

Chapter



Addressing Poverty, Inequality and Social Exclusion

Introduction

As noted in **Latvia Human Development Report 1996** and the previous chapter, the first phases of the economic transition in Latvia have been dominated by the priorities of liberalization, macroeconomic stabilization and privatization. Human development requires that measures promoting growth be accompanied by policies that allow all members of society to live long, healthy lives, to acquire an education and to gain access to the resources needed for a decent standard of living. The benefits of the recent revival of economic growth must also be directed towards addressing poverty, inequality and social exclusion. As noted in the introduction, if these problems are left unattended, future economic growth and social cohesion will be undermined.

From a human development perspective, poverty means the denial of choices and opportunities. Income poverty — the denial of a decent standard of living — is but one form of poverty. As noted in the UNDP global **Human Development Report 1997**, human poverty also means the lack of a basic education, the denial of opportunities and choices to lead a long, healthy life, and social exclusion.

Poverty and inequality exist in greater or lesser degrees in all societies. A recent survey in the European Union countries found that 57 million people or an average of 17 percent of the population lived in poverty in 1993. The same study found considerable inequality, with the top 20 percent of the population enjoying an income nearly seven times as great as the bottom 20 percent. The dramatic fall in GDP in the transition economies of Central and Eastern Europe and the CIS has resulted in a dramatic rise in income poverty from 4 percent in 1988 to 32 percent in 1994, from 14 million people to 119 million people. In Latvia, as in many other countries in transition, income poverty has risen dramatically and is compounded by growing inequality in access to health care, education and widespread social and political estrangement.

The Social Welfare System

In most industrial countries, the social welfare system serves as one of the most important policy responses against poverty. Most countries in transition have focused predominantly on reform for economic growth and largely neglected social welfare reform. Though governments need to pursue market-oriented policies that foster economic growth for human development, they also need to restructure the social safety net to meet the demands of a market economy.

Unlike almost all other countries in transition, Latvia has undertaken a very comprehensive social welfare reform effort, though the benefits of that reform will take some time to be felt (see also **Latvia Human Development Report 1996**). While part of the foundation has now been laid for an improvement in living standards in the longer term, social security and social insurance are of particular importance in Latvia, with its elderly age structure and disturbing health indicators.

Social insurance and social security are funded by state, municipal and special social insurance budgets. The social insurance budget forms about 80 percent of the total and provides pensions, sickness and maternity benefits as well as unemployment benefits (see Box 2.1). The main source of income for this budget is the social tax. Revenues in 1996 were only 11.6 percent greater than in 1995. Adjusted for inflation, they fell by 5 percent. Pensions, however, were increased by 25.1 percent, which was possible because there was a considerable reduction in health benefit outlays, both in nominal terms (6 percent) as well as in real terms (20 percent).

It should be noted, however, that the rise in pensions in 1996 did not compensate for the real decline in pensions in 1995 which was equivalent to 15 percent. This meant that the real incomes of pensioners in 1996 were less than in 1994 and were equivalent to only 52.8 percent of the value of a full subsistence level basket of goods and services and 74.3 percent of the value of the crisis subsistence level. Regular indexation of pensions in relation to consumer price changes was reintroduced

Box 2.1

The Social Security System At Work

Laima Berzina is aged 31, Zigurds Berzins is 32, they have an eight year old daughter and a son aged five. The family lives in an apartment block in a small town. Laima works as a pediatrician in a state medical institution, but Zigurds works in a state-owned transportation company. In the first half of 1997, Laima's gross wage was Ls 78 per month and Zigurds' was Ls 200 per month. The "Law on Personal Income Tax" says that the Berzins family is entitled to tax relief of Ls 10.50 for each child — Ls 21.00 for the two, and to Ls 21 on the untaxed minimum for each person working. Zigurds takes up the child allowances. After taxes their joint net wage was Ls 206 per month, which is Ls 51.50 per family member. The family also received state child benefits of Ls 9 giving a total net monthly income of Ls 215. Both partners think that they can live on this amount if they are careful.

In July 1997 the Berzins family suffered a setback. First,

Zigurds fell ill, but then, with the reorganization of the medical centre, Laima lost her job. Let us examine how the family's income is made up in their new circumstances.

The "Law on Maternity and Sickness Benefits" says that Zigurds' employers are obliged to pay sickness benefit for the second and third day of incapacity at 75 percent of average earnings and at 80 percent of average earnings from the fourth day of incapacity, but not for more than 14 calendar days. From the 15th day, sickness benefit is paid from the social insurance budget at 80 percent of the claimant's average gross earnings. Zigurds is ill for three months. According to the "Law on Personal Income Tax" and the "Law on Social Tax," income tax and social tax must be paid on employer's sickness payments, but only income tax on state sickness benefit payments. The allowances remain the same.

Zigurds Berzins' income for the period 1 June to 1 October 1997 (Ls)

Month	Gross Income	Allowances	Net Income	Percent of Net Earnings
June	200	42	147	100 percent
July	154	42	121	83 percent
August	165	42	135	92 percent
September	160	42	131	89 percent

Laima had been employed for 12 years when she lost her job and the "Law on Compulsory Social Insurance for Times of Unemployment" states that persons employed for 5 to 15

years are entitled to unemployment benefits amounting to 55 percent of the average earnings over the previous six months. Unemployment benefits are not taxed.

Laima Berzina's income for the period 1 June to 1 October 1997 (Ls)

Month	Gross Income	Allowances	Net Income	Percent of Net Earnings
June	78	21	59	100 percent
July	43		43	66 percent
August	43		43	66 percent
September	43		43	66 percent

The Berzins' family income for the period 1 June to 1 October 1997 (Ls)

Month	Gross Income	Net Income	Income per Family Member	Percent of Net Earnings
June	278	206	51.5	100 percent
July	197	164	45	88 percent
August	208.52	178	44	86 percent
September	203.22	174	43	84 percent

During the period of sickness and unemployment, the Berzins family's income has not drastically fallen because both Laima, Zigurds and their employers had paid social tax. However, the family is worried about their income falling in the future if Laima is unable to find employment. Unemployment benefits for the fourth to sixth month of unemployment are 80 percent of the initial payment, for the 7th to 9th month,

they fall to 50 percent of the original. Laima understands that it will be difficult for her to find employment in her specialty because the demand for doctors is falling. In her search for work, Laima intends to take advantage of State Employment Service facilities where she may attend retraining courses free of charge. She will be able to receive a grant during this time.

in 1996. During indexation, no account is taken of the fact that the content of pensioners' baskets differs from that of the average consumer. Moreover, there is a time lag in indexation. Under conditions of very low inflation, this would not be significant, but until recently, the annual rate of inflation exceeded 10 percent.

