



## INNOVATIONS FOR SUCCESSFUL SOCIETIES

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Interviewer: Yoni Friedman

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FRIEDMAN: Okay, I'll turn it on now.

PETERSONE: *So we are at the 13<sup>th</sup> of February, I am Baiba Petersone, currently Director of the Latvian School of Public Administration. My short record of professional biography starts with education. My educational background first is a philosophy degree in university, but at that time it meant the social sciences. I worked for the first ten years in the Academy of Sciences as a researcher and as a philosopher. In times of perestroika and the process of restoration of Latvian independence, I went in to politics. For nearly seven years I was an active politician.*

*Latvian National Conservative Party, Latvian Independence Movement. In year 2000, no not 2000, in the year 1996 I entered civil service in the Ministry of Education, becoming the Director of the Department of Education Strategy. There I worked for nearly five years and then in the end of 2000 I moved to the center of government where there was a new unit created named the Policy Coordination Department. The chancellery center of government, in the Latvian case it was the State Chancellery, changed directors. Gunta Veismane came as the new director for this position and she had a vision of strengthening the content capacity or strategic capacity of the center of government. Because before the State Chancellery was more of a technical secretariat to the government.*

*There was a big competition. I participated in this competition and we started building up both the coordination department and also the planning and policy system in the public policy system in Latvia. In the beginning we were only five people working as consultants. We were really free by definition of our duties. Our first task was to sit down, from Gunta Veismane, from our director, was please sit down, have a brainstorm, however long you wish, and imagine what can be done for your country.*

*So we started. Afterwards additional functions came to this department because of some optimization processes in the Latvian government. First of all there was a special small ministry, so-called [indecipherable]. It is called Minister of Special Assignment. He is a member of government this minister, he is a member of government but his ministry is not a permanent ministry like the Ministry of Foreign Affairs, or the Ministry of Finance, which exist for eternity. Such ministers with special assignment can arise in some governments and then afterwards disappear when concrete form is calling in a normal way.*

*So we had in the '90s, in the process of setting up public administration, issues for independent states, there was a special ministry or this Secretariat of Minister of Special Assignment for public administration reforms. It was changing in different governments, but nevertheless afterwards in the beginning of 2000, that is really in the end of 2002, this ministry was abolished and functions were given to the Policy Coordination Department. Since that time the department became responsible also for public administration reform, all the public policies in this year. Afterwards, in the time already of the economic crisis at the end of year 2008 a decision was taken to abolish one more institution, that was the civil service agency in Latvia, and also the functions were given to this part of the public administration reform and policy coordination department because we already worked with human resource policies. We elaborated new salary systems and administration. And so the civil service issues were also incorporated or integrated there.*

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*We worked in the Policy Coordination Department until the end of 2010 and then simply the time came when two times in five years as it is established by law and what you can be in a position ended for Gunta Veismane and afterwards it became clear that we would not be able to work in such a way further on with new management and so a majority of the department left. Just now in place of that this function is taken out from the state chancellery and a new institution established that is the Cross Sectoral Policy Coordination Center that is subordinated directly under the prime minister. There is a little bit of a revision of functions also with more accent on priorities, on strategic planning issues and particularly on issues of medium term planning and elaboration of the National Development Plan which is good because in previous plans there were problems regarding placement of these planning responsibilities in different ministries and so on. It is a new initiative and a new set of functions.*

FRIEDMAN: So when you came back in 2000 what was on your agenda? From your perspective, what was it that your unit was trying to achieve?

PETERSONE: *First of all we did some screening of the field, what existed in Latvia, we found out there were some policy initiatives existing in different ministries. For example in my Ministry of Education I have a medium term, something like a strategic planning document with all the finances and activities that are necessary for education etcetera. But it was not written anywhere that these are obligatory requirements and there are some unified approaches, criteria system.*

*[Based on] our first findings the first initiative was to create policy system. We worked really on the first task that we ascribed to us, which was the establishment of that system. We wrote down a policy paper document and this document, policy paper on making a policy system. It was, directly, in Latvia it was called Policy Planning Guidelines. We called these policy documents policy papers as policy planning documents from there it became this title.*

*In this paper we really described all the directions that shall be developed and included in the system. That is there shall be documents with different types of documents with what you are doing, policy initiatives and how you are submitting these initiatives to government. We defined at that time there were four types of documents. That was umbrella document that was first and biggest where the state set up principles of concrete policy, what are the guidelines.*

*Then there are programs and plans and then a special case of policy document, which is a concept paper that is more like expounding the assessment document for a concrete problem and a solution of it. Then there shall be procedures, unified procedures for all ministries how such policy initiatives are elaborated, how they are consulted between ministries and with stakeholders and society etcetera, etcetera.*

FRIEDMAN: Eventually harmonized?

