

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

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

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

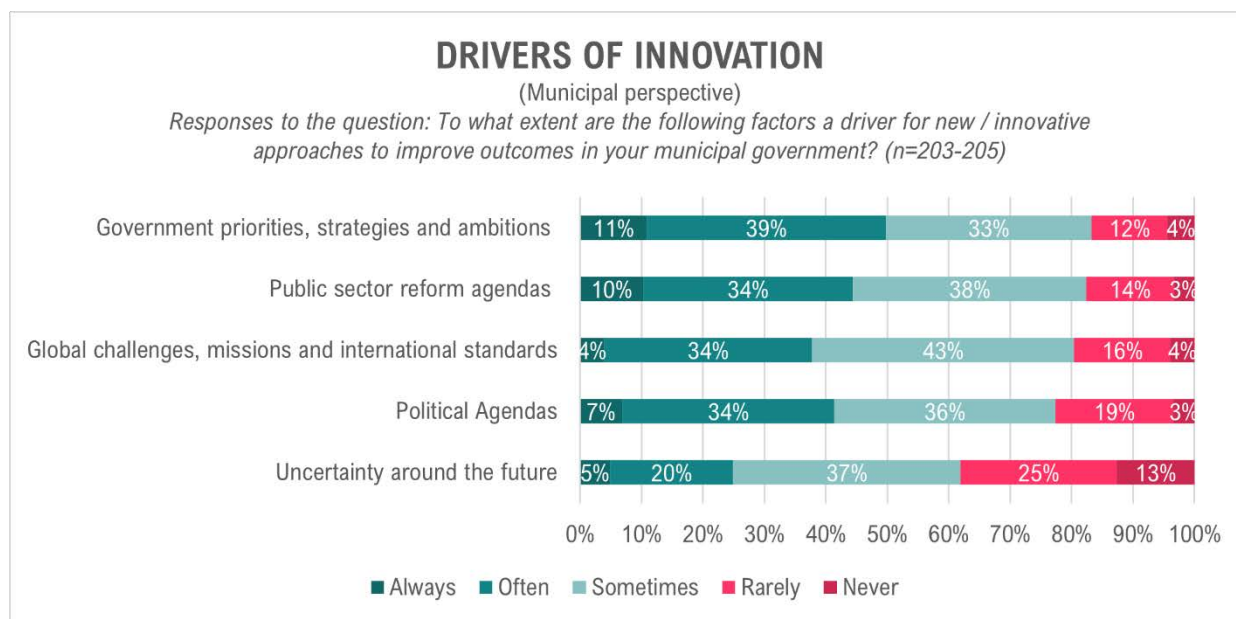
fundamental role of both municipal and national actors could help steer, enable and provide capability for innovative efforts to come to fruition to deliver better impact to citizens.

Purpose: What is driving the intent to innovate?

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

Research findings

Figure 3.11. Drivers of innovation (Municipal perspective)



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

Innovation and trust

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

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

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

Box 3.15. Democratic participation in Latvian municipalities

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

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

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

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

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

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

Public sector reform agendas, government priorities and strategies

The survey also showed public sector reform agendas and government priorities and strategies and ambitions were perceived as key drivers for innovative approaches, with 81-82% considering these to be sometimes, often or always a driver of new and innovative approaches (government priorities, strategies and ambitions performed slightly lower than at the national level) (OECD OPSI, 2023^[11]) (OECD OPSI, 2023^[6]). However, further research in workshops, interviews and focus groups, revealed scepticism amongst municipal level actors on the capacity of public sector reform strategies and government strategies to drive meaningful systemic change, due to a lack of collaboration between institutions, a disconnect to the bigger picture and lacking civil society engagement in strategies and their implementation. One key challenge raised by the audit office is that municipal strategic goals are not being translated into strategic goals of institutions and achievable targets of employees: making it more difficult for individuals take authority and be accountable for the implementation of these goals (State Audit Office of the Republic of Latvia, 2022^[7]).