The social budget consists primarily of social tax revenues. Revenues, in turn, are dependent on the size of wages, the social tax rate and the inflation rate. These factors determine the real and nominal size of the social budget and hence, the size of pensions. To a large extent, state revenue from wages is dependent on the level of economic activity, a reduction in the role of the shadow economy in wage payments and the degree to which employees succeed in protecting their rights through official labour contracts.

The social tax rate is 37 percent of the employee's salary; 28 percent is paid by the employer and 9 percent by the employee. The intention is to increase annually the employee's contribution and lower that of the employer. By 2001, 15 percent will be paid by the employee and 18 percent by the employer. This policy has two consequences: firstly, the employee's responsibility for social tax payments increases. On the other hand, it could lead to a net reduction in wages if contracts refer to gross wages rather than net wages. Where the gross wage stays the same but the employee's social tax contribution increases, the result is a smaller wage packet. This situation is exacerbated by the government's reluctance to increase the minimum wage, which has remained constant despite changes in social tax rates and inflation (see also **Latvia Human Development Report 1996**).

To avoid paying taxes, some companies pay a part of the wage in "envelopes," i.e. unofficially, and report that only the minimum wage has been paid. The government hopes that this practice will become increasingly infrequent with the introduction of the new law on pensions, according to which the size of pension is directly related to the social tax paid. Evidently, this is already happening, because social tax revenues for the first quarter of 1997 exceeded those for the same period in 1996 by 24 percent.

However, because of rising unemployment, many are willing to work without official labour agreements and tax payments. In August 1997 the State Social Insurance Fund estimated that approximately 300,000 employees are denied social security guarantees and rights to social insurance. While progress is being made, many employers are still evading paying social tax for their employees by declining to enter into labour contracts, defer-

ring wages for several months and by setting lower wages than the state set minimum.

One of the greatest challenges that countries in transition face is pension reform. The overall number of pensioners in Latvia was 649,500 in 1996, while the dependency ratio of pensioners to taxpayers in Latvia remained very high at 90 percent. The retirement age in Latvia is 56.5 for women and 60 for men. The large number of pensioners in Latvia and most other transition societies often creates a situation in which high pension spending leads to high payroll contributions, which, in turn, act as a disincentive to declare employment. This then leads to a need for higher contributions. Despite difficult demographic circumstances, Latvia stands out among countries in transition as a trail-blazer in introducing major reforms aimed at breaking this circle and at addressing inter-generational inequality.

As outlined in more detail in **Latvia Human Development Report 1996**, Latvia has embarked on a comprehensive social welfare reform programme, the heart of which is pension reform. Latvia at present has a pay-as-you-go pension system, but reforms have laid the foundation for a system of individualized pensions. By abolishing favourable treatment for special groups and paying lower benefits to people who retire earlier and higher benefits to those who defer retirement and continue to contribute, the reform is expected to result in considerable savings. These savings will be channeled to a second funded system in which the contributions will be held in reserve or invested in private pension funds. If successfully implemented, the reform should bring major benefits, including reduced public pension spending. While a gradual increase in the retirement age is part of the overall reform, successful implementation of the reform should eventually enable workers themselves to make the choice of when to retire. Finally, as pensions are now directly related to contributions, the reform should also encourage people to leave the informal or shadow economy.

On the whole, the pension law can be regarded as quite progressive, but some peculiarities of the transition were not taken into account. According to the formula for calculating pensions, people who had had well paid employment and retired in 1996 could claim very large pensions, sometimes ten times the national average. This was the case because the size of one's pension was determined by only one year's social tax contribution. On the other hand, those who had worked in state enterprises on the verge of bankruptcy and had been paid wages irregularly could only qualify for relatively small pensions. The unemployed were in a similar

position. Public discontent became quite widespread that previous employment had not been taken into account. This error has been partly corrected — the minimum pension has been slightly increased and ceilings have been established for large pensions, i.e. only the first 1000 Lats of one's monthly salary are taken into account for pension calculation purposes.

There are still no private pension funds in Latvia. Although legislation is being drafted, public mistrust towards private funds remains widespread after the 1995 banking crisis. Furthermore, incomes are still too low to be able to accumulate significant funds. While for the foreseeable future the main form of security in old age will remain the state pension, efforts should be focused on developing private pension funds (see also Chapter 1).

Unemployment

Work is critical for human development as it provides not only the possibility of earning a decent living, but also of fully participating in the social, economic and political life of the country. As noted below, gainful employment in Latvia is also a critical bulwark against income poverty and social exclusion.

As stated in Chapter 1, official unemployment in Latvia in 1996 was 90,800 persons or 7.2 percent of the economically active population. As noted in **Latvia Human Development Report 1995** and Chapter 3 below, Latvia undoubtedly has significant hidden unemployment as well. Official unemployment is more widespread among women, who constitute 55.9 percent of all unemployed, an increase of 4 percent compared to 1994. Since 1994 the 30 to 49 age group (both males and females) has constituted the largest share of the unemployed.

Unskilled workers form the largest share of the unemployed (26.4 percent), followed by skilled workers and craftsmen (18.6 percent), and machine

operators and fitters (14.1 percent). These figures reflect the restructuring of Latvia's economy during the transition. The unemployed are primarily from occupations that Soviet economic planners had expanded in Latvia to serve the aims of the centralized administration. 32.1 percent of the unemployed have a general secondary education, 25.5 percent have a primary or incomplete primary education and 21.3 percent have a special secondary education. Only 6 percent of the unemployed have a higher education.

Of the total population, 216,700 or 11 percent are looking for work. Most are between the ages of 20 and 24. The number of people looking for work is relatively high and constant across all groups of the work force. Among all age groups, more men are looking for work than women. Among women the majority seeking work are aged between 30-34. This probably reflects women re-entering the labour market after having a child or children. Most of those seeking employment (65 percent) have a secondary or special secondary education and 18 percent have a primary education. This is the same for females and males, but among females, there is a relatively greater share with a higher education (11 percent).

In order to better understand the situation in the labour market, a more detailed gender analysis is required. As outlined in the Government's 1997 National Report "Protection of Women's Rights" prepared as part of the process of implementation of the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), discrimination is still frequent in the Latvian labour market despite the guarantees of non-discrimination provided in Latvian legislation. Newspapers often publish advertisements asking for only one particular sex to apply for a position even though both women and men could do the job with equal success. Discrimination is also prevalent in job interviews, where prospective employees are often questioned concerning family status, health, reproductive plans and so on, resulting in some young and highly qualified women not being

Table 2.1

Headcount Index of Poverty, Population Living Below the Poverty Threshold (%)

	Poverty Threshold		
	1st Poverty threshold (50% of average monthly household income, Ls 26)	2nd Poverty threshold (minimum wage, Ls 38)	3rd Poverty threshold (crisis subsistence minimum, Ls 52)
All residents	21.4	44.4	67.9
Urban residents	19.4	41.6	65.4
Rural residents	26.0	51.1	73.8

hired by employers (of whom almost 70 percent are males).

