and less competent) when it comes to transcribing and implementing EU legislation.

1.80 Finally, it was also noted through interviews that in a small country like Lithuania one or two staff and/or a particular Minister can ‘make’ a Line Ministry a success in terms of transcribing and implementing EU legislation, which makes life easier when everything is going well, but which can also cause significant difficulties if the people concerned leave. The Chancellery staff reported that they have experienced some problems with staff turnover; especially post-accession, as staff with good knowledge of European policy and legislative systems now have the opportunity to earn large salaries in Brussels, although it was acknowledged that such movement does help to create networks of influence there.

1.81 In summary, the Lithuanian system for the transcription and implementation of European Directives and Regulations into domestic law, including the LINESIS system, is clearly an example of a benchmark for *all* Member States, not only for the EU8.

### ***1.19 European Funds***

1.82 At present in Lithuania there are two slightly distinct systems in place within the Ministry of Finance for managing European monies, one for managing Cohesion Funds and one for managing the Structural Funds (ESF, ERDF, Agricultural Guidance etc.), although this distinction will disappear in the next programming period (2007-2013).

#### **Cohesion Funds**

1.83 Over the period 2000 to 2010 Lithuania has been able to access €825 million of EU Cohesion Funding to address large-scale infrastructural needs e.g. in relation to transport and the environment. Approximately 50 projects have been approved already in Brussels and it is expected that the last few projects will be approved shortly, taking the final number of approved projects to an anticipated level of about 55 in total, by which time the budget allocation will all have been committed. Thus far €185 million has been paid-out from EU money (together with around €95 million matching funds from domestic budgets). Given that the Cohesion Funds program will run until 2010, the Lithuanian Government has not faced problems in relation to finding appropriate Cohesion Fund projects and getting them funded.

#### **Structural Funds - Present**

1.84 The Structural Funding budget available to Lithuania over the 2004-2006 programming period was €900 million of EU funding plus €300 million of domestic monies as match funding. The 2004-2006 Lithuanian Single Programming Document had five main priorities:

- i. Infrastructure (39 percent of financial allocation)

- ii. Development of HR (employability, social inclusion etc. – 18 percent)
- iii. Productivity and competitiveness (business improvement – 25 percent)
- iv. Rural development and fisheries (15 percent)
- v. Technical assistance (i.e. effectively administration – 3 percent)

1.85 Some budget headings have been heavily over-subscribed e.g. measures 1.5 and 3.1 have been heavily over-subscribed (527 percent and 325 percent respectively) and many others have been heavily under-subscribed e.g. measures 4.10 and 2.1 (25 percent and 40 percent respectively). In terms of applications overall, the first priority has attracted the greatest interest (especially for transport projects) and the fourth the fewest, especially in respect of fisheries-related projects.

1.86 By the end of March 2006 nearly 5,400 applications for Structure Funding had been received, and if all had been funded more than 200% of the total sum available could have been committed. It was reported that although there are many types of beneficiary, municipalities are the most significant grouping. Businesses can claim funds directly in their own right from some categories, especially in relation to the third priority.

1.87 By the end of March 2006 some 64 percent of the 2004-2006 monies had been committed (2,263 projects) and contracts had been signed for 55 percent of the total value of 2004-2006 money (1,835 projects). It is anticipated that the Lithuanians will manage to allocate their 04-06 Structural Funds allocation within the programming period (as two-thirds had been committed two-thirds of the way through a short programming period which, in common with other new member States had effectively been truncated by the need to refine systems in the early months). Although only 12.5 percent of the monies had been disbursed (or were ready for disbursement) by the end of March 2006, again it is anticipated that Lithuania ought to be able to comply with N+2 rules and avoid returning unspent money to Brussels, assuming that they continue to monitor and manage the process with care and attention and do not lose sight of disbursing the 2004-2006 allocation in the flurry of application activity that will undoubtedly occur as of early 2007.

### **Structural Funds - Future**

1.88 In 2004-2006 Lithuania was treated as a single Objective 1 area, but the Government has expressed a vision of the nation having parity with the more prosperous members of the EU by 2015, thus they are going to have to make extremely effective use of the Structural Funds available to them in 2007-2013 (€6 billion of Commission funding, to be complemented by a €2 billion domestic contribution). One independent expert who was interviewed had noted that in the 2004-2006 programming period there had been too little time available for considered planning of actions – in such a short timescale the emphasis had been on setting up systems and on ensuring absorption (although this was a pattern repeated across the EU8) – and had commented that this issue must be addressed for European monies to have their full beneficial effect in 2007-2013.

1.89 There was however evidence that attempts are being made to address the shortcomings of the 2004-2006 period and the current Single Programming Document is to be replaced with a national strategy (which is already prepared) and three operational programmes (which are currently in draft) relating to:

- i. Human Resource Development (effectively ESF funds);
- ii. Economic Growth (effectively a mixture of ERDF & Cohesion funds);
- iii. Cohesion Promotion (again effectively a mixture of ERDF & Cohesion funds and where the term 'cohesion' refers both to internal Lithuanian market cohesion and external 'European' market cohesion).

1.90 The existing management system will largely continue into the new period (2007-2013) although there will be changes in terms of the agriculture and fisheries Guidance monies being transferred to CAP and the Cohesion Funds being brought into the same system as Structural Funds for the purposes of ongoing management (as all these monies will have been allocated as previously noted).

1.91 Finally, although at the time of the interviews being carried out no final decisions had been made, it was reported that there have been discussions in relation to potentially devolving some monies down to the level of municipalities for them to manage in a decentralized fashion and minor modifications of a continuous improvement nature were also reported in relation to the processes in use for the submission and evaluation of applications. As the development of the new systems for 2007-2013 is an ongoing process, further information on progress made can be accessed by checking [www.finmin.lt](http://www.finmin.lt) and following > Europos Sajungos finansinė parama > Pasirengimas 2007-2013 m. laikotarpiui.

1.92 In summary then, the Lithuanian system for transcribing and implementing European legislation can be regarded as the very best in Europe, a system that has attracted the praise of the Commission and which has seen established Member States express an interest in adopting. Additionally, the Lithuanian system for managing Structural and Cohesion Funds appears to be on track in terms of committing their 2004-2006 allocation and the one key issue that they will need to be aware of is not to lose sight of undisbursed 2004-06 monies amidst the activity associated with committing new monies for 2007-13.

### ***1.20 Policy Recommendations – Lithuania***

1.93 Despite the generally positive picture painted of policy management and co-ordination (both domestic and European), strategic planning and public sector performance management, there nevertheless does remain (as ever) room for improvement in some areas, and the following list represents ten challenges that the Government of Lithuania ought to address over the period 2007-2013:

- i. There is a need to maintain the existing momentum and good practice within and across public sector organizations. So much has been achieved that it

would be a worrying situation were this not to be sustained and back-sliding were to result, as has been the case in Latvia.