Political agendas

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

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

Innovation-explicit strategies and goals

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

Box 3.16. City innovation strategies

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

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

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

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

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

Evolving governance context and international agendas

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

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

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

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



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

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

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

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

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

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

Drivers of innovation at the individual level

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

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

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

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

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

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

Considerations

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

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

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

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

Research findings

Team and organisational enablers

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

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

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

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

Box 3.18. Municipalities in the Latvian public sector administration

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

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

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

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

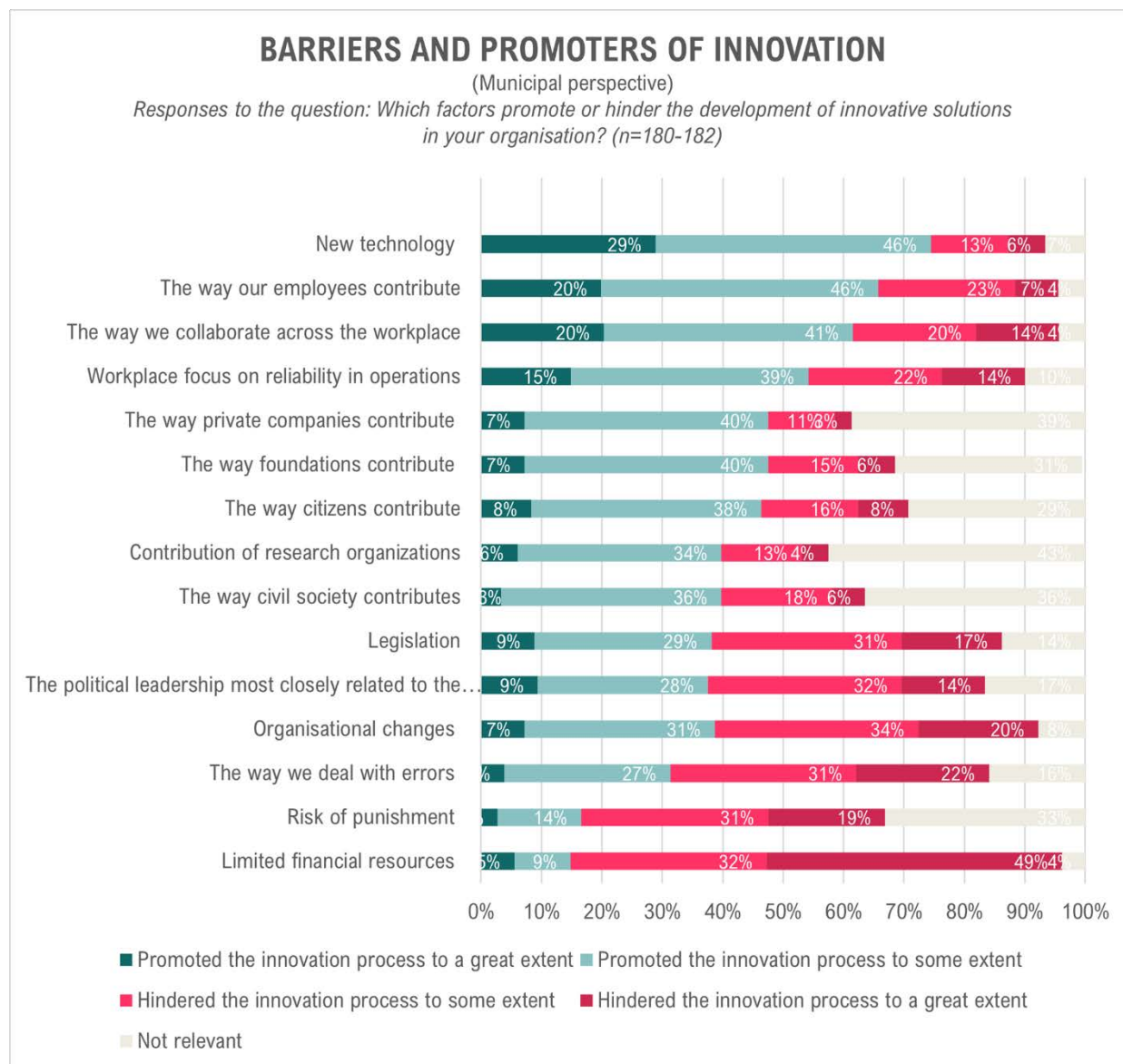
"New ideas are also hindered by the fact that local governments still have to adapt to the new situation after the last territorial reform. It's not that easy. New duties that are imposed on local governments require a lot of resources (financial, human capital), which does not allow us to look at something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