To understand other difficulties faced by those in the job market, it is instructive to analyze the length of time spent by many looking for work. The largest proportion of both males and females — 34.5 percent — spends 1 to 2 years, while 17.2 percent spend 3 to 4 years looking for work. The greatest share of those seeking work (32.1 percent) were forced to leave their previous employment because of bankruptcy, redundancy or staff cuts. Those spending a lengthy period of time looking for work risk social alienation and exclusion.

From a human development perspective, the constantly rising unemployment rate since 1991 is a cause for serious concern. Employment is a crucial linkage between economic growth and human development, as “jobless growth” often benefits only a small segment of society and perpetuates social exclusion. As suggested in the previous chapter, continued privatization and the establishment of an enabling environment for small and medium sized businesses should contribute to ameliorating unemployment. At the same time, it is necessary to expand programmes for education and retraining of the unemployed and to craft effective regional development policy, which is discussed in greater detail in Chapter 4.

Income Poverty

Income poverty is often, but not always closely linked with other forms of human poverty such as ill health, personal insecurity, a lack of access to educational opportunities and social exclusion.

Relatively widespread income poverty in Latvia is a new phenomenon and is the result of the changes brought about by the transition process.

In 1996 the Central Statistical Bureau conducted a “Household Budget Survey” of 7524 families and, based on the results, in March 1997 was able to devise a *headcount index of poverty* and *poverty gap index* for the first time. Furthermore, the survey results were also used to calculate Latvia’s *Gini coefficient*, which measures income inequality.

In Latvia there is still no official threshold of poverty or officially recognized income needed per adult that is regarded as the critical minimum. Consequently, the following analysis of poverty uses three different poverty thresholds. The first (relative) poverty threshold is calculated as 50 percent of the average household income and constitutes 26 Ls per month per adult. The second is based on the minimum wage which was 38 Ls per month at the end of 1996. The third poverty threshold is the crisis subsistence minimum defined by the Ministry of Welfare, which stood at 52 Ls per month per family member at the end of 1996.

In the analysis below, headcount poverty and poverty gap calculations have been done using all three thresholds employing figures on monthly household expenditures. In transition countries, households often have at their disposal significant undeclared supplementary income and survey respondents often do not report their true income. The advantage of employing expenditures is that they do not vary from month to month as much as income.

Figures for the proportion of people living below the poverty line are summarized in Table

Table 2.2

Distribution of Households Living Below the Poverty Threshold by Household Composition (%)

Household composition	Poverty Threshold		
	1st Poverty threshold (50% of average monthly household income, Ls 26)	2nd Poverty threshold (minimum wage, Ls 38)	3rd Poverty threshold (crisis subsistence minimum, Ls 52)
Single person with one or more children	27.2	53.7	73.8
Two people without children	13.3	29.8	56.8
Two people with one child	20.7	42.7	66.7
Two people with two children	25.2	52.1	74.9
Two people with three or more children	44.1	70.5	89.2
Three people without children	16.8	40.3	63.7
Three people with one child	26.2	55.8	77.3
Three people with two children	32.6	61.8	83.7
Three people with three children	46.4	72.8	92.2

Table 2.3

Poverty Index for Households According to Number of Children (%)

	Poverty Threshold		
	1st Poverty threshold (50% of average monthly household income, Ls 26)	2nd Poverty threshold (minimum wage, Ls 38)	3rd Poverty threshold (crisis subsistence minimum, Ls 52)
One child	22.6	47.3	69.7
Two children	27.8	55.1	77.9
Three or more children	45.5	73.9	90.5

2.1. Using the relative poverty threshold, monthly expenditure per family member is less than 26 Ls for 21.4 percent of the population. In the case of Latvia, this threshold is somewhat misleading as a measure of poverty, as the rest of the population does not necessarily enjoy a satisfactory standard of living. Relative poverty thresholds are usually used to analyze the incidence of poverty in advanced industrial countries.

Using the second threshold, the minimum wage, the proportion of the population spending less than 38 Ls per month per person is 44 percent. This figure is quite high and points to widespread poverty in Latvia. But if the third threshold — the crisis subsistence minimum — is used, 67.9 percent of Latvia's population is living below the poverty line with a monthly expenditure per adult of less than 52 Ls. If the poverty threshold is the full minimum subsistence level basket of goods and services per person (calculated by the Central Statistical Bureau at 73.78 Ls), the number living below the poverty line is even greater.

It would appear that poverty is more widespread in the countryside than in the urban areas, but is quite evenly spread across Latvia's four historical regions (Kurzeme, Latgale, Vidzeme and Zemgale). However, in Latgale only 24.9 percent of the population spends more than the subsistence minimum, suggesting that this region has critical social problems requiring special measures. There are relatively fewer people living below the poverty line in the Riga region (in this chapter, "Riga region" is understood as Riga, Jurmala, Ogre, Tukums and the Riga District).

The headcount poverty index using the second and third thresholds indicates that a significant proportion of the population of Latvia is poor and faces difficulties in paying for everyday items such as rent, food and clothing, not to speak of health, education and cultural needs. Poor households are subject to the greater social risk that is related to health problems, alcoholism, family problems and psychological depression.

Poverty and Family Composition

Analysis of the distribution of poverty by household composition (see Table 2.2) shows that the risk of poverty increases with every additional household member. Families at greatest risk are those with three adults and three or more children under the age of sixteen. The risk is still great for families with three children and two adults. It is interesting to note that the risk increases not only with additional children, but with additional adults too. Single person households enjoy the most favourable living conditions.

Calculations show a direct correlation between the risk of poverty and the number of children in the household (see Table 2.3). The headcount index of poverty using the third threshold yields a figure of 90.5 percent of families with three or more children living below the poverty level. A situation in which families with children are directly associated with poverty must be seen as particularly unfavourable from the perspective of human development. A recent study commissioned by UNFPA (United Nations Population Fund) and the Latvian Ministry of Welfare showed of those who do not want children, 36 percent of men and 30 percent of women cite difficult socio-economic conditions as the reason. Thus, it would appear that a low rate of natural increase is inevitable given the prevailing poverty rate for families with large numbers of children.

Since the main source of household income is paid labour, a sharp rise in the poverty level is observable in households with unemployed members. In practical terms, all households with two or three members who are unemployed are below the third poverty threshold (93.0 percent and 97.8 percent of households, respectively).