- ii. There is a need to prioritize improvement in a small number of Ministries and in those agencies and local authorities where policy, budgetary, performance and strategic management practices remain less well-developed than the norm.
- iii. There is a need to re-prioritize and re-vitalize the Public Administration Development Strategy established in 2004 as regards reviewing the role of Territorial Central Government in Lithuania, as little progress has been made on this work.
- iv. In order to achieve the above, it is essential that the Civil Service continues to retain experienced staff with expertise and reap the benefits of administrative stability that this brings, much in the manner that they have to date, in a way that the Latvian and Polish Civil Services have not (although there are early warning signs as regards this situation not continuing).
- v. Despite the successes to date of the legislative approach to ensuring the effective implementation of management systems, training to encourage the public service to take greater heed of non-statutory policy priorities will, in the long-term, hopefully improve the responsiveness of the administrative apparatus to mandated political decisions. Such reforms ought not to be rushed however as to seek these other than through long-term cultural change will risk compromising the significant successes in terms of implementation that have been achieved.
- vi. Following on from the above recommendation, and as reported by the National Audit Office and State Chancellery, there is a need to develop coherent sets of high-level indicators to ensure that progress is clearly being made against the Government's main policy priorities, thereby retrieving the sense of overall purpose that was reported as having been to the fore when preparing for membership of the EU and NATO.
- vii. Within the performance management systems that are already in place, there is a need for incremental development, again over time, of improved input and throughput measures and controls, to inform rounded decision-making in conjunction with existing output and outcome indicators.
- viii. As in most EU8 States, there is a need to continue to monitor the rate at which Structural Funds are absorbed and disbursed, especially given the quantity of monies that are to be made available in 2007-2013.
- ix. There must be adequate human resource capacity to achieve all of the above and training of key personnel will be needed throughout central and local government.

- x. Consideration ought to be given to how a small percentage of Structural Funds can be used to assist in achieving all of the above, especially in relation to the use of ESF monies for staff training. Care ought to be taken to ensure that any additional funding is not lavished on the fees of large international consultancies however, as this may threaten the existence of the current practice of utilizing teams of internal secondees to drive forward improvement processes and which has been so central to the successes of public sector reform in Lithuania when compared with others.

1.94 As noted repeatedly throughout this Section of the report, the Government of Lithuania has achieved a great deal to be proud of, and, above all else, its top priority must be to ensure that these achievements continue to be maintained and developed.

## 2. LATVIA

2.1 Since 2000 Latvia has made significant and in some respects impressive efforts in institutionalizing a new policy making and strategic planning system voluntarily. This reform process has been driven from the centre of the Government, as a means of improving quality and performance. Above all, the reforms have managed to challenge the dominating normative culture of public administration by pushing civil servants (and in many cases politicians) to be more policy and performance oriented. Policy has become a significant part of the language in public administration. To highlight some examples of practical achievements one can say that compared to 2000 the government: now uses specific formats for policy papers, which include impact assessment requirements; policy debates before the drawing up of legislation are becoming an accepted practice; most of the normative acts are subject to quite detailed impact assessment – particularly financial; ministerial policy work is assessed and in some cases challenged by the centre of government; consultation practices with NGOs and other policy stakeholders are widespread, concepts like results, outputs, outcomes have taken central place in the policy language and programming; policy assessment and evaluation as well as research practices have become more frequent. Latvia's progress towards opening the policy-making process within public administration to society at large is unprecedented. All draft policy papers and normative acts are posted on a single Government web-site and available for comment to NGOs and others throughout the policy cycle starting from policy initiation up to the adoption of policy. External stakeholders and media are allowed to take part in official meetings of Cabinet, its Committee and other official meetings. Overall, most civil servants and observers agree that decision making has become more informed.

2.2 At the same time there have been ups and downs in the development process of the new systems. Along with frequently (on average every 14 months) changing governments, the speed and depth of developments in policy and strategic planning has changed, too. It would also be fair to note that policy planning and coordination systems have advanced more quickly and fundamentally than those used for strategic planning. This can be largely explained by the fact that most of the reforms in these areas have been driven by the State Chancellery of Latvia (whereas an effective strategic planning system requires strong backing and input from the Ministry of Finance which has been lacking up to now). It is also recognized by many key players that the main constraints to enhancing the effectiveness of the present system lay in inertia on the part of the Ministry of Finance, the unstable Civil Service (failure to maintain staff, particularly at lower levels) and lack of strong political support for administrative reforms after EU accession.

2.3 At the time of preparing this paper, the achievements to date are being re-assessed by the State Chancellery. It is expected that new government-wide policy planning guidelines will be adopted by mid 2006. However, most of the civil servants and experts interviewed in the course of preparation of this paper agreed that 2006/07 will be the

crucial turning point for Latvia's policy and strategic planning systems. Latvia can build on its achievements to date and take a step forward by developing a world class policy making system, particularly by embedding a strategic budgeting function into the process as well as achieving greater stability within the civil service. On the other hand, if that is not achieved, there will be no more than marginal adjustments to the present system – a scenario which is seen as a reversal by many observers.

2.4 Unlike the case of Lithuania, there have been very few external studies covering Latvia's policy planning system (with the exception of budgeting aspects). The most recent study (2005) was commissioned by the State Chancellery of Latvia, the main architect and driver of policy planning reforms since 2000, and assesses the implementation of general policy planning guidelines issued in 2001. This paper builds on the findings of this study and provides some additional insights into Latvia's system of policy planning, strategic planning, policy coordination, performance management, budget management as well as implementation of the EU acquis.

### **2.1 Policy Analysis**

2.5 In 2001 the Government adopted so called Policy Planning Guidelines setting out the main directions of work needed to improve policy planning in Latvia. In support of these Guidelines, the Government in 2002 also adopted the Medium Term Budget Planning Guidelines, which placed significant emphasis on improving the informativeness and quality of the State Budget and in addition required the Ministry of Finance to improve its MTEF. Both Guidelines were in practice developed by the State Chancellery's Policy Coordination Department in consultation with all the line ministries, which provided their inputs both into diagnosis of the current situation and vision of the new system along with milestones for progress. The Guidelines covered only the central government, i.e. ministries and subordinated bodies. The new Guidelines addressed the following observations (perceived as weaknesses) in the policy planning system:

- i. There was no unified approach to policy planning. From 1993 to 2000 there were more than 450 conceptual / policy documents approved by various governments. The status of these documents / policies was not clear due to an underdeveloped system of policy revision, replacement, and cancellation. Many of these documents were "paper exercises". There was no single approach to developing them in terms of format requirements etc;
- ii. The relation between various policy planning documents / initiatives was not clear. There were cases of duplication and competition between various proposals. For example several policy-planning documents could include proposals for overlapping measures;
- iii. The link between policy planning and the State Budget was not clear at all. Often policy planning did not take into account financial constraints or in many cases did not include any financial assessment. It led to the adoption of financially unrealistic programs. As a result, policy and legal initiatives were adopted without providing adequate resources;