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

Digitalisation and new technologies

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

Figure 3.13. Barriers and promoters of innovation in municipal governments

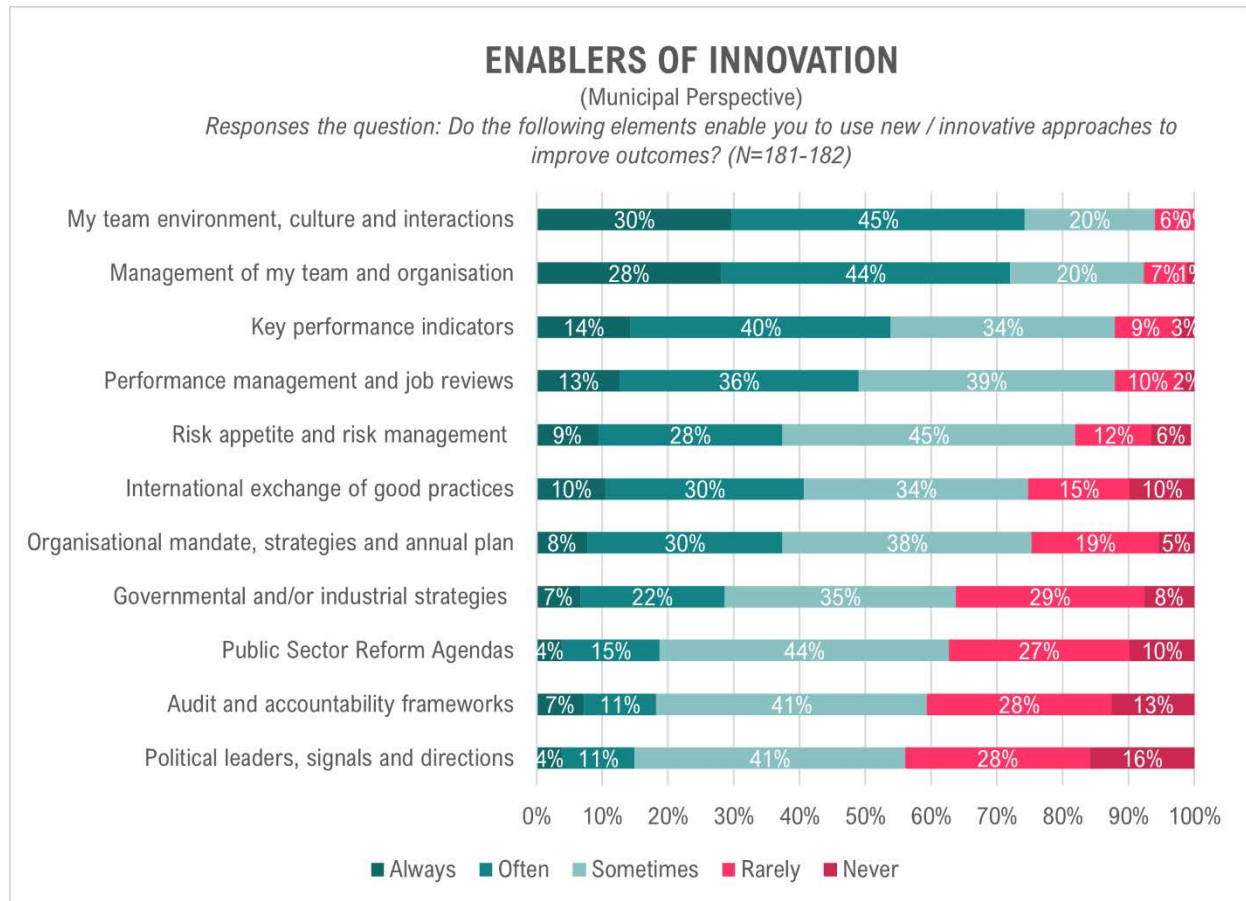


Source: OECD Survey on Innovative Capacity in the Latvian Public Sector. N=180-182.