PETERSONE: *Harmonized, yes, and what happens if you can't achieve agreement and so and so. We write down afterwards but it was planned. These procedures shall be included in a totally new version of Rules and Procedures of Government. That was the main tool that we used in a legal sense in the beginning. The procedures—and all the processes of harmonization and templates, how you present your arguments and the arguments of the other side who don't agree with you. It was quite a sophisticated bureaucratic system I would say. It helped because it brings everything in order.*

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*Then there we started on introducing a system of, or really not introducing because the first initiatives were already starting from the middle of '90s, but a total revision of the performance management system in accordance with these public policies, also including a system of performance indicators, what they mean, how they should be included in documents, in annotations of legal acts, afterwards in strategic plans and budget, etcetera, etcetera.*

*So all the information and we set up a policy system of performance indicators. Then one more direction on linkage of policy initiatives with budget planning systems, and the budget cycle, and annual budget acceptance, and deliberation and acceptance schedule bracket. Then we introduced a new concept of new policy initiative because we felt that there are—we really were thinking of an issue of unfounded initiatives because ministries were producing lots of policy documents and different initiatives in different forms. They were accepted in government with the phrase or with text in protocol, "Government takes into account that there is such policy for ministry and so what."*

*We counted that there are such policy initiatives from different ministries really but necessary funding exceeds the state budget. The demand for resources is as big as the existing state budget, more than for doing that. So there should be a procedure for decision taking not only on essence, of substance of policy but also on resources and some sequence of implementation because not everything can be done in one same year.*

FRIEDMAN: Can I ask you a bit about that question of sequencing the reforms?

PETERSONE: Yes.

FRIEDMAN: How did you decide on this particular sequence to begin with policy planning and then move to performance management?

PETERSONE: *Yes, the planning was with deadlines what first and what afterwards. Our approach was not all of these full set of documents like starting these guidelines programs, plans and concepts, not in every case you shall write down all four forms of those documents or three if you take concept out. For example, our example of these policy planning guidelines, it was considered in other administrations, I'd say it is good, in the year 2001, it was considered as the best document in the administration, informally.*

*Nevertheless it was very clear. We did something like planning of sequence because at that time we were only, by the end of next year already six people, yes six people. Our resources were not very big. Also some of these necessary initiatives were really the responsibility of other ministries, for example the Ministry of Finance.*

*We tried to integrate the Ministry of Finance in our initiatives and understanding. We worked with the state secretary of Ministry of Finance. But not in all the cases we were totally successful. Sometimes these reforms are possible only when you agree with the responsible ministry. Then one big direction, what we planned and what we identified as a necessary one was also following this problem of linkage between public policy and budget. Exactly for this reason there was the initiative on introducing all strategic planning system.*

*We find out that there is no clear document where you see what resources are the responsibility of a concrete sector or ministry and the budget programs are*

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*for concrete policies and so all this structure were elaborated afterwards in the template strategic plan and strategic planning system and procedure.*

*Then there was the part on impact assessment issues mostly, on ex-ante and ex-post evaluations and new templates for so-called—at that time it was simply called annotation of normative acts going to government laws and government laws, by-laws.*

FRIEDMAN: Was that in essence the ex-ante impact assessments?