- iv. Legislation and normative action was seen as the most effective and often the only policy instrument;
- v. The system of policy evaluation and accountability was seen as inefficient. Use of ex-ante impact assessment and ex-post evaluation was almost non-existent. There was no clear and unified procedure in place to evaluate the effectiveness of policies and to provide government with an account of results achieved or advice on corrective actions;
- vi. Results oriented management was not well established and widely used. There was a lack of information about what is accomplished by ministries and other institutions using the resources of the State Budget. Use of performance measures in the State Budget had been started in 1997. but most of the so-called institutional performance measures were inputs (number of staff, number of institutions);
- vii. Government Manifesto (Declaration) was seen as a wish list lacking any sense of priorities. Most of its contents were specific actions, covering approximately 300 items and many of them of a “business as usual” nature

2.6 The Guidelines proposed a strategy to address these weaknesses. This strategy consisted of the following elements:

- i. Introduce different types of policy documents – each with specific contents and impact assessment requirements depending on the purpose for which they had to be used;
- ii. Improving procedural requirements for coordination and consultations within public administration and with outside stakeholders;
- iii. Introducing a Government Action Strategy building on the Government Manifesto and containing around 50 main results (grouped according to strategic result areas) that the Government wants to achieve;
- iv. At the ministry level introduce strategic plans integrating policy, budget and operational planning as well as improving the structure and informative quality of budget programs;
- v. Fostering greater use of performance information (outputs, outcomes, measures) in both policy documents and strategic plans including budget programs;
- vi. Ensure that all new policy / legislative initiatives are financially assessed and, if additional costs are required, to use that information in the budget process in a structured way;

- vii. Introduce detailed impact assessment (ex ante) of new legislative proposals;
- viii. Deliver various handbooks and training materials / courses to support the new proposals.

2.7 In practice these proposals were realized through three actions:

- o Introducing new Rules of Procedure for the Government (normative regulation of all aspects of planning –this now includes a section on strategic planning);
- o Piloting the strategic planning approach and then rolling it out in all ministries;
- o Greater and better use of information technologies<sup>4</sup>;
- o Delivering various support measures, such as methodology and training;

2.8 The State Chancellery in general, and its Policy Coordination Department, in particular, took the lead in guiding implementation of these actions. What then have been the main achievements, and what problems remain or have emerged?

2.9 There is no doubt that the policy process has become more informed, structured, consultative and focused. There is less and less room for policy “paper exercises”, i.e. when policy papers are prepared and seen as an end solution to the policy problem. The number of relevant (actually followed) policy initiatives has also been reduced. Compared to the year 2000, when the number of policy papers amounted to almost 500, in 2006 there were 304 policy initiatives that ministries considered to be “in force” - 54 general guidelines, 75 programs, 37 action plans, 126 conceptual papers, and 12 strategies. This suggests that the policy work has become more efficient and rational. Equally important – debates about normative acts are more and more preceded by substantial policy debates. According to the State Chancellery, every sixth draft law is preceded by a concept or other policy paper. According to the same source, some 40% of policy papers are informed by externally commissioned research and studies.

2.10 Another important progress area is use of impact assessment for normative acts as well as for policy proposals. For draft laws as well as in many cases of secondary legislation ministries are required to prepare so called annotations to normative acts, which spell out reasons for developing an act, groups affected by changes, administrative impact, financial impact, link to EU acquis and international law, economic, social and environmental impact. There is also a proposal to assess the impact on reducing regional disparities. In terms of the quality of such assessments, there is much room for improvement; however, most of the participants in the system today recognize that assessment of financial impact has advanced significantly thus ensuring that the government has the necessary informative basis to ensure better linkage between budget and legislation. Annotations are used as the second stage compulsory impact assessment

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<sup>4</sup> This element was not explicitly set out in any of the Guidelines, but emerged as a natural support action to implementation of the more informed policy and budget ambition that was at the core of both Guidelines.

requirement whereas the concept papers (one type of policy planning paper) are used for impact assessment of legal proposals well in advance of the drafting process (when the choice towards normative regulation is not yet taken). However, there is still a tendency for the line ministries to avoid this advance impact assessment by proceeding to drafting without conceptual debate. This is challenged by the State Chancellery but the success of such challenge varies depending on support from the Prime Minister (some Prime Ministers have taken this more seriously than others). As to other policy papers, the impact assessment requirements are embedded in the structure of these papers and therefore is on the agenda from the very start of policy debate.

2.11 The other achievements under the 2001/02 planning guidelines are spelled out under the strategic *planning* and *policy coordination* sections of this paper.

2.12 The least successful area of reforms has been related to the priority setting process. The intended government action strategy (see above) never did become a real part of the process although it was once developed (even approved by one of the Prime Ministers). This can be explained by rather strong resistance on the part of most politicians, particularly prime ministers, to a more rational and, in some ways, more accountable work system. Politicians prefer the current approach where promises are made in the form of various statements but are not presented in a manifesto type of document, as that would mean greater accountability. That also allows a continuous process of giving promises without re-considering the ones made earlier. Another obstacle for a more rational priority setting process stems from the fact that the policy agenda tends to be crowded by many policy documents and strategies that claim to have a fundamental role, such as the National Development Plan, Long Term Development Strategy, Economic Development Strategy, Lisbon Agenda etc. The strategic planning system is intended to deal with this by creating one strategy per sector that could then be referenced to other higher level documents, if needed.

2.13 At the same time there are several weaknesses that have emerged during implementation of the current planning regime. These have been analyzed and at the time of writing this paper the following improvements have been suggested-

- i. The cohesiveness of the planning system still needs to be improved, particularly as relates to – clarifying the status and hierarchy of various high level planning documents such as the National Development Plan, Lisbon Program and others; better linking of national and local level planning (in contrast to Lithuania, Latvia did not use the planning guidelines for local government even in an optional way); by better integrating various international (EU and NATO related) planning documents (often requirements) into the national planning system);
- ii. The medium term expenditure planning needs to be improved by ensuring that no change cost implications of policies, particularly programs, can be estimated and that those estimates are reliable;

- iii. Some ministries are willing to develop a tighter relationship between performance indicators and budget appropriations (many ministries see this as a potential reward for good strategic planning work);
- iv. Strategic planning, although rolled out to all ministries in 2006, still needs adjustments and improvements, particularly methodological guidance from the centre (see next section) to the line ministries. It also needs to be embedded more strongly in the budget process;
- v. The State Chancellery wants to have greater use of better regulation tools when preparing legislation. It also wants to improve the use of research and ex ante as well as ex post assessments in the policy process. It is known that in the new round of Structural Funds, there will be more funds allocated to these purposes;
- vi. Finally, there is a widespread agreement that the use of various measures and indicators needs to be more focused and that each sector needs to develop general monitoring indicators (at the outcome level) as well as program specific outcome indicators. There is also a need to improve reporting on policy proposals.

2.14 At the very practical level, the following changes are being introduced:

- o Clarification of the usage of various types of policy papers, including the introduction of strategic plans as compulsory for all line ministries and covering national position documents for EU decision making.