Public Governance Frameworks

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

Figure 3.14. Enablers of innovation in municipal government



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

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

Risk management

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

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

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

Resources

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

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

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

Administrative burden and time constraints

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

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

Strategy design approaches

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

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

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

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

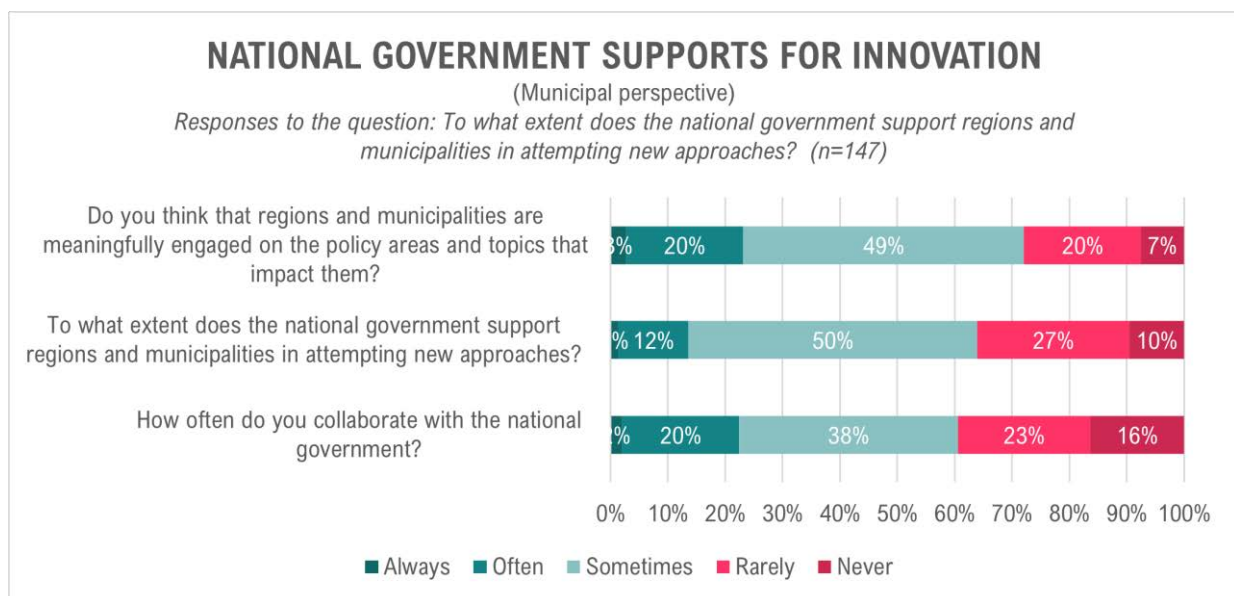
Furthermore, the creation of an explicit strategy, specific goals or a dedicated innovation fund at the municipal level could help normalise and enable innovation to occur. The OECD and Bloomberg Philanthropies study on enhancing innovation in cities (2019) found that a dedicated strategy encourages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

Collaboration

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

National and municipal engagement

Figure 3.15. National government supports for innovation



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

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

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

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

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

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

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

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

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

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

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

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

Considerations

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

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

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

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

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

Research findings

Public governance frameworks and funding

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

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

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

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

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

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

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

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

Source: (SISCODE, 2020^[28])