Surprisingly, studies suggest that the presence of pensioners in the family does not significantly affect its living standard (see Table 2.4). This can be explained by the overall level of poverty and low per capita incomes that are not significantly different from those of pensioners. If

Table 2.4

Poverty Index for Households According to Number of Pensioners (%)

Number of pensioners in the family	Poverty Threshold		
	1st Poverty threshold (50% of average monthly household income, Ls 26)	2nd Poverty threshold (minimum wage, Ls 38)	3rd Poverty threshold (crisis subsistence minimum, Ls 52)
No pensioners	21.0	41.3	61.9
One pensioner	11.2	33.1	60.8
Two pensioners	13.6	34.7	65.8

additional family members but not additional pensioners increase the risk of poverty in a household, it follows that pensions are a significant source of income for many households. As pensions often contribute to the subsistence of other family members, pensioners cannot be defined as the most needy. In summary, pensioners tend to be relatively better protected from acute poverty by non-monetary forms of protection, such as growing their own produce or living with another pensioner or within a family setting with other sources of income.

Research conducted by UNICEF suggests that in Latvia, as in many countries in transition, children — especially children in low-income families — are often the worst-off, as wages in working families plus welfare (e.g. children's benefits) have fallen more in real terms than pensions. This situation has been exacerbated by the increase in out-of-wedlock births, the number of absent fathers and increased deaths of middle-aged men as reflected in the rising male mortality rate.

With 664,800 households living below the third poverty threshold (52 Ls per adult family member per month), it is possible to conclude that poverty is very widespread in Latvia. Most frequently subject to poverty are households with children or unemployed members. The fact that 289,400 households with children are living below the poverty line is alarming.

The foregoing suggests the necessity of conducting a comprehensive poverty assessment that builds on the results of the household budget survey. At the same time, it is urgent to promote public dialogue about the challenge of poverty and ways of overcoming it through better public policy and empowerment of the poor. From the above analysis, it is clear that special attention needs to be focused on assisting low-income families with children.

Social and Economic Inequality

Moderating social and economic inequality is the first step towards reducing poverty. Moreover, certain policies, such as improving access to education, not only reduce inequality but boost economic growth as well. It is for these reasons that the struggle against inequality is crucial to sustainable human development.

The first step towards addressing inequality is identifying and measuring it. Two important measures of inequality are the poverty gap index and income inequality as measured by the Gini coefficient. The former shows the percentage by which the monthly expenditure of the poor differs from the chosen poverty threshold, in other words, how poor are the poor. The Gini coefficient shows how equally the sum total of incomes is distributed among the population. The Gini coefficient ranges from zero to one; zero indicates perfect equality while the closer the coefficient is to one, the greater the inequality of incomes.

Poverty gap index calculations for Latvia are given in Table 2.5. The figures indicate a relatively wide poverty gap in Latvia, especially if the third poverty threshold is used (the crisis subsistence minimum of 52 Ls). By this measure, for most of the poor monthly outlays fall short of the poverty threshold by 25 percent. This means that regular monthly expenditure is about 39 Lats. Using the second threshold — 38 Ls — the shortfall is 14 percent, yielding an average level of monthly expenditure of 34 Lats. The expenditure differentials index using the first threshold of 26 Ls is only 6 percent, suggesting that among the poor, the average per capita expenditure is 24 Ls per month. The difference from the lowest poverty threshold is not large, because it is practically impossible to survive with a lower level of expenditure.

As with the headcount poverty index, the poverty gap index also reveals far greater problems in the countryside than in the cities. Household budget survey results reveal that there are no ma-

major differences between the regions, though overall, there are not only more poor people in rural areas than in the Riga region, their situation is more critical.

Poverty gap index estimates based on the composition of the family (see Table 2.6) show that poverty is not only more widespread among families with children, but more severe as well. In families with three or more children or with two unemployed, average monthly consumption falls far short of the poverty threshold and significantly exceeds the average poverty gap index of all households. Poverty gap indexes highlight the gravity of the poverty challenge.

The Central Statistical Bureau has estimated that the Gini coefficient for Latvia in 1996 was 0.32 for all households. In comparison with previous years (see **Latvia Human Development Report 1996**), the Gini coefficient has fallen significantly, but this may only reflect more accurate survey methods. The Gini coefficient is 0.32 in cities and 0.30 in the countryside. Urban areas are more stratified with a greater proportion of higher income households. The Gini coefficient for the Riga region is lower than that of other urban areas, suggesting that there are fewer households with low or very low income levels.

Compared to other Central and Eastern European countries, inequality in Latvia is similar to that in Poland (0.32) and Estonia (0.31) and less pronounced than in Lithuania (0.35), Bulgaria (0.38) and Russia (0.38) in 1995. On the other hand, other countries had significantly smaller differentials — Romania (0.28), Hungary (0.23) and the Czech Republic (0.23).

A more detailed profile of social stratification is provided by ranking households by deciles in terms of per capita disposable income and analyzing consumption patterns by decile (see Table 2.7). In the first eight deciles, encompassing 80 percent of households, expenditure on food is more than half of total expenditures. The second largest item is accommodation — rent, gas, electricity. Signifi-

cantly, these expenses take up the largest proportion in the middle income deciles (the fourth and fifth). These households still make an effort to pay these bills, while poorer households cannot manage. Better-off households manage to pay for accommodation and utilities with a significantly smaller proportion of income.

The average income of the tenth decile (richest) is many times more than that of the first decile (poorest) and much larger than that of the ninth decile. According to household budget survey results, the wealthiest have incomes up to 100 times larger than the very poorest.

Many households are saved from want by using their family plots to produce food. Of the total income of households in Latvia, 20.4 percent of the income of the first decile and 14.2 percent of the tenth decile is in the form of self-produced food and other goods. Approximately 35 to 40 percent of the income of households engaged in agriculture is self-produced.

It is clear that growing one's own food is an essential buffer for rural households. A 1996 study of rural areas by the Institute of Philosophy and Sociology revealed that the great majority of rural households and individuals are engaged in the self-provision of food. For example, in the Bauska district, 84 percent of all households and 60 percent of all adults are engaged in the production of their own food. But in the Preili district, the figures are 95 percent and 67 percent respectively. This is possible because 90 percent of Bauska district households and 95 percent of Preili district households have access to land.

As with unemployment, it is critical to also look at social and economic inequality from a gender perspective. In general terms, women in Latvia perform lower paid work than men. Central Statistical Bureau data show that women are paid only 78 percent of men's earnings, while in the public sector this figure is even lower at 73 percent. Women tend to complete education earlier than men and often work at part-time jobs. This data is

Table 2.5

Poverty Gap Index: The Gap Between Monthly Outlays and the Poverty Threshold (%)

Population living in poverty	Poverty Threshold		
	1st Poverty threshold (50% of average monthly household income, Ls 26)	2nd Poverty threshold (minimum wage, Ls 38)	3rd Poverty threshold (crisis subsistence minimum, Ls 52)
All residents	6	14	25
Urban residents	5	13	23
Rural residents	7	16	29

Table 2.6

Poverty Gap Index by Household Composition (%)

Household	Poverty Gap Index		
	1st Poverty threshold (50% of average monthly household income, Ls 26)	2nd Poverty threshold (minimum wage, Ls 38)	3rd Poverty threshold (crisis subsistence minimum, Ls 52)
All households	6	14	25
Households with one child	7	16	28
Households with two children	8	19	32
Households with three or more children	16	31	45
Households with one member unemployed	11	24	37

similar to trends around the world as the 1995 global **Human Development Report** indicated that globally the average non-agricultural wage for a woman is about 75 percent of that of a man.