PETERSONE: *Yes, the ex-ante impact assessment template. It was tabled with questionnaires and methodology how to fit in and what aspects you should analyze and present as supplementary information for decision makers. Really we have in most of ours this initiative. We have something like three generations of approaches or documents.*

*The first annotation template was introduced late in the year 1998. It was very simple at that moment, not going in depth in some aspects of the ex-ante assessment. Then in the year 2000 and I supposed one or two, I think two, no one—very fast we developed this already most advanced template for impact assessment with more explanations on methodology how you can deal with this.*

*Then in the year 2007, I suppose or 2008, we accepted a third version of this introducing—then just now it is called already regulatory impact assessment of normative acts, and it includes, tools like standard post-modern and evaluation of administrative burden, what is exposed to society and businesses. So the basics are the same as in the beginning but then there are more in depth elaborations.*

*And some also regarding other issues, for example also guidelines on performance indicators and a performance evaluation system. There also are, there are two policy papers on that one accepted in the year 2003 I suppose and second one in 2008 or something like that. But you use these guidelines to implement the system and then you evaluate, ex-post, you evaluate what are still remaining deficiencies and what is not going well and are moving forward with more concrete things.*

*So that was the approach that we used. The last part of this whole system and initiative was the consultation issues and building up procedures for consultation also in these rules of procedures of government and most of all involvement of NGOs (non-government organizations) and business associations and other organizations and society. There was also in a separate direction a little bit from policy planning but not connected, linked to this was government communication strategy. We elaborated in detail requirements which we put on websites for ministries and—that for example, you shall as a ministry when you start thinking about new initiatives in your sector and you start work on some public policy that in the beginning stage you shall announce that there will be such an initiative simply for NGOs and everybody so that they can follow how there is development and to be involved in working groups, etcetera.*

*I suppose that is the main thing that they have as imagination in the beginning. I would say that we follow up on this plan. We follow this plan and of course one of the things was that in some cases we think we are taking very hard initiatives or tasks from government, supplementary tasks. This a little bit affected our activities. Sometimes there were small breaks because we think we were working on different other things.*

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*For example, half a year we worked on so-called proposals for eliminating deficiencies in the pension system together with the Ministry of Welfare, or we worked on a new salary system for public administration. These really are huge tasks. But nevertheless we followed and also we followed this logic in our own work because plans of term or policy paper came to then. We always—in that time we had money, it was from an international assistance project, UNDP and also some government money to do some evaluation, an independent evaluation. We always used these ex-post evaluations as an outsourced opinion for what we have to do. And so we move forward.*

FRIEDMAN: Can I ask, you mentioned in 2002, the Policy Coordination Department became responsible for certain aspects of human resource management, performance management?

PETERSONE: Yes.

FRIEDMAN: Can you talk a little bit about the state of affairs in 2002? What were some of the challenges in human resource management?

PETERSONE: *First of all in the end of 2002, it was after some months—the first announcement was that some redesign of civil service system should in be place. It was an initiative of the new government when the previous President of Latvian bank became prime minister, (Einars) Repse. He revised functions of the civil service administration and really he would like to have more flexibility in the civil service. From that point it started.*

*At that moment he only revises functions; he didn't abolish this institution. After some five years, six years, it was abolished totally. We really thought at that time that it was not necessary for such a small country as Latvia to bring special institutions, that this work could be done in the ministries. If some principles and approaches and guidelines are set up in the law, we need no special institution for them.*

*But the main thing on human resources policy was linked to—first of all the salary system because there were not clear criteria how much who gets for what. It is a big story definitely because we also noted this identification of problems. There were totally fragmented regulations on salaries and public sector, not for civil servants, in public sector in general, also for employees working under the labor law.*

*There were more than thirty separate regulations. I can send you this, I have in English old papers identifying the problems. It is a long story. It is separate policy but the story was in the beginning of public administration of Latvia, in early '90s, the year '94, the first civil service law was accepted. The idea was that we will build up the civil service system, these careers, civil service, like in Germany and we will have a strong entrance preconditions requiring examination in the entrance and then regular attestation and so on.*

*The total work for life, it is a service. Then in time of implementation it was a flaw in some two or three years. I remember. I was working at the Ministry of Education at that time. I remember what the problems were. Simply you are putting high requirements, formal ones really. For example, this examination of new civil servants when you became a candidate, it was totally stupid. It was formal and stupid.*

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*Everybody was simply going through this process but everybody passes it because simply it was common sense, and understanding of some legislation you are passing. There was nothing special about it, everybody used an easy, generalized department the same test for it. And from the other side salary conditions in ministries became worse than in agencies and subordinated institutions. People simply are going out from ministries—.*

FRIEDMAN: Would you say—?

PETERSONE: *Because of salaries.*

FRIEDMAN: Salaries were too low?