**Box 2-1: Typology of Policy Papers**

Type of policy paper	Use
Latvia's long term (25 years) development guidelines	Setting out long term vision and priorities, adopted by Parliament;
National Development Plan	Medium term planning document (7 years), adopted by the Parliament
Policy Guidelines	Medium term planning document (up to 7 years) with compulsory mid-term evaluation;
Program	Medium term programming document (up to 7 years) with compulsory ex post assessment, adopted at the Cabinet level;
Plan	Short term planning document (1 to 3 years) approved by the Minister;
Concept paper	Discussing specific alternatives, particularly, before deciding on normative action, adopted by the Cabinet;
Informative report	To report on progress in implementation of guidelines, programs and plans. Submitted for consideration to the Cabinet;
National position	For agreeing on specific issues related to Latvia's position in EU institutions;
Strategic Plan	Program allocation by ministry together with strategic environment, stakeholder and capability assessment in each sector. This is the key document linking all policies and the budget at ministry level. Approved by the Cabinet and used in the budget round as the basic information document from 2007 (i.e. for 2008 budget). Covers 4 year period.

*All these documents are subject to full inter-ministerial coordination procedure (provided for comments for all line ministries) are posted on the Government web-site throughout the whole policy cycle (inter-ministerial coordination followed by the Cabinet Committee consideration and followed by Cabinet consideration). They are also subject to external consultations with NGOs and other stakeholders.*

- i. Tasking the Ministry of Regional Development and Local Government Affairs with responsibility for ensuring all of the above mentioned policy papers are coordinated with the regional / local level planning documents, such as development strategies of regions etc. At the moment there are no plans to roll out the joint planning guidelines to the local governments. They remain free in their choice of application of planning tools and coordination mechanisms;
- ii. There will be more funding made available for policy research (including commissioning of external research) and evaluation;
- iii. Some funding will be made available also for better regulation initiatives;

- iv. From the 2008 budget, the medium term expenditure planning will use the formula one plus one, and will eventually be expanded to one plus two<sup>5</sup>;

2.15 To summarize one can say that Latvia's policy planning system has been home grown but informed by studies of similar systems in various countries such as the UK, Canada, US, New Zealand, Australia and others. It has been designed and gradually implemented and adapted by learning the lessons from implementation. In some aspects it has been more successful than in others but overall it has led to a more rational, coordinated, open and informed policy process. Now the challenge is to make it more focused, coherent and linked both to EU and local level policy planning systems and to make it more strongly embedded in the budget process.

## **2.2 Strategic Planning**

2.16 Compared to Lithuania, the strategic planning system in Latvia has been introduced more gradually starting with pilot projects, developing methodologies based on these pilot projects, delivering various training and awareness building sessions, and then introducing strategic plans in other line ministries on a voluntary basis. Only from 2006 are strategic plans compulsory for all line ministries and their agencies. By June 2006 11 out of 18 line ministries / sectors had either adopted or developed strategic plans, others were still in the process of developing such plans.

2.17 Strategic plans in the line ministries are introduced as a response to several needs:

- i. Improving the quality of the budget information, i.e. moving away from input information to output and outcome information (while maintaining high level input information at the planning stage and detailed input information at the reporting stage);
- ii. Creating better program structures, i.e. outcome focused programs and making each program more rational (based on so called logic models), and integrating policy and budget programs;
- iii. Eventually using programs as the key unit of programming, evaluation and accountability;
- iv. Ensuring that at sector (ministry) level there is one integrated process that brings together such aspects as policy planning, budget planning, organizational development, operational planning?

2.18 The strategic planning process was started in 2002 by launching a pilot project in the Ministry of Agriculture. The process was initiated by the State Chancellery's Policy Coordination Department. At the pilot ministry level all of its management team was involved on a regular basis. The State Chancellery provided methodological advice and facilitation while the Ministry of Agriculture gave sustained commitment and practical

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<sup>5</sup> At the time of writing this paper this was still being clarified.

work involving all external stakeholders such as sector NGOs – farmer organizations, producer organizations etc. The initial methodology was a blend of the experiences of various countries, particularly, Canada, New Zealand, UK, which were studied carefully by the State Chancellery. The State Chancellery was also assisted by some good external consulting.

2.19 The pilot project continued for approximately one year and was considered highly successful. The Ministry of Agriculture restructured its more than 30 budget programs (appropriations) into 4 program areas and nine programs (appropriations). Each of the programs now has a set of outputs and volume indicators as well as some outcome information. The programming work was enhanced by environment and capability assessment thus producing better information for use in subsequent budget cycles. The lessons and experience of the pilot project in the Ministry of Agriculture were then taken on board in the Ministries of Finance, Economy and Culture, which all started to develop similar strategic plans in 2003 and 2004.

2.20 However, due to a lack of political support and weak commitment to the new system by the traditional and conservative Budget Department of the Ministry of Finance, the pilot project and the following three exercises remained voluntary up to 2006. Only in 2006 the State Chancellery proposed amendments to the Rules of Procedure of the Cabinet, whereby strategic plans are defined as compulsory and need to be developed by all line ministries by the end of 2006. The progress to date has been varied. In some cases, for example in the Ministries of Agriculture, Culture, Environmental Protection as well as the State Chancellery, the progress has been remarkable, producing not only strategic plans as the budget document but also leading to changes in internal business processes, information management practices and reporting systems. In the Ministry of Culture, for example, by developing the new programs it was realized that the Ministry did not have the processes and systems to gather the information necessary for monitoring its programs. It was also realized that there were several gaps in policies that needed to be addressed before the approval of new programs. Another example occurred in the State Chancellery which had to introduce new information retrieval tools to ensure that it can capture the information that existed in the organization but was never used, but was essential to monitor its program performance. Thus the State Chancellery is now better placed to monitor and analyze the policy work of various line ministries and to detect the most frequent areas of error and in this way direct training and support to those areas (one of the Chancellery's core programs is related to improving the performance of the public administration in providing policy advice to the Cabinet). The organization-wide performance measures are also linked to departmental operational / activity plans within the State Chancellery. It is fair to say that in these institutions strategic planning has become not only a planning and accountability tool, but an essential management tool.