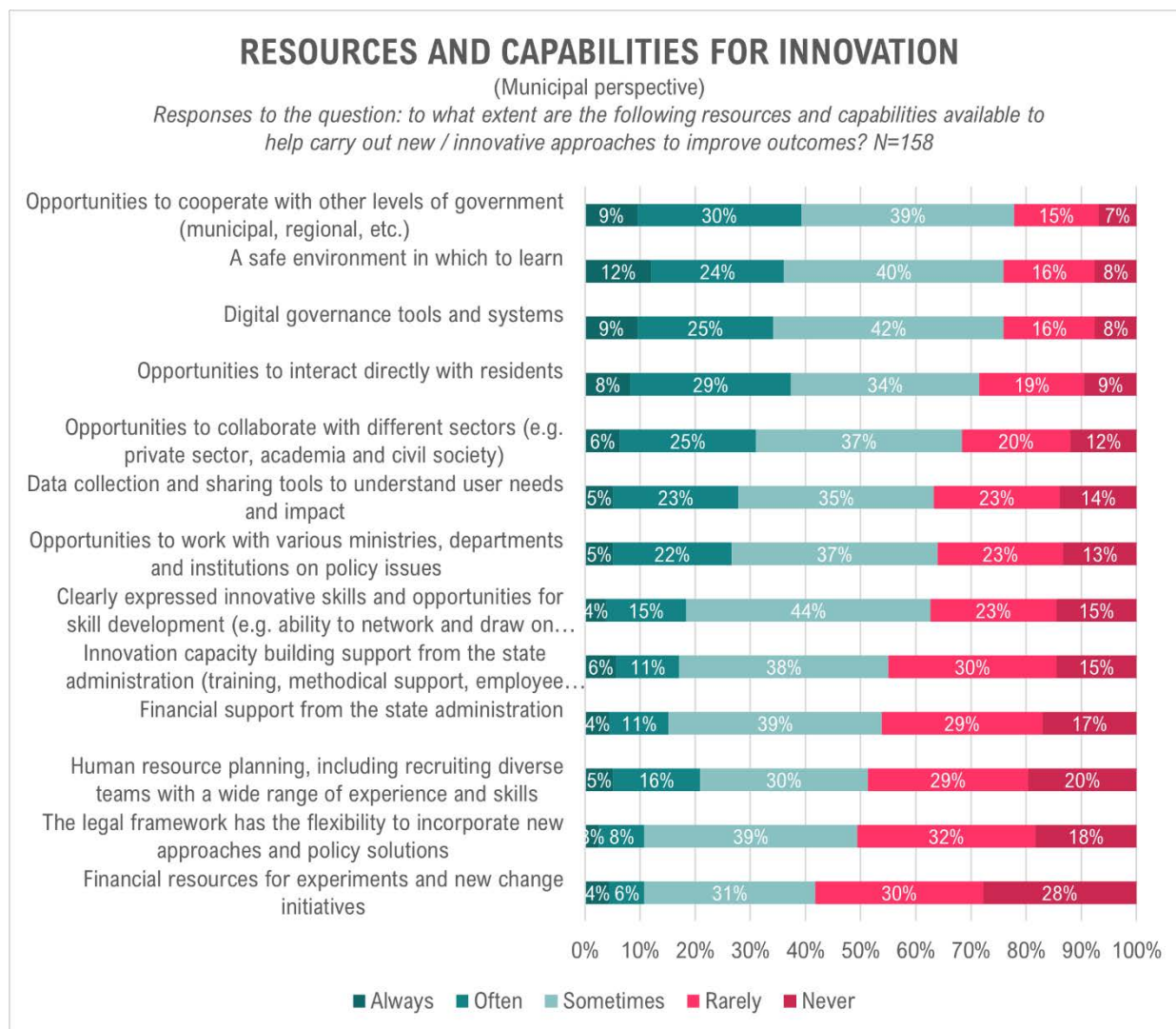
Workforce and innovation skills

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

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

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

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

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

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

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

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

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

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