PETERSONE: *Too low and there were no real possibilities to increase them because they're also, in these times there was an economic crisis. Also the regulation of salaries was totally not flexible. You are losing your best people and you can't pay them. Then one of the prime ministers who was from business, came and he introduced a very interesting instrument, what is called a management contract. In the beginning they were—it means that your state secretary is the boss of ministry or head of agency makes a contract with you as a civil servant in management position.*

*This contract sets up some basic results that you shall achieve in time of a half-year or year. In accordance with this contract you receive supplementary payment plus your salary. Well it is a fine idea and it solves the issue of low salaries of course. There were totally different experiences how ministries used this because there were cases where the ministry is paying only to the level of directors of department and in that case the salaries of normal specialists stayed low.*

*I, in the ministry—we in the Ministry of Education used this system that we—and also supplementary fund of money was given to salary fund, was given to ministries. We used this fund, we divided, first of all between departments in the ministry and in accordance with priorities, what were important for ministries and ministers at that time. So I as director of the department I get some funds for a year that I can use for my people. My contract was with the state secretary. My employees' contract is with me.*

*These sums were not very big but it was very important motivation system. The evaluation was with such gaps there were cases, all this money comes, goes to some friends. It was also the source and basis for total corruption. It was not transparent. Also not always was it used to achieve results and to pay—. You know in the beginning the idea is fine, then it is not so fine when it is implemented.*

*Then in 2002 it became already—the World Bank and everybody said that in Latvia it means that you have not a salary system at all because there were no restrictions on the amounts of these management contracts. You can pay to somebody all salary from the fund—okay, that was one of the problems. But the basic problem was that we can't preserve the system of French or German—we were totally unable to pay towards this. It was too expensive. All these guarantees, that you will have a guarantee for life. You can't be dismissed—it was not very effective annual appraisal system existing at that moment. It does not work really.*

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*Anyway, our proposal was a new human resources policy that changed everything. First of all approach the jobs in public sector. Basically what we understand is that salary shall be defined in the context or in accordance with content of work, what you are doing and in accordance with your responsibilities. The level of salary shall be somehow compared to the salary for similar jobs in the private sector.*

*We did the following things. We abolished all the hierarchies used in civil service. You have a hierarchy of—we are calling this reference, not normal specialist, it is a lower position. Specialist and head of division and head of department and deputy head of—third deputies, deputy of state secretary, so on. We said that now it is not criteria, your position and hierarchies are not criteria for your salary.*

*For example specialist in some very important divisions, strategic division of ministry can have higher salary than director of administrative department for example, or bookkeeping ladies. What we did we elaborated a job catalog of public administration. We described all professional groups that we had in the administration. In the beginning there is a full table of near to 45 job families so called. What are managers, financial specialists and planners, policy analysts, policy implementation people, control function, not exercise and control function in administration. All the spectrum. IT specialists, lawyers, and they put it in something like standard duties of each job family and this job family is structured.*

*So here he is but here he is not in general in our administration. If, for example, they have policy analyst then there are in the first level you have found green cucumbers coming from university doing more technical work, and then there are, here on the inside this job family and here is head of policy and coordination department in chancellery who is responsible for system and country in general who is [indecipherable] and who can be compared to some strategic management positions in the private sector.*

*At the same time we have contacts and we have a contract with a human resources company in the private sector who is doing salary research every year. So we get private sector salaries and then a concept in this policy document, we define that salaries in public sector shall be at the level of 75 to 80% from private sector salaries in relevant jobs. Not that much.*

FRIEDMAN: This is a radical rethinking?

PETERSONE: *Yes. Then implementation of that because it takes a lot of work to do the reclassification in all ministries and all agencies and to—the main thing, to put in place the first grade of salaries because we used this international labor organizations methodology which was a little bit transformed and simplified but nevertheless they had eight criteria for each job position, each job they evaluated.*

*We worked together with people from definite—from concrete professional groups to find out what are the responsibilities, what are the educational requirements, what are the responsibilities for decision-making, for management of information. There are eight criteria altogether to put points to these jobs and to be in the salary grade system. What about we are asked to compare these different positions. It was a great job.*

*The system was introduced starting in 2006. Step-by-step institutions followed and came into the new system. Starting with, it was middle of year, I think from July 2007 it was in place. Then the economic crisis came. But, nevertheless this*

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*system is in place. Afterwards it was put in Unified Law of Salaries and this job catalog still is in place. And then the economic crisis came. But still this system is in place. Afterwards it coded in unified law, salaries. This job catalog still is in place, it is like annexed to this law. So they are living with this.*

*There are, of course, by the economic crisis there are some not great decisions taken. It really requests revision just now but the approach is in place.*

FRIEDMAN: Can you talk a little bit about the design of the system? Who was involved in—was it all within the policy coordination department? Were you working with other ministries?