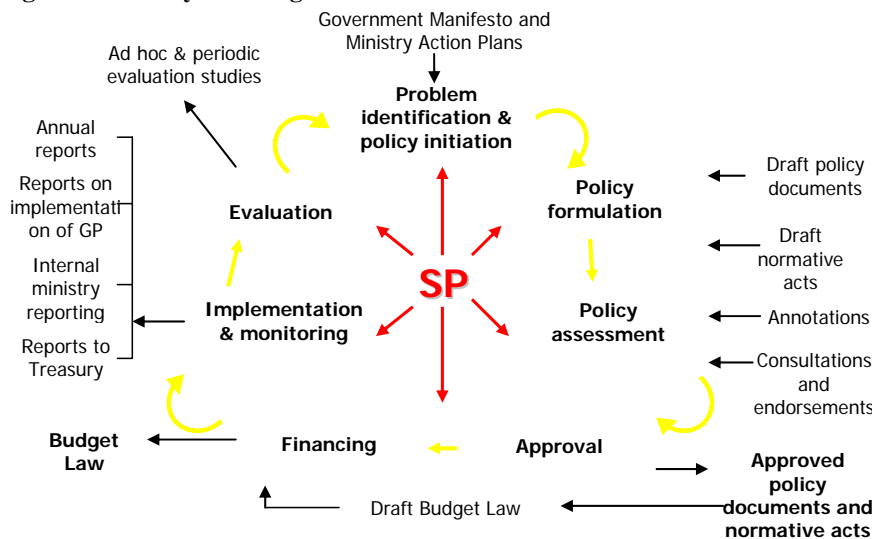
2.21 However, in other ministries the strategic planning exercise is often seen as a formality and therefore tends to be less cohesive and embedded into the life of the organization. Some of the people interviewed during preparation of this paper recognized informally that most often this was the case in ministries with poor leadership at the top,

i.e. deputy state secretaries, state secretaries and even ministers. Another obstacle is a lack of ministerial ownership of the strategic planning process. Usually the process is driven by one or several civil servants in the ministry while at times some ministers see this as an exercise which places additional constraints on their freedom of action, as it introduces more transparency and accountability.

2.22 In terms of the practical organization of strategic planning work different line ministries do it differently. For example, the Ministries of Culture and Justice have used external consultants – facilitators to prepare the plans while the Ministry of Agriculture or the State Chancellery, for example, have relied on their internal resources.

2.23 It is expected that from 2007, when all the sectors / line ministries will have their strategic plans and particularly from 2008, when strategic planning information will be used in the budget process (i.e. the strategic plan as the key budget information document), the strategic plans will become the central document in each ministry linking together all other aspects of planning and accountability. The following schema could be used to illustrate the model:

**Figure 2-1: Policy Planning Process**



2.24 This kind of planning applies to both the ministry level as well as the level of subordinated agencies – state institutions and agencies. In the current planning model it is general practice that at the level of the central ministry there is one program - policy advice to the minister while specific programs are at the level of implementing agencies and other institutions. All of these are included in the ministry strategic plans. Agencies and other institutions under subordination to the ministries also have their own strategic plans but these are more detailed than the ministry level plan.

2.25 There is no regulation or even guidance for strategic planning at the level of the local governments. It is fully voluntary. To the knowledge of people interviewed, there were no local governments who use the same strategic planning approach as for the

central agencies. Instead, most of the local governments have so called development strategies containing a mix of information on the existing and planned projects and programs within the local government and plans and aspirations for the future. Some local governments particularly the large ones have strategic planning documents in specific areas, such as employment, for example. Before strategic planning can be introduced into the local governments on a more systematic basis, administrative territorial reform has to take be carried out. At the moment there are more that 550 local governments in Latvia. The vast majority of which are too small and weak in capacity to undertake any rational strategic planning.

2.26 The policy planning guidelines evaluation report commissioned by the State Chancellery points to the following observations and issues regarding strategic planning (these have been highlighted by the officials from the line ministries who have been directly involved in the strategic planning exercise so far):

- i. All officials recognized the importance of the exercise and admitted that their institutions saw high value added from it;
- ii. Officials of the Ministry of Agriculture emphasized that the strategic planning exercise has changed their thinking about the sector;
- iii. However, many of the ministries had either explicit or implicit expectations that better strategic planning should lead to more funding from the State Budget. This, however, has never been either the intention or promise from the State Chancellery or the Ministry of Finance;
- iv. One of the key concerns was the ongoing lack of a medium term expenditure planning framework. Strategic plans create programs that go beyond annual budget cycles and ministries require predictability of funding for those programs;
- v. Another concern related to the frequent changes of governments, ministers and consequently priorities, which need to be reflected in strategic plans. On average, the governments change every fourteen month in Latvia. Many of the ministers, particularly the new ones, often come with an attitude of distrust or even no interest for the work done previously. One of the key challenges for the State Chancellery is to ensure that strategic plans are used also as the basic “government transition” document;
- vi. The first approach to strategic planning produced a large number of output measures. Now this is being re-considered focusing on the key measures;
- vii. Program improvement at the sector level creates better information and structure, however, it does not sufficiently address issues of inter ministerial collaboration in delivering desired policy outcomes;

- viii. Instability of the Civil Service (high level of turnover, particularly at lower levels) unnecessarily complicates the planning process as there is a need for learning from scratch again and again.

2.27 To summarize the achievements and current state of strategic planning in Latvia one can say that as in the case of policy planning Latvia has developed a unique “made in Latvia” approach to strategic planning. It has been piloted in a number of institutions with great enthusiasm and in many cases success. At the same time there have been significant implementation difficulties in the central public administration as a whole. The key obstacles are: lack of political commitment to improved transparency and accountability, frequent changes of governments and priorities, lack of a medium term fiscal / expenditure framework, insufficient drive from the Ministry of Finance side, high staff turnover particularly at the lower levels in the line ministries. At the same time in those institutions where strategic planning has taken root one can observe truly innovative approaches to management linking all layers of planning, management and accountability.

## **PPBS**

2.28 Latvia’s Planning, Programming and Budgeting System was started in 1997 by introducing program classification on top of detailed economic and functional classification in the annual budget law. At the time, there was no clear methodology for program design and as a result, programs tended to reflect organizational structures, projects and specific initiatives. Another result of lack of methodology was that the number of programs as presented in the annual State Budget Law tended to grow. On average ministries tended to have 30 or even more programs. On the other hand, there was no program information apart from title and economic and financial classification of inputs.

2.29 Today Latvia’s Planning, Programming and Budgeting System is integrated with the strategic planning approach, i.e. the programs developed in the strategic planning process are the same as presented in the Budget Law. There is high level methodology as well as training programs supporting program definition.

2.30 The program concept requires particular explanation. Programs in the Latvian system are designed around groupings of similar outputs (goods and services). For example, in the Ministry of Agriculture there is the program on ensuring food quality (inspection services). Each program includes information on the main outputs (using volume, sometimes quality information), the key outcomes on which this program has an impact as well as some indicators to measure progress in achieving desired outcomes, and the budget. Increasingly the line ministries are advised to use the so called logic model approach to program formulation. The programs need to be linked to priorities but are not a one to one reflection of the priorities. So the program approach in Latvia has adopted more of a New Zealand and Canada approach rather than the UK system.

2.31 One of the difficulties that program creators and managers have to face is the nature of the annual budget cycle. Theoretically the Ministry of Finance is expected to produce overall expenditure ceilings for the next year (within the current annual planning framework) early in the year (March), then hold a debate on priorities and additional funding requirements and then set firm ceilings for ministerial or sectoral budgets by May, latest June. In practice this does not function. It has often been the case that information on overall ceilings is released close to June / July and ministerial / sectoral ceilings are not set till very late in the budget process. This is often even more complicated by frequent amendments to the current budget (there have been years when such amendments have happened three times). Largely these have been due to constantly improving revenue collection and as a result the availability of extra funds to be spent to satisfy short term political interests. The budget changes during the current year when coupled with the lack of a medium term expenditure framework have tended to produce both budget uncertainties, which reduce the effectiveness of programming and budget “surprises”. As regards the latter, there are numerous examples when salary rises, for example, are in-built through budget changes in the current year without properly considering implications for the next year.