Reasons for this in Latvia vary. Women are over-represented in occupations with lower social prestige and lower salaries. One third of all women in Latvia work in education and social services, where the employers are central and local government and the pay is low. Of all employees in the health care and social service sectors, 83.3 percent are women, in education — 77.4 percent, in hotels and catering — 74 percent and in the wholesale and retail trade — 61 percent. In the construction and fishing industries, women make up only 17.4 percent and 11 percent of the work force. The ratio of women to men is also 2.5 to 3 times lower in business and entrepreneurial activities. Moreover, only 31 percent of employers are women.

The above figures suggest that women and men do not have equal access to employment and that an informal division of positions for women and men often takes place. Despite evidence of indirect discrimination, however, women rarely complain about discrimination at work. The Latvian National Human Rights Office, for instance, has not received a single complaint from a woman about discrimination in the workplace.

Education

Human poverty means not only the lack of access to an income ensuring a decent standard of living, but also denial of access to basic education. As analyzed in **Latvia Human Development Report 1996**, Latvia's education system is undergoing reform. Considering the importance of im-

proved access to education as a key public policy mechanism for alleviating human poverty, reducing inequality and promoting growth, it is especially important to evaluate the progress of reform in this realm, the nature of emerging inequalities and the impediments to more rapid development.

A growing number of children are not attending school at all or leaving school very soon after starting. Different estimates on the number of such children are provided by the Ministry of Education and Science and NGOs, and range from 15,000 to 27,000. Even more alarming is the rapid increase in the number of juveniles who not only lack an education, but are involved in prostitution. According to the Government of Latvia's 1997 Report "Protection of the Rights of Women in the Republic of Latvia" (CEDAW), almost 12 percent of all prostitutes in Latvia are juveniles. A survey by the Latvian Family Centre indicates that juvenile prostitutes are often victims of violence: 80 percent of prostitutes said that they have been sexually abused at an early age.

The causes of truancy are undoubtedly varied. First of all, there is a growing number of street children, many of whom come from families plagued by alcohol abuse, domestic violence and other social ills. Those who do not have a supportive family environment or are struggling to survive on the streets often do not receive any motivation to obtain an education. Secondly, as suggested above, many people are in difficult financial circumstances and encounter serious difficulties in finding the means to cover the costs associated with their children's education. In rural areas, an underdeveloped transport infrastructure makes school attendance very difficult for some. Thirdly, poorly educated manual labourers often lack the motivation to ensure an adequate education for their children. Social alienation is widespread among mem-

bers of this segment of society, who often lack the ability to locate the path to social mobility not only for themselves, but also for their children.

Although the Cabinet of Ministers has adopted regulations establishing a unified register of pupils, the register is not yet functioning. Without a uniform system of registration, it is difficult to combat truancy and the associated social problems. In order to ensure full enrollment for the compulsory period of education, the government must not only address the root causes of social ills, but also establish penalties for irresponsible parents and define which administrative bodies will enforce those penalties.

While the growing number of children without any schooling is an alarming trend, the desire for education among the young remains very high. After a slight drop in student enrollment figures in the 1993-1994 academic year, numbers began to rise again in 1995-1996. Gradually, the low status of education and knowledge, characteristic of Soviet-type societies, is being overcome. This is especially true among those who aspire to a professional career with a high salary and social prestige (management, finance, law). Approximately 70 percent of all recent candidates for places in higher education wish to study for degrees in economics or law. Interest in the humanities remains high as well, as attested by the number of secondary students wishing to study the history of culture and the tough competition for slots in the humanities

at the University of Latvia and the Academy of Culture. A new intellectual elite is emerging — students with a solid academic background, proficiency in several foreign languages, and time spent studying in Western European and North American universities. In continuing education reform, it is important to address the emerging inequality between the new elite and those with no formal education whatsoever.

The legislative basis for reform is as yet incomplete. Currently, the 1991 Education Law — a law intended for the initial phase of transition — still remains in force. Although many legal provisions pertaining to education are operating successfully even today, there is an urgent need for new legislation that is tailored to the new conditions, that clearly defines the responsibilities of national and local authorities, sets out funding procedures and regulates private initiative.

Another problem in this realm continues to be low spending. The share of the budget devoted to education has remained the same during recent years and the absolute level of spending does not reflect the importance of education in human development. At the same time, student numbers have significantly increased and are now at their highest point since the restoration of independence. This, in turn, has created a growing discrepancy between the number of students and funding for their studies and between teachers' salaries and work loads.

Table 2.7

Disposable Income Per Household Member and Structure of Household Expenditures by Decile Group in 1996 (Lats per month)

	Decile Groups by Disposable Income										All groups
	1	2	3	4	5	6	7	8	9	10	
Disposable income, Ls	14.54	27.93	34.96	36.68	44.01	49.15	55.13	65.99	82.88	139.56	51.52
Size of household	3.23	3.19	2.56	2.14	2.21	2.30	2.17	2.31	2.26	1.94	2.43
Expenditures by percentage:											
food	62.6	59.9	57.1	55.7	55.3	54.4	52.9	51.8	47.8	41.1	52.2
clothing and footwear	4.9	5.3	4.1	3.6	4.6	5.3	5.3	5.9	6.8	8.6	5.8
housing and utilities	10.2	12.8	15.8	18.8	17.5	15.5	15.4	15.1	15.1	13.0	14.8
household goods	1.9	1.7	1.6	2.3	1.9	2.1	2.1	2.5	3.2	4.3	2.6
medicine and drugs	2.8	3.1	4.2	4.6	4.7	3.6	3.7	3.8	3.6	4.2	3.9
transport	4.7	4.2	5.1	3.9	4.9	6.6	7.0	6.5	7.3	8.5	6.2
entertainment and leisure	2.8	3.0	3.0	3.0	2.8	3.3	4.0	4.1	4.6	5.9	3.9
education	2.5	3.0	2.5	1.5	1.7	1.8	1.9	1.8	1.6	1.1	1.9
hotels and restaurants	1.3	1.0	0.9	0.9	1.1	1.0	1.4	1.5	2.1	3.9	1.7
alcoholic beverages	1.0	1.0	0.9	0.9	1.0	1.2	1.3	1.3	1.7	2.0	1.3
tobacco products	1.6	1.5	1.3	1.1	1.1	1.2	1.1	1.1	1.1	1.0	1.2
other goods and services	3.4	3.4	3.4	3.7	3.4	4.1	3.9	4.4	5.2	6.4	4.4
Total	100	100	100	100	100	100	100	100	100	100	100

Note: The Central Statistical Bureau published similar divisions of deciles by consumption from its analysis of the 1996 household budget survey. The average disposable income of the first decile was 23.80 Ls and of the tenth, 111.60 Ls.