PETERSONE: *We were responsible. We are leading—I was leading this working group. But we have inter-ministerial working group who worked really for some three years permanently. Our main partner was the Ministry of Finance first of all. They have the division of public sector salaries. But there the problem is they always were working like bookkeeping people. They are counting. But it is not the post. But they used their information. Also we used people from Civil Service Agency administration at that time it existed. We have very good partners from a local company, private company funders with whom we really worked for years, already before. They are doing training for us. In that time we have projects and we require some training, for team building of course, for the department. We know them as good experts, as very qualified.*

*But that was an inter-ministerial group and all results—we are in Eastern Europe and you know that we are a region of positive law. For this reason change management requests that you use normal approaches. You are writing in some legal act. That is how we are moving. We prefer some policy vision and everything that we wish to have this objective but in implementation we are moving with regulation and so it is now.*

FRIEDMAN: Do you remember some of the key decisions you had to make in designing the system, some other options that you considered but ultimately rejected?

PETERSONE: *In that case not really because simply we are evaluating most of the deficiencies that we had in this classical, hierarchical, civil service system. We were moving out from this moment. There were, that is tricky because if you are thinking about alternatives, they are not so global like will we have professional job classification or will we not have that. These are not alternatives. Alternatives are inside and they are in more detail for example, they were inside this concept on new salary system. There were alternatives regarding what we proposed to government to abolish these management contracts, and said that the motivation system, additional bonuses and everything shall be put in order and shall be transparent. It can't be that one state secretary, we did also big information analysis on existing service and that it cannot be so that one state secretary in one ministry receives five times more than in other ministry. It can't be so.*

*They proposed alternatives for a time when these management contracts will be abolished because they did not want to make this decision. By this reason we proposed a step by step that they can choose that next year or after three years when different government will be in place.*

FRIEDMAN: They were abolished?

PETERSONE: *They were abolished but only because of economic crisis. It was really a hard issue. Internally in the working group we also had more detailed discussions*

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*inside. For example we had discussions on alternatives on what level we shall put the comparison with the private sector, 70%, 75, 80% for example, it was not going to government for decision, it was in the working group.*

*Also I remember one case, we were voting on inter-ministerial harmonization meeting, it was concept that already was in place, new classification in place, new salary system is going to be implemented and it is done by government regulation. Government regulation was elaborated and put for harmonization with ministries and we have inter-ministerial meeting with something like 70 people participating. Discussion was there are also criteria, how you are making individual's salary. The idea is that you have one part of salary is defined by your position because your job and responsibilities are such and such. But other part and here if I remember 70% of your salary is basic. Additionally to this you have so-called flexible part, what you receive as an individual. As an individual you have annual appraisal and you are getting signs from your manager, A, B, C, D. In accordance to that you have an additional percentage to your monthly salary.*

*Here also is the evaluation, not evaluation but criteria of your work experience. That is something similar to categories of civil servants. We preserved this simply to satisfy some needs of people or some sentiments of people that if they are working longer in the administration they receive—that remains from classical one. It makes only 30% from which again some 15% is general appraisal, your performance and only 15% on your work experience or years spent in the administration. By this issue, how much percentage you shall receive for sitting in your chair. That was killing discussions and alternatives—should it be 30% or should it be 20% or 15. That was when we were voting. Civil servants were voting for this, I remember this meeting. Alternatives like this one.*

*For example, I mentioned that we had a task from one of the prime ministers to deal with the deficiencies of the pension system. The main issue was on the design of transition period from public system to new present pension system based on social insurance. In Soviet times we are simply counting years, working years. That makes the basis. Then there was break. At this moment, the year is '96, everybody who works in service plans before received one and the same minimum pension. It was not really justifiable because people with forty, 45 years of working in very hard jobs with hard requirements received the same as some unqualified working person. That was really the main tension in this pension system.*

*We elaborated and we had resistance from the Ministry of Health and everybody and we worked with this, the NGOs of pensioners. It was very controversial really. We created a concept of what should be done. The main issue of this concept was how to get resources for these additional payments to pensions.*

FRIEDMAN: Do you remember about when you were working on the pension system?