2.32 The current strategic planning system attempts to deal with this by proposing that all new expenditures, including the ones that are budgeted as part of current budget amendments, need to be assessed in terms of their implications on the programs and dealt with during the budget discussions. In terms of program budgeting the issue of integrating two planning cycles – strategic planning and the budget cycle still needs to be addressed if one desires to really integrate programming and budgeting work. However, there are other concerns, too. Several have been identified in the State Chancellery’s commissioned research on implementation of the policy planning guidelines from 2001.

2.33 The key concern of the line ministry officials is that the planning system will continue to fail to involve politicians to a degree where they demonstrate commitment to planning “rules” and process. This lack of participation is demonstrated by the fact that politicians during preparation of the government manifesto pay little attention to the existing policy documents. It also results in frequent changes of priorities and in many cases disregard for policy commitments of previous governments. The latter brings about inefficient use of resources as some stated projects / initiatives are discontinued. Even more – it also engenders distrust for the rational planning system by the civil servants who often see that their planning work quickly becomes outdated by ministry responses to various short term demands of politicians.

2.34 Ministries are also concerned that the current rules around resource management are not sufficiently flexible. There is still an inputs classification in the State Budget Law with little flexibility between inputs categories, which sometimes obstructs effective management by objectives. There are also rules in place that spending is annual thus leading to excessive end of year spending in many cases;

2.35 To summarize the current state of the planning, programming and budgeting system in Latvia it is possible to say that Latvia has had a long transition from the

introduction of the program classification to the real use for budget purposes of program information. This transition has been largely accelerated by the strategic planning initiative run by the State Chancellery. However, many challenges still remain. The key one lies in the difficulty of obtaining the interest and commitment of politicians to the new system. Essentially, all proposals for improvement are not driven by politicians but rather the State Chancellery's officials as well as some senior officials from other line ministries.

### **2.3 Policy Coordination**

2.36 Latvia has been praised for its achievements in the area of policy coordination during the last five years. From 1998 till 2004 this was largely attributed to effective functioning of two institutions: the European Integration Bureau (coordination of the National Program for Adoption of the Acquis), which has existed up to 2004 and the Policy Coordination Department of the State Chancellery, which has been in existence since 2000.

2.37 In 1999 the Government asked for an independent review of the system of public administration. The review was carried out by Sir Robin Mountfield, former Head of the Civil Service of the United Kingdom. His high profile review attracted the attention of several key politicians including the Prime Minister at the time. His main conclusion was that apart from the European Integration Bureau, which ensured coordination of EU aspects of the government's work, the Latvian government had strong ministries that treat themselves as little independent kingdoms and a big gap in the centre of government. The State Chancellery at the time was considered to be a "mailbox" and a document management office for the Government.

2.38 These conclusions were shared by many and as a result the review proposed three major recommendations: (i) to strengthen the centre of government – the State Chancellery, assigning to it the role of policy coordination; (ii) to develop links between government policy priorities and budget planning; and (iii) to overcome disintegration of the public administration into fragmented sectoral public administrations and to unify the civil service.

2.39 In 2001, the Cabinet approved a five-year Public Administration Reform Strategy, which stipulated as one of its objectives developing a "unified, goal-oriented, forward looking public administration". Driven by the strong leadership of the Director of the State Chancellery with powerful support from the Prime Minister, a Department of Policy Coordination was established in 2000. Its mandate was broad and, in principle, the newly appointed team of experts in the Department has a significant degree of freedom to decide on what needs to be done and then to secure political support for that.

2.40 The activity of the Department has been highly visible and this is one of the reasons why Latvia has received "good marks" on the international stage. In general, the activities and the success story of the Department could be divided into two parts: a) coordination systems building; and b) actual day to day coordination. The latter, in turn, could be sub-divided into two further activity streams: a) day to day coordination in order

to avoid contradictions in ministry policy proposals and to ensure that all ministry policy initiatives meet certain quality standards (the Policy Coordination Department provides its opinion on all policy papers and normative acts submitted to the Government and its opinion can be listened to in the Government session or during the prime minister's briefing; and b) through coordination and assistance to the government in priority setting to ensure that the overall policy coordination system helps Latvia to achieve its priorities. Most of the civil servants as well as staff of the Department itself would agree that performance on all of these fronts except the last one has been quite remarkable. However, the priority setting and coordination of these priorities has been difficult for the reasons already describes above, i.e. lack of support for a more rational planning system by politicians.

2.41 Policy coordination in Latvia is ensured by the following mechanisms:

- i. Use of policy papers - these need to be consulted upon both with all ministries and with external stakeholders;
- ii. Use of annotations for normative acts – these also need to be consulted upon both with all line ministries and external stakeholders;
- iii. Use of joint meetings of all those who have expressed their opinion and particularly objections during the consultation stage. This has been particularly useful from the point of view of strengthening the coordination culture in the public administration. Many countries use the coordination model where the initiating ministry meets one to one with the institution providing opinion on the policy. In Latvia – there is one discussion meeting for all parties who have a view to express including NGOs;
- iv. Documentation and publishing of all agreements / disagreements among ministries and external stakeholders related particular to policy papers. The meeting described in the paragraph above has one significant output – publication of all agreements and disagreements. These are not only put on the central government website along with the policy proposal but also discussed in the Government session as well as during other lower level decision making fora;
- v. Widespread use of information technology making all drafts of policy documents and normative acts available to the public throughout the whole policy cycle starting from initiation;
- vi. Systemic decision making from civil service to the political level. Apart from inter-ministerial coordination at experts' level, coordination of policy and normative acts drafts is done
  - o at the civil service level by the so called State Secretaries meeting every Thursday (the highest civil servants from all line ministries);

- at the civil service and political level at the Cabinet Committee meeting every Monday (State Secretaries and ministers in one meeting);
- at the political level – Cabinet meeting (every Tuesday);
- before the accession to the EU, this was done also at the level of senior officials responsible for EU integration (Council of Senior Officials).

2.42 There is one outstanding issue that requires mentioning and could be relevant in terms of lessons learned for countries that desire to develop similar systems as Latvia has done. There is a very thin and in many cases invisible line between neutral policy coordination at the civil service level and the involvement of civil servants in politics. This particularly applies to coalition based governments. In this type of Government, the ministers although being part of the coalition use every opportunity to demonstrate that his/her party is better than that of colleague ministers from another party. This applies also to the Prime Minister. Thus, many politically neutral positions of the Policy Coordination Department have been seen as politically motivated by members of parties in the coalition which are not the Prime Minister's party. Avoiding these situations means that the role of policy coordination becomes marginal because some significant policy debates are purposely avoided.