Overcoming the Health Crisis

The opportunity to live a long, healthy life is a crucial aspect of human development. In Latvia, as in other countries in transition, inadequate funding for health care, the inability of the poor to pay for medicine and treatment, and low living standards have contributed to the decline in public health. Reversing this trend will be critical if human development in Latvia is to improve.

Changes in public health in Latvia, as in other countries in transition, can best be measured by mortality and life expectancy indicators, as well as through data on the public's own evaluation of its health. Since methodologies are changing and many people rarely visit health care facilities, morbidity indicators are often misleading.

According to World Health Organization figures, life expectancy at birth in Latvia is one of the lowest in Europe — 69.1 years. In Europe, only Hungary, Moldova, the Russian Federation and Turkey have lower figures. The difference between the highest life expectancy in Europe (Sweden — 79 years) and that of Latvia has reached almost ten years. Latvia has a very high death rate from unnatural causes (especially for males) and from diseases of the circulatory system (see also **Latvia Human Development Report 1995**).

The downward trend in life expectancy in Latvia, as in many other Central and Eastern European countries, began in the mid-sixties and was mainly caused by stagnant social policy. There was a certain improvement in the early 1980s and especially during the anti-alcohol campaign of 1985-1987. Life expectancy began to fall again in 1989 and continued to decline sharply up to 1995, when the first signs of stabilization appeared.

A recent demographic study using standardized mortality coefficients (to avoid distortions caused by the age structure) and a series of socio-economic and welfare indicators revealed that the core factors affecting mortality were unemployment, education, wage levels, as well as the severity of the demographic burden.

There are places in Latvia where the socio-demographic situation is significantly more favourable than the national average (see Table 2.8). One is the port of Ventspils (pop. 47,000), Latvia's sixth largest city and a major centre for the transit business. Of Latvia's 26 administrative regions, the Saldus region stands out (pop. almost 40,000). These two examples confirm the general correlation between the demographic situation and the level of socio-economic development, as well as demonstrate that even within an unfavourable situ-

Table 2.8

Locales With the Most Favourable Socio-Demographic Indicators, 1995

Indicator	Average in Latvia	Ventspils city	Saldus rajons
Total fertility rate	1.25	1.28 (highest)	1.89 (second highest)
Natural rate of increase per 1000 inhabitants	-6.9	-5.3 (highest)	-2.0 (highest)
Registered unemployment, percent	6.4	1.9 (lowest)	2.0 (lowest)
Reported crimes per 10,000 inhabitants	156	143 (fourth lowest)	91 (third lowest)
Average net salary, Lats	80.22	157.00 (highest)	65.00 (highest)

Note: Ventspils city ranking is in terms of Latvia's seven largest cities, while Saldus rajons is ranked among Latvia's 26 rajoni (administrative districts).

ation overall, improvement can be achieved in a specific locale.

The UNFPA/Ministry of Welfare reproductive health survey mentioned above shed light on the public's mental health and dissatisfaction with the state of its health. Many people of reproductive age acknowledge that their health is unsatisfactory, and only one in two describes it as more or less satisfactory. The same can be said for self-evaluations of mental health: about 60 percent said they usually felt well, but every third person said that he or she was frequently depressed. Among those surveyed, 62 percent of males and 27 percent of females were smokers. Only 7 percent of males and 6 percent of females did not use alcohol at all. More males than females (15 percent vs. 3 percent) had tried other intoxicants such as narcotics or chemical substances.

Cancer and other illnesses are diagnosed very late in Latvia, thereby increasing the cost of treatment and reducing the chances of recovery. An indicator of living standards related to the accessibility and quality of health care is the prevalence of diseases linked to poor social conditions. The incidence of sexually transmitted diseases and infection with such diseases as scabies and pediculosis continues to rise in Latvia (see Figure 2.1).

Every year, a larger proportion of medical costs is paid by patients themselves. Currently,

one fifth of basic health care expenditures is covered by the patients. According to household budget survey results, household spending on health care is falling. In the 4th quarter of 1995 it was 2 Lats per household member per month, but in the same period in 1996 it was only 1.89 Lats. Comparing expenditures of different income level families, it can be seen that the most well off ten percent spend 17 times more on health care than the least well off ten percent, although incomes for the first group are only four times higher. The reduction of this ever deepening social inequality in the nation's health must become a human development priority.

The number of doctors in general practice or in private practice already stands at 16 percent of the total. The basis of the current health care reform effort is primary health care and family doctors. The reform aims to establish the optimal number of hospitals and beds using both economic and medical criteria and to reduce the length of a patient's hospital stay, which was excessively long in the past.

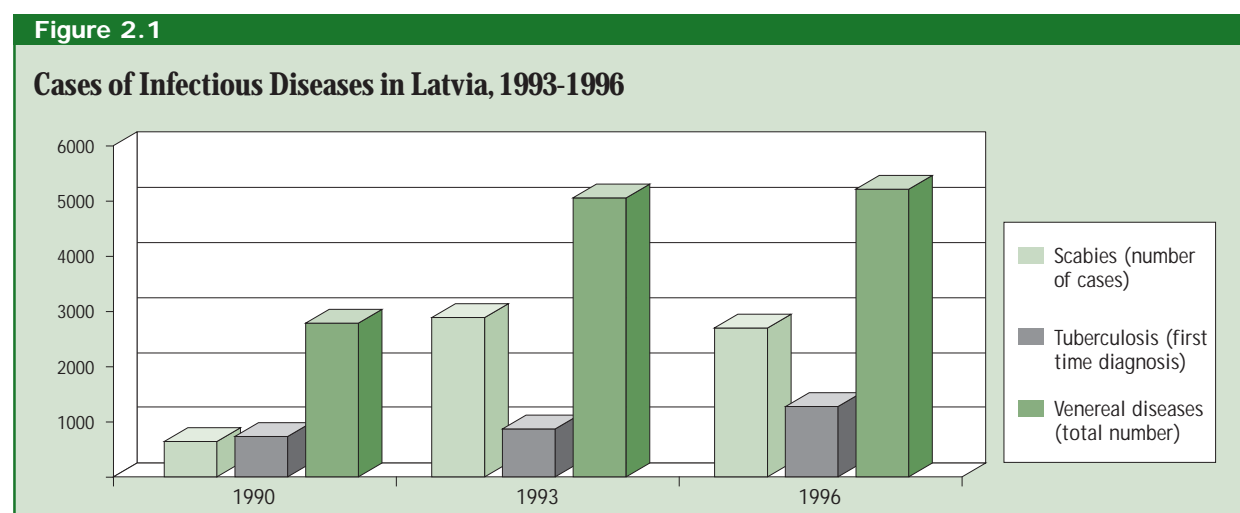
Qualitative reform of the health care system will have little impact if it is not accompanied by increased public awareness of the importance of timely vaccinations and the health risks posed by smoking, excessive alcohol consumption, drug abuse and unprotected sex. The urgent need for health education was demonstrated in the results of the Reproductive Health Survey mentioned above, in which respondents demonstrated considerable ignorance about HIV/AIDS and contraceptive methods. As noted in **Latvia Human Development Report 1996**, health as a value must be reinforced in the education system and awareness must be raised among males, who are a particular risk group.