PETERSONE: *It was the year 2004.*

FRIEDMAN: So while you were working on the salary system?

PETERSONE: *Yes, it was the same pretty much. It was this prime minister, he was very intensive in this work. Then there was a concept on the additional resources, what we can redesign in social insurance system. For example, to make differences in the periods paid from social budget to unemployed. We proposed that there is decreasing line of these payments. In the first three months you are getting like 100% of your salary and something like 60 and 30 later because you*

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*shall have motivation to find job. But in the existing moment then there were not these differences. So we are searching simply how to get resources. There were eight alternatives for that. That was the biggest amount we'd seen.*

FRIEDMAN: So in some cases you were designing new policies?

PETERSONE: *Yes, by the prime minister's request. In special cases really, but really it was not the task of the policy department but in some cases, on an ad hoc basis, when ministers were not satisfied which what was going on in central ministries we got these tasks. Of course it takes a lot of effort but from the other side it also helps the development of our people to be involved and to manage such things.*

FRIEDMAN: When you were leading the working group on the salary reform and pension reform, were you—

PETERSONE: *Una Klapkalne led pension reform, I am salary reform.*

FRIEDMAN: Was this in addition to other responsibilities of the department? Were you also analyzing policy documents?

PETERSONE: Yes.

FRIEDMAN: This is all in addition?

PETERSONE: *We have internal division of tasks. Of course if you have different responsibilities and director is not giving opinions and analysis of annotations for policy documents if they are not very special cases that are very important. So we divided. We checked the workload of others.*

FRIEDMAN: So when you were leading this working group was this your primary task? Did this take up the majority of your time?

PETERSONE: *It was my priority, yes.*

FRIEDMAN: So you mentioned some of the decisions you had to make in the system, within that 30% you mentioned that half of that was personal appraisal of the employee based on the person's achievements?

PETERSONE: *Actually there was this paper, I shall give you this paper, it was presented some years ago—I don't remember. I think that finally—if you wish to have final, I can send you the presentation, something like—. Okay, there is 70 basic and 30 flexible and this 30% again is 70 for performance appraisal and 30 for experience, something like that finally. Or 20. I shall find the paper.*

FRIEDMAN: Can I ask you a bit more about how the appraisal system worked? Was this similar to the contracts in the previous system?

PETERSONE: *No, no, no. The first template for appraisal system was evolved already in 2001 I suppose by the Civil Service Agency and it was designed for civil servants but it was step by step. In the beginning people don't like it but afterwards somehow everybody accepted. Then it expanded also to employees. So it still exists really. The system included some rough model of competencies. You are evaluated by first of all, there are two parts, one part is fulfillment of tasks. Simply you have your work plan when you do annual appraisal, or slightly afterwards, you are putting main tasks for next year. Then in the field your manager is checking what happened to these tasks. Of course sometimes there are excuses why they were*

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*not fulfilled, because there were other tasks coming in. So it is flexible, it is not formal.*

*But nevertheless here is one sign from A to E what you get here for tasks. The other part is evaluation of competencies and these competencies are really—the deficiency of the system is that they are defined very generally. Various competencies on planning and control, professional knowledge and experience, communication, teamwork, working together with other people, and orientation to development, five competencies. For managers also a sixth one that is managing people.*

*Everybody is evaluated in accordance with these six. Now what can be done—and of course as manager you have something that is—how to—and it is easier, to talk to people and to make this interview and discussion every year. From other style, we designed as a new system, what is in the last phase of acceptance still in chancellery just now, it is competence test system where competence is now defined not for every job family, job category from this system, from classification but we made some bigger groups of these job families. Competencies are defined for each of the groups. They are structured in three tiers or levels, one is general competencies which are for all civil servants or public employment or people working in public sectors and second is professional competencies that are specific to this concrete group of jobs and the third one is institution itself or manager himself, what special needs he wishes to develop in people he can add. This third level is specific to an institution.*

*The list of competencies are, in the '90s a system developed for this appraisal need. There are descriptions of competencies that really show how to check. There are variants of describing people's actions, what they do and you know there is something like example for managers. It is easier for them to check than to think in concrete terms is this competence well developed or it should be developed further and so on. No, it is quite sophisticated. My people are still working in the chancellery.*

*There was some training this year. There was a structural funds project, but it is not ended yet. It is by model what is prepared for implementation, regulation also is elaborated, but it is still waiting.*

FRIEDMAN: Can I ask you, were there other aspects of human resource reform? I understand you have a flexible senior management service?