2.43 There is another complexity in the functioning of the current policy coordination system. Latvia has been traditionally rated as scoring rather high on the Transparency International state capture index. One of the core objectives of the Policy Coordination Department has been to improve the quality of policy advice to the Government. This often involved the Department focusing on aspects of policies which seemed problematic and non-transparent. This also involved requiring ministries and agencies to disclose information that suggested that there were transparency and accountability problems. In some cases "bringing issues into public" resulted in the Prosecutor General starting several high profile criminal / fraud prosecutions. The result is that the position of the Policy Coordination Department is weaker than previously, as governments have changed and some of the "affected" politicians have come back into power. At the same time the State Chancellery has become and is recognized as the central government body responsible for policy coordination. Institutions recognize and accept the methodological and system-building role of the State Chancellery.

2.44 As to Latvia's position regarding Metcalfe 'Policy Co-ordination Scale' the degree of policy co-ordination found within central government and in Latvia was impressive, most commonly at Level 8 (establishing priorities). This is particularly true for the last year where there has been significant emphasis on a participatory approach to national development planning. However, as ranking on the policy co-ordination scale must be made with reference to 'The Weakest Link' the overall evaluation of policy co-ordination in Latvia (domestic and European, vertical and horizontal alike) is at Level 5 (search for agreement on policies).

2.45 To summarize the achievements, challenges and the state of play as regards policy coordination it can be said that Latvia has a rather advanced, open and participatory

system of policy coordination. Over the years it has improved the quality of policy advice to the Government as well as facilitated the emergence of a new policy and coordination culture. On the other hand these developments are seriously challenged and often undermined by political “rules of the game” that tend to restrict the scope of policy coordination to items which do not affect political interest groups. Although significantly improving the overall system for policy-making and coordination, Latvia has not yet managed to achieve the stated objective of politically neutral policy advice.

#### **2.4 Performance Management**

2.46 Performance management is not a novel theme for Latvia’s public administration. Elements of performance management have been implemented for some time. Most of the senior officials have so called performance contracts (which in reality are not performance contracts but a way to justify salary increases for civil servants), all civil servants are subject to annual performance and development assessment, the directors of agencies under ministries have performance agreements with ministers based on objectives set out in agency strategies, all the ministries have always followed action plans for implementation of government priorities, and the ministries are now introducing strategic plans. There are other elements of performance management, too. For example, several organizations including some ministries use the ISO 9000 approach, CAF etc. But these are more on a case by case basis rather than a systematic approach to public sector management.

2.47 However, only recently – particularly with the compulsory introduction of strategic planning and re-design of the human resource management system, a new “all dots connected system” is starting to emerge. The new system can be summarized as follows:

2.48 The system, on the face of it, looks rather impressive. However, the standards of implementation of each of its elements vary from institution to institution. There are some institutions such as the State Chancellery that truly operate such a system while there are a number of ministries that struggle with the basics.

2.49 Overall, the true test of this system will be the degree to which strategic planning will be embedded in the performance management system as it is really at the core of the management by objectives approach and is the mechanism which ensures that all dots are in fact connected.

**Box 2-2: Performance Management Systems: Requirements**

Policy and priority statements	-	have more outcome information and indicators that the line ministries can relate their work to;
Ministries and their subordinated institutions	-	have strategic plans with outcome and output measures as well as indicators of achievement, and
	-	have so called plans of action for implementation of priorities set out in Government Manifesto (usually specific activities);
Departments and sections within ministries and other institutions under subordination	-	have responsibility for specific programs with output and outcome information
	-	have monthly or quarterly activity plans where they set out concrete deliverables for the next period and report on achievement of milestones set for the previous period
Individuals	-	<p>have annual performance appraisal based on:</p> <ul style="list-style-type: none"> <li>o monthly or quarterly plan performance;</li> <li>o performance contract performance;</li> <li>o competencies</li> </ul> <p>As to the later, there is a new competency system in preparation. The new system identifies more than 40 job families with specific jobs in each of them and with specific competencies.</p>

**2.5 Audit-based Performance Management****Internal Audit**

2.50 Internal audit system development has been driven by the Ministry of Finance, which has the oversight function in this area. In some respects (financial, systems, and legality audit) it has advanced quite rapidly; as regards performance audit – more slowly and in many cases not at all. Performance audit is not a statutory requirement. However, in some ministries, such as the Ministry of Agriculture, internal audit has played the key role in strategic planning and in advising the ministry’s leadership on program management aspects. In the State Chancellery, for example, internal auditors have been instrumental in identifying gaps between individual job descriptions – departmental activity plans and overall chancellery objectives. As in Lithuania it can be argued that over time there has been a significant increase in the use of internal audit data for managerial purposes throughout the public administration.

2.51 Internal audit practices are present or emerging also at the local government level. However, internal auditor positions or internal audit units are present only in larger and

better resourced local governments. Most of the local governments, as described above, are too small to have such positions.

2.52 The internal audit system has a statutory basis, which as in the case of Lithuania also introduced the idea of responsible, accountable managers and requires that heads of institutions accept personal responsibility for the economic, efficient and effective management of their organization. There is also a requirement for basic risk management to be put in place in each institution and most of these requirements have been progressively implemented.

2.53 However, there are two outstanding problems that remain regarding the performance management and internal auditors. First, effective performance auditing requires performance standards defined before the auditing procedure. As strategic planning is just being rolled out to all ministries, there is little basis for such performance auditing. Most performance auditing to date has been focused on system auditing. The skills of performance auditing are also rather rare among the internal auditors. The heads of internal audit units are appointed by heads of institutions where internal auditors work. Consequently they report and are accountable to the head of organization. Consequently the independence and capacity to report irregularities of internal auditors in practice depend on the willingness of organizational leadership to receive such views.

2.54 The Ministry of Finance is responsible for oversight of internal audit. It also has an internal audit unit with responsibility for advice on internal audit system development, overseeing training, raising standards, ensuring consistency across the sector. However, it does not control internal auditors, who are attached directly to ministries and institutions. There is no direct relationship between internal and external audits.

### **External Audit**

2.55 The State Audit Office (SAO) or State Control of the Republic of Latvia was, up to some two years ago, regarded as one of the dinosaurs of Latvian public administration. It was regarded as old fashioned, politically non-neutral, with poor leadership and primarily focusing on checking legality. Today, two years after the appointment of a new and energetic head (a former high level official of the Ministry of Finance) by the Parliament, the State Audit Office has started to gain ground, particularly in the area of performance management and in establishing some credibility, although its non-political reputation still needs to be strengthened.

2.56 It is not subordinated to the Ministry of Finance, as it is in Lithuania. Rather it is a body whose head as well as board is appointed by the Parliament thus ensuring greater independence. Equally – all bodies of public administration are subject to its control powers.

2.57 The new Head of the State Audit Office has announced that carrying out performance audits is one of her key priorities along with making it a new modern organization. There are first signs of improvement; however, the jury is still out. The

most significant challenge still remains the need to acquire a reputation for politically unbiased auditing.