Participation, Civil Society and Civic Responsibility

The importance of public participation in furthering social cohesion and overcoming social exclusion cannot be overestimated. Though participation was analyzed in detail in **Latvia Human Development Report 1996**, supplementary data have become available and several new trends have emerged in the development of civil society.

Over the last year, workers in some bankrupt state enterprises have sought to defend their economic interests more actively through strikes, picketing and other forms of protest. Teachers endeavoured to start a dialogue with the government through a telephone campaign, while farmers tried to obtain greater state support and protection from foreign competition. However, these actions have been of an episodic nature and generally speaking, the poor are sinking into deeper social apathy.

At the same time, the role of NGOs has steadily increased. August 1997 saw the organization of a wide-ranging event in Valmiera "Women and Men in Dialogue" that put gender equality issues on the public agenda and mobilized both state institutions and NGOs. In September, the first NGO Forum attracted hundreds of NGO representatives from all over Latvia. The NGO Centre, whose tasks include support and consultation services for NGOs, also became more active on behalf of the "third sector." Despite such promising progress over the past year, it would appear that only a small segment of the population is involved in non-governmental organizations. According to the *Baltic Barometer* survey of November 1996, only 9 percent of Latvians and 2 percent of non-Latvians were members of NGOs. Research conducted in prepa-



ration for creating a national NGO directory suggests that over 70 percent of all NGOs are based in Riga and 20 percent in the other larger towns — Daugavpils, Ventspils, Jurmala, Liepaja, Rezekne and Jelgava. In regional centres, smaller towns and rural districts, local governments remain the primary force behind social activity.

The March 1997 local election results permit additional conclusions about patterns of political participation in Latvia's regions. Comparing the results of the last two local elections from 1994 and 1997, one notes a significant decline in the share of localities in which five or more (up to eleven) electoral lists competed (see Table 2.9). The share of localities in which two to three lists competed increased from 60.6 percent in 1994 to 64.1 percent in 1997. A large number of electoral lists in a given locality often indicates political fragmentation. Although such fragmentation has significantly decreased since the last local election, there were still places with five or more electoral lists in the Riga district and the Preili, Talsi, Balvi and Jekabpils districts.

At the same time, the number of localities in which there was only one electoral list also increased. There was virtually no electoral competition in the Ventspils, Tukums, Valka and Daugavpils districts. Local elections with only one list preclude the element of choice so critical to human development. "Single list" localities are concentrated primarily in Latgale and tend to reflect either a situation in which the previous administration and/or council leader enjoy considerable authority contributing to overwhelming voter support or voter indifference and despair of better prospects.

If one analyzes the 50 most-developed districts and 50 least-developed districts (see Chapter 4) in terms of the number of electoral lists that competed in the 1997 local elections, a distinct correlation emerges between the level of development and political activity. Almost one-third of the districts in the least-developed group are "single

list" localities. As can be seen in Chapter 4, the most-developed areas are mainly located in the central part of Latvia, while the least developed are primarily in Latgale and northern Vidzeme. In Latgale, the strengthening of civil society is undoubtedly hampered by the elderly age structure, lower than average educational attainment and economic stagnation.

The consolidation of civil society continues to be hindered by what many perceive as unequal access to information and a continuing estrangement of the ruling elite from the rest of society. Social surveys reveal that the majority of the population distrusts parliamentary deputies, the courts, civil service, police and the army. Distrust of state institutions is exacerbated by ongoing conflict of interest and ethics scandals involving politicians. In 1997 the State Prosecutor found that several parliamentary deputies and ministers had violated the Anti-Corruption law. Though the scandal probably increased popular alienation, it may have also helped to crystallize possible paths of restoring trust in the public realm (see Box 2.2).

Recommendations for Addressing Poverty, Inequality and Social Exclusion

In order to promote social cohesion and ensure the sustainability of the recent economic revival, a concerted effort is needed in addressing poverty, inequality and social exclusion. Latvia's comprehensive social welfare reform programme could become more effective through the increased use of independent social research. Moreover, social welfare must be complemented by enhanced attention to gender disparities and ensuring access of the poor to education, health care and basic social services.

It is necessary to continue and expand the important work carried out by the Central Statistical Bureau on measuring poverty through a

Table 2.9

Distribution of Localities by Number of Electoral Lists in Local Government Elections, 1994 and 1997 (% of all Localities)

Year	Number of Lists				
	1	2	3	4	5 or more
1994	11.1	32.9	27.7	16.0	12.3
1997	23.4	38.5	25.6	9.6	2.9

Box 2.2

Corruption, Conflict of Interest and Public Ethics

No democratic country is safe from corruption and its damaging effect on society and public morality. It is for this reason that the ability to fight corruption and effectively overcome it should be seen as an essential characteristic of a democratic system and a key precondition of human development.

A 1996 survey revealed that in the previous year 12.7 percent of respondents in Latvia had encountered some form of corruption. The respondents indicated that of the occasions when bribes were demanded or “suggested,” 36.3 percent involved civil servants, followed by customs officials (27.9 percent), the police (10.1 percent), inspectors (15.6 percent) and other officials (8.9 percent). Survey results also suggest that people rarely complain to the relevant authorities when bribes have been extracted (in only 6 percent of all cases). Of all complaints, 1.5 percent were to the police and 4.7 percent to other authorities. The main reasons given by respondents for not informing were that the police or other law enforcement agencies could not or had no desire to do anything.

An Anti-Corruption Law was passed in Latvia in September 1995. According to the law, state officials are guilty of corruption if 1) they are in a position where they are subject to illegal (corrupt) influences and 2) they exercise authority in a situation where there is a conflict of interest.

The above law defines 14 categories of state officials beginning with the President, the Prime Minister, Saeima and local government deputies and ending with officials employed in state and local government institutions and enterprises, policemen and members of the armed forces. In all, some 34,000 state officials are subject to the Anti-Corruption Law — these are the persons at risk of corruption.