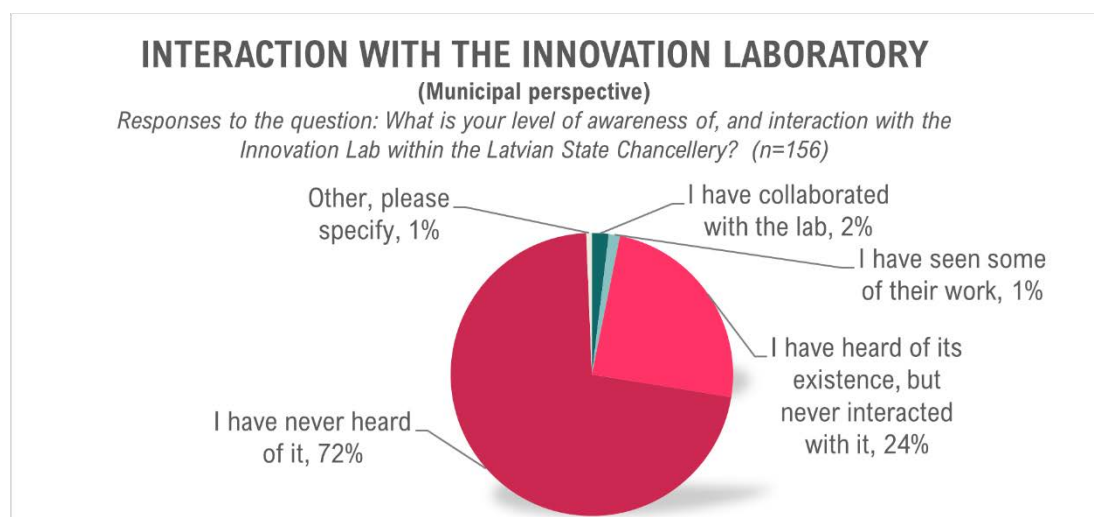
Another issue raised was the existence of various incompatible IT systems used by different municipalities and central administration institutions. A starting point for improved information sharing would be to assess where there is the greatest need and for implementation of interoperable systems.

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

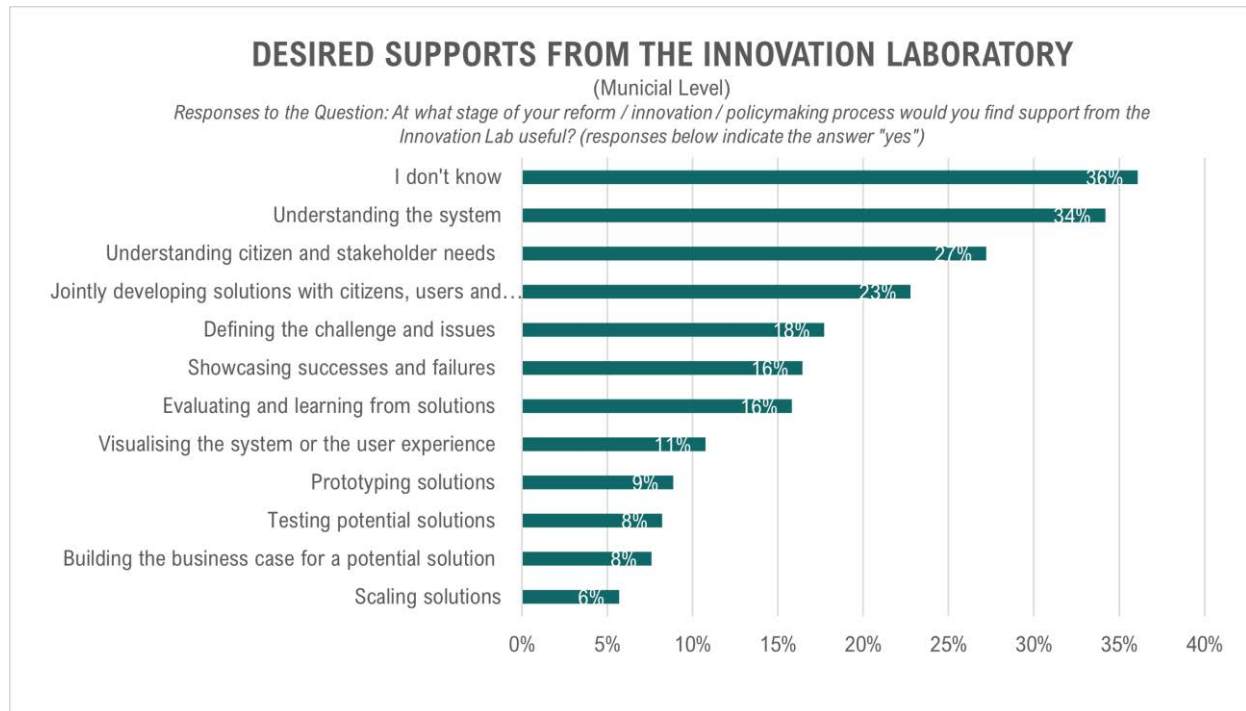
The role of the Innovation Laboratory in enhancing innovative capacity on municipal level and general views on central support system for innovation