2.58 To summarize the use of internal and external performance auditing in Latvia's public administration it would be fair to say that it represents the weakest link in the whole system. The key reasons for this are: the non-existence of strategic plans (to date); appointment procedures for internal auditors; performance auditing skills of auditors; and political influence over auditors' work.

## **2.6 EU Implementation**

2.59 Latvia, like other Baltic states is at the forefront of implementing EU legislation into its national laws. It has been estimated that Latvia scores among the top five implementers of EU legislation although lately there are some signs of this record not being sustained (an opinion expressed by some of the people interviewed). One should also emphasize that Latvia has made remarkable and outstanding progress in this regard from 1998, when it was considered as one of the worst laggards in terms of meeting Copenhagen criteria. Since then it has succeeded in becoming one of the front runners.

2.60 Latvia's effectiveness in coordination of EU matters has decreased since accession. One of the reasons for this is that the European Integration Bureau, which acted as the central coordination body under the Prime Minister right until accession, was abolished and the function of coordination was transferred to the Ministry of Foreign Affairs. Part of the coordination function (legal aspects at more technical level) is located in the Ministry of Justice. The State Chancellery has little or no role in this process. Only recently it has managed to ensure that Latvian position papers for EU issues need to be subject to similar inter-ministerial coordination procedures as other policy initiatives (but with more fast track elements in the coordination/consultation procedure). There were a few observers who claimed that overall EU decision making at the level of the Council of Senior Officials became less informed as a result of abolishing the European Integration Bureau and the general lack of capacity, particularly policy coordination capacity in the Ministry of Foreign Affairs.

2.61 As regards other aspects, the situation is similar to that of Lithuania, i.e. different ministries perform with different standards, there are ministries which have greater exposure to EU work than others, staff turnover still remains as one of the key obstacles to institutional memory and capacity, which is so essential for effective coordination in general and EU coordination work in particular.

2.62 Latvia's progress in terms of the implementation of Structural Funds appears to be much faster than that of Lithuania. The funds available for the current financial period have been absorbed at times with very high speed and in some cases – with very high competition for resources. At time of writing this paper most of the programs under the current financing period have already been fully utilized. The press has reported instances where entrepreneurs have queued for several days in front of government agencies just to ensure that their projects are considered faster than those of competitors.

2.63 However, one must not consider the speed of utilizing funds as being the sole performance indicator of the system. One of the areas where there has been little quality performance is analysis of value for money of the spending as well as evaluation of the results achieved. It would also be fair to say that a robust system for managing Structural Funds has now been established which ought to be able to cope with the increasing demands that it will face in 2007-2013.

2.64 One particular aspect which has been criticized from the point of view of policy coordination is over centralization of the current and also planned funding system. Even for such initiatives as LEADER, which emphasizes community level planning, financial decisions will be made in Riga, the capital. This is a problem in general and not only of Structural Funds. On the one hand the capacity of most of the local governments is very limited due to their small size; on the other hand, most of the government initiatives are top down with limited maneuver for innovation and financial flexibility. There have been studies showing that at the level of even the larger local governments the funds (and consequently policies) in an employment area are not effectively controlled by the local governments but by central agencies. That leads to policy fragmentation at the local and delivery level rather than policy integration.

2.65 Overall Latvia's performance towards EU implementation can be regarded as exceptional until accession. The quality of EU policy coordination work has decreased since accession. Latvia can also be regarded as an exceptional example in terms of the speed in which EU funds are being absorbed. However, its performance in value for money terms requires critical assessment.

## **2.7 Policy Recommendations**

2.66 In many respects, particularly as regards development of policies, coordination systems and its openness of decision making, Latvia can be regarded as a good benchmark for many countries. However, there are also several weaknesses and obstacles to the effectiveness of the present system. These have been described above but mostly relate to political support and commitment to implementing better policies. However, there can be few recommendations as regards to improving political culture. One way of doing that is to continue implementing present plans which have the overall objective of making government decision making more informed. At a more practical level, the following key recommendation points are suggested-

- i. The momentum of improvement needs to be maintained at all costs. This can only be achieved by the State Chancellery demonstrating strong leadership and competence;
- ii. Strategic planning needs to be rolled out to all ministries in 2006. There should be effective capacity building and support program in place for ministries, which find it difficult to cope with strategic planning requirements;
- iii. The medium term budget planning perspective needs to be delivered as part of strategic planning;

- iv. There needs to be a clear policy towards maintaining civil service staff and preventing currently high levels of staff turnover. There should be significant investment in staff attraction, maintenance and development;
- v. More attention should be paid to increasing political neutrality of the civil service and developing the culture of independent and frank policy advice from the civil service to the government;
- vi. There is a need to strengthen both internal and external performance auditing so that ministerial program work is assessed, particularly from an ex post perspective so that there are more policy performance debates based on facts and assessments. This will support further development of the policy culture in the public administration. Particularly, attention should be paid to value for money and the effective use of EU funds;
- vii. Finally, the Ministry of Finance along with its counterpart units in the line ministries should develop a common capacity building and development agenda in order to improve Latvia's capacity for effective EU policy coordination.

## CONCLUSION

To conclude, there are several key issues that can be drawn out from this comparison of strategic planning and policy management in Latvia and Lithuania. In some areas, Latvian performance outstrips that of Lithuania, for example, in relation to the openness of Latvian system policy-making which allows for an unusually welcome degree of involvement for 'outsiders' in the policy process. In other areas the converse is true, for instance in relation to Lithuania's great success regarding effective implementation of systems, largely a consequence of their reliance on a statutory approach to reform. From a comparison of the findings from both countries, it can be seen that common patterns emerge in relation to both areas of success and to areas where further improvements could be made. In both Latvia and Lithuania the following achievements have been made as a result of successful public administration reform in recent years:

1. There is clear evidence of close working between the political and administrative classes at the centre of government, which is not present in all EU8 States.
2. There is a clear acceptance that long-term commitment is needed on the part of public servants if reform and continuous improvement are to continue, which is especially crucial in polities with coalitions that are subject to regular change.
3. There is widespread recognition of the value of transferring managerial knowledge and technologies from other parts of the world in an appropriate manner, i.e. systems designed for use elsewhere have not been introduced wholesale or simplistically. There have been significant efforts to build local capacity and amend such systems to suit national circumstances.
4. There is evidence of significant attempts to integrate systems for policy analysis, strategic planning, budgeting, audit, training etc.
5. There is a clear commitment to careful use of European Commission monies as a vehicle to aid national development.

On the other hand, areas in which further improvements could still be made include:

1. Ensuring that sufficient management controls are in place at all points in the implementation cycle (i.e. inputs, throughputs, outputs and outcomes).
2. Ensuring that the excellence achieved in the management of European Union policy is replicated in the domestic arena.
3. Ensuring that the quality of decision-making and management is consistent across the public sector in its entirety, including all agencies and local governments.

Finally, if the Governments of Latvia and Lithuania continue the reforms which they have been pursuing in recent years, it is highly likely that their performance in all areas will continue to improve to levels which are at least consistent with (and in some instances better than) those of the EU15.

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