PETERSONE: *No, there is nothing of that. Really we have extreme of position-based service. That means for any position in public administration you have open competition and everybody can apply. There are no restrictions on that. The only exception is that in cases when prime minister considers that it is valuable input. Some feel [civil] servants can be transferred from one position to another by a transfer mechanism. There is regulation on that but that is the only exception and not used very frequently. We have an open competition system.*

FRIEDMAN: So there is no regular rotation?

PETERSONE: No.

FRIEDMAN: Was that something that you guys considered?

PETERSONE: *Hmm?*

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FRIEDMAN: Was that something that your office considered?

PETERSONE: *Yes, but not for perspective—we elaborated, we discussed this but there was failure of this introduction of rotation system from civil service to administration also in the beginning of 2000. The problem is that people are not accepting this. Really why you need some managed rotation if you can go for any competition. Also we thought there is some supplementary value that you can get but most of the time it seems that people are not supporting it. Nevertheless, when you are—for the higher management positions, what are the cases when some rotation or change of people is necessary? For once we are also following the religion of professional civil service that shall be neutral and not politically influenced.*

*But there is the other side of the coin. When you as minister came into position and you simply are not able to work with the state secretary who is resisting your reforms, who is not supporting you and who really worked with the previous political parties in that place. In such cases we say, they are really present in the administration and there should be some possibility to transfer and find your team. This procedure of transfer of civil servants for higher managers was used, if you agree with the civil servant. You will find another vacancy for him. Then it is by mutual agreement.*

*There is risk for such small administration as we are, there is risk to establish formal restrictions or requirements because it does not work afterwards. So they talk, talk, talk but it did not—and really, there were other priorities, more heavy priorities.*

FRIEDMAN: Can I ask you about the impact of the crisis in 2008 on your ability to implement the new system and secondarily the impact of the crisis on the Policy Coordination Department's ability to implement a range of reforms?

PETERSONE: *It is a long story the impact of crisis. As the main body technically at a professional level supporting government and the prime minister at that time we did everything and the crisis activity on plan or structural reforms and part of Memorandum of Understanding for international donors, monetary fund and World Bank and for (European) Commission. These were the main tasks and priorities of us and that's what we were doing in these years, nothing else. It was not regular other work at that time, that was our job. There were a lot of activities really.*

*We started in 2008, late, and we went through, we prepared from administration's analyses by the government decisions on cuts on 5% and 10% and 20% etcetera, etcetera. Our main job was to resources asking job, requesting job to deal with information system of Ministry of Finance because it was a great problem really. From old times—it is hard to tell but it was the reality. The Ministry of Finance there was no correct information on actual salaries paid for public sector workers.*

*There was one part on the old IT system for civil service coming from the civil service administration but it is giving only information on civil servants and institutions that have at least one civil servant. But it is not useful at all for any analysis or comparisons. First what we did was to establish some really very primitive regime for collecting information for the Ministry of Finance. Second thing was we were preparing really graphics for our charts for the prime minister showing by these main job families or job catalog, how much they are paid in different ministries.*

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*Then there were special decisions arranged how to unify these salaries. That was really the basis, used as the basis for new more unified salary system. From what I can—then at the same time there were other initiatives that were only on human resource but there were really big initiatives on functional reviews and functional audits that were made in two different approaches but also were managed by us.*

*The first one was revision or inventorization I would say of all public functions performed by state. That was done by an IT system. We helped create the IT system for this and we put it really—all the jobs, all the functions performed not in municipalities but state institutions in one system. We linked with, prepared this information structure for this system that we will get in one and the same place functions, budget programs that are ensuring the implementation of functions, institutions, number of people working for this function, main performance indicators for three years, information on budgets in three-year period.*

FRIEDMAN: On the previous three years?