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

Figure 3.17. Interaction with the Innovation Laboratory



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

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

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

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

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

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

Considerations

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

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

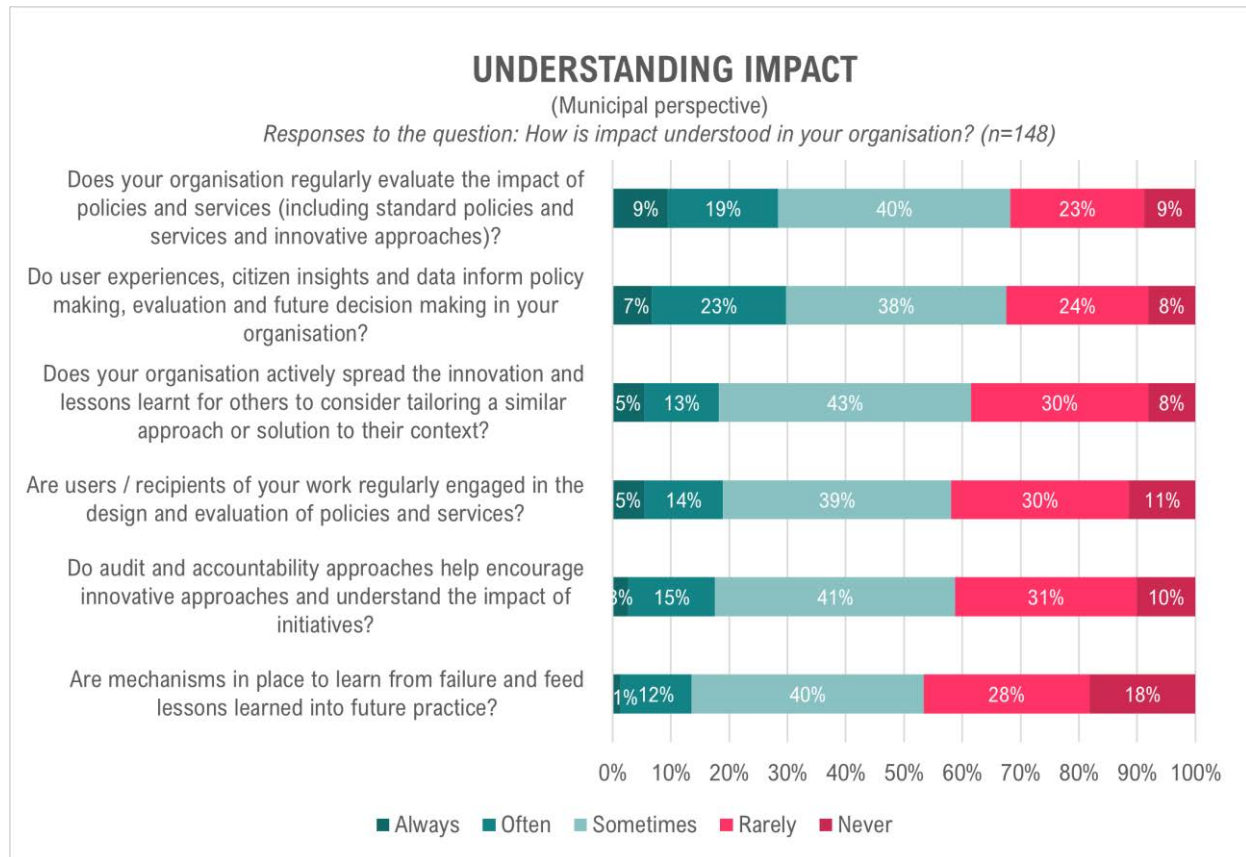
Summary: *While informal feedback from citizens has been a driver for innovative activities to date in municipalities, there is a need for more systemic approaches to monitoring and evaluation to ensure that innovation is occurring where it is needed most (and that those innovations are meeting user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

Research findings

Evaluation and measurement

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

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

Figure 3.19. Understanding impact (municipal perspective)

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

Audit

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

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

User insights

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

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

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

Learning loops

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

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

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

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

Considerations

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

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

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Notes

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

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

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

⁴ Noted in interviews and focus groups.

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

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



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