PETERSONE: *Yes. This system and this review we get initially a thousand and fifty and afterwards we worked with ministries and we used—not because of some formulations and definitions of functions, but we worked with something like 950 functions that were in the system. This system was used for modeling of budget cuts in the preparation of the budget already in—first the 2009 state budget but particularly for the 2010 state budget. The system was used for government meetings because there automatically you can see what are the main amounts of budget.*

*For example education, health care and social provisions, pensions and other benefits, that is the main amount where you use public money. When you are making political promises and statements that you will not touch pensions, then you see how those necessary cuts are in other things. That was useful simply to bring and frame decision makers. But other thing was a special arrangement, and we accepted government instruction for a functional audit, created so-called functional audit council, which really is a Sunset Commission.*

*There were some state secretaries on this commission, head of chancellery and also social partners of government, business associations and labor organizations, trade unions. We are moving by accepting plans for concrete functional audits that you shall go. For example, state revenue service and inspection who is gambling inspection and to look in depth. Aren't they duplicating functions because it seems that they are? Or you are going for institutions of expertise like in police, like in Ministry of Justice and the Ministry of Health also there is special expertise and check if they are not duplicating analysis and so on. You find that there is and so on, so on, so on.*

*That is in depth work really. No one likes doing research of these people. They simply have this mandate from government because it was done by prime minister's order. There were instructions for the institutions involved and submitted—not submitted but under this functional review they show present information as requested on budget, on people on staff, on salaries. Everything, what we are doing after months, two months is work. After each audit came the audit report reporting that and again it is established a standard form of what you should answer. The function should be remaining in the same state as it is or it should be redesigned, or it shall be reduced or it shall be abolished.*

FRIEDMAN: Is this system still in place or was it—?

*PETERSONE: Yes, it is still in place and really there is some little money, what can be paid in special funds projects, what can be paid for audits each year. They were quite successful. They really found out in this in depth analysis, we found possibilities for automatization and reduction. I would say that first of all. Then there were other processes, not such in depth but in parallel that we are doing together with all ministries in this functional review activity.*

*We were sitting all the summer of 2010 together with teams of ministries, led by the state secretaries, going one by one all the functions of ministries, all the budgets and proposing what institutions can be merged, redesigned, optimized and so and a number of public agencies were reduced by really 50%.*

FRIEDMAN: Fifteen?

*PETERSONE: Fifty, half. In case of this in depth audit, audits were successful. Other proposals were very bright really and also requirements were always to evaluate approximate sums, what can be economic for budget. Nevertheless we found out that in this part we are not able to move forward with decision makers, it was totally impossible. It was strange but they didn't accept this. Not because of interests, they are heads of institutions but really it wasn't—. The government always better take decisions in some overall 30% or overall 20% budget cuts for everybody, not going in depth—that was it really you have economy without damaging functions. So that was one of the lessons from that.*

FRIEDMAN: So in a sense you were able to produce the information—.

*PETERSONE: Yes, but with really hard work.*

FRIEDMAN: That brings up the question of demand from politicians for the information that you can produce.

*PETERSONE: There was, from the prime minister. They were working in crisis time and were working with tools because there was (Ivars) Godmanis and he was replaced by (Valdis) Dombrovskis and Dombrovskis was the main one.*

FRIEDMAN: Did the current prime minister—?

*PETERSONE: We also were preparing reports for parliament and also presented all the information.*

FRIEDMAN: Was all this working done within the Policy Coordination Department?

*PETERSONE: Hmm?*

FRIEDMAN: The reviews, the functional reviews, this is all the task of the Coordination Department?

*PETERSONE: You see in previous years we did not do this. It was really the experience of the crisis. They have on all the functional unit methodology. It was even not called functional reviews; it was called something like fundamental reviews produced by the Ministry of Special Assignment in the very beginning of 2000. Really they did not accept this policy department because it was not clear what this is, what purpose was done and not structured and so procedure. Because you are in very hard situation when you shall go to ministries and institutions and say that I will find out your possible economies and cuts. This is not easy and if you are not*

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*protected by any procedure in government you will not be able to do this, believe me.*

FRIEDMAN: So support from the prime minister—?

*PETERSONE: Support from the prime minister is very—. He accepted and he is the one who is submitting all these papers and documents to government.*

FRIEDMAN: I've taken a lot of your time so I'll say thank you very much for your time.

*PETERSONE: Ok, if you need something you can ask me.*