The State Revenue Service (SRS) employs 38 persons to fight against corruption. At the beginning of 1997, the SRS introduced a programme for the elimination of corruption. After checking the income declarations of 80 deputies and government representatives, it was established that 15 persons had not declared their financial interests in private businesses. Different violations were found in another 12 cases.

In April and May 1997, there were further checks on the observance of anti-corruption regulations which revealed that half of the cabinet of ministers (10) and a third of all Saeima deputies (32) were in violation of the law by holding positions in private businesses. Although some of these businesses were no longer operating or the state officials had left these firms, such had not been recorded in the Business Registry as provided by law.

While the incident was called the “corruption scandal,” this is something of a misnomer, since no evidence has come to light indicating that any of the deputies or ministers actu-

ally used their influence for personal gain. The real issue was public concern about the rule of law — why didn't government officials obey a law they had passed for themselves? The outbreak of the so-called “corruption scandal” was one of the factors leading to the resignation of the government in July 1997. The crisis, which affected the largest political parties and highest institutions of government, further undermined public trust in the political elite.

The ensuing public debate about corruption, conflict of interest and public ethics and the steps taken by state institutions attested to the wide possibilities for overcoming the crisis. In the aftermath of the scandal, it is possible to draw some basic conclusions which point the way towards a more effective fight against corruption:

- the press affirmed its importance by discovering instances of corruption in government institutions and providing a venue for a wide range of opinions to be expressed;

- the public developed a clearer understanding of conflict of interest and corruption and began to realize that it had the right to judge whether a conflict of interest was real or apparent. Where there was doubt, the public could demand explanations from officials and the elimination of the conflict, thereby enhancing trust between the public and officials;

- a consensus emerged that violations by state officials should be judged not only in legal terms (administrative or criminal liability), but also in moral and political terms (resignation, withdrawal of officials delegated by parties). The public has the right to demand that officials observe the law;

- the ruling parties offered solutions to the crisis based on legal procedures, generally avoiding issues of political or ethical responsibility. These were brought to the forefront by the public and the press. The majority of those violating the law were unable to admit their guilt, suggesting that the political elite still has a limited understanding of how legitimacy is strengthened in a democratic regime;

- a Coordinating Office for the Prevention of Corruption was established and will work alongside the Crime Prevention Council. This office will work under the Prime Minister together with the General Prosecutor, the Ministers of Justice, Interior and Finance, the Office for the Protection of the Constitution and the director of the State Chancellery. Future anti-corruption strategy will include broad amendments to legislation, including the Criminal, Criminal Procedure and Administrative Violation Codes. There are also plans for a Code of Ethics for civil servants.

reoriented Household Budget Survey. The next step should be to undertake a **comprehensive poverty assessment** including disaggregated data by region, gender, age and social group. On the basis of this assessment, the Government should develop a comprehensive poverty reduction strategy that targets assistance and relief to those most in need and addresses the labour market aspects of poverty, including job creation through re-training, small and medium sized business development, and increasing labour mobility.

In developing a poverty reduction strategy, it is very important to incorporate issues of gender equity, including the impact of macro-economic and social policies on both women and men, analysis of the adequacy of social assistance for all sections of the population, and women's as well as men's productive potential. Women's choices in Latvia are inhibited in two ways. Some women who would otherwise work have no choice but to remain at home as child-care is often not affordable. Other women who would choose not to work may have no choice, as their families need the income. However, as noted above, women's employment choices are often constrained by discrimination in the labour market. Consequently, any poverty reduction policy or programme for addressing economic and social inequality should have a special focus on increasing choices for women so that they can better contribute to economic growth.

In the countryside, poverty alleviation will undoubtedly require ensuring access of the poorer segments of the population to credit and training. As recommended earlier, it is important to give priority to the creation of private pension funds. As poverty among the working poor disproportionately affects low-income families with children, a well-targeted family allowance might be the most effective way of combatting poverty. Finally, any strategy that effectively addresses human poverty must also facilitate access to basic social services, health and education, as well as address inequality.

As noted earlier, income inequality in Latvia as measured by the Gini coefficient has declined, though this may merely reflect better data collection. Given the negative effect of inequality on human development in general and economic growth in particular, the government should make a sustained effort to measure income inequality in order to better monitor current social reforms and develop future well-targeted social development policy.

International experience shows that high inequality contributes to falling educational attainment, especially at the secondary level. Improv-

ing access to education can reduce this inequality and contribute to economic growth. A first step towards improving access to school should be more detailed analysis of the causes and dynamics behind the alarming number of children not attending school.

Given limited public resources available for investment in education, greater priority should be given to extra spending on primary education. As corroborated by international experience, the returns to primary education are substantially higher than returns on higher education. Given the importance for poverty reduction of increasing girls' access to primary education and the relatively higher returns to educating women, education reform should facilitate the highest possible enrollment at the primary school level (especially among girls) and guarantee access to quality education.

Another core value in the human development paradigm — a long and healthy life — can also be effectively promoted through education. As noted in **Latvia Human Development Report 1996**, this might be done "by introducing health studies as an obligatory subject in primary and secondary schools and by teaching children how to look after their own health." The still high levels of ignorance and lack of understanding of reproductive health issues exhibited by young respondents during the recently conducted UNFPA/Ministry of Welfare survey once again highlight the great importance of making health education accessible to all youth in Latvia.

While Latvia has a comprehensive social welfare reform programme in place, it is important to continually monitor and assess the impact of this reform. To facilitate such monitoring and assessment, independent social policy research is essential. Independent research can be used as an input to improve social policy and to better understand the linkage between policy and the outcomes of social assistance and labour market programmes. In this context, the proposal to begin preparation of an annual social report through which key objective socio-economic data are presented to key target groups in Latvian society (parliament, political parties, trade unions, the media, academia and non-governmental organizations) would appear to be particularly important.

Addressing poverty, inequality and social exclusion requires a coordinated effort on the part of government, non-governmental organizations, the private sector, international partners and others. Widespread distrust of government and the public sphere (see also **Latvia Human Development Report 1996**) hinders effective cooperation. To

facilitate a revival in public trust in state institutions, legislation is needed to promote greater access to information. Though the Latvian National Human Rights Office (LNHRO) has done important work in informing society through its television broadcasts and other initiatives, the “Link With the Citizen” programme that used to inform society about how tax revenues were spent, citizen’s rights, benefits, and so on, has yet to be revived. As discussed in Chapter 4 below, the reform of local governments and decentralization should also encourage greater public involvement in the decision-making process.

While local governments play an important role in addressing social problems, so do NGOs. Given the concentration of most NGOs in Riga and other urban centres, it would be particularly important to facilitate the establishment and functioning of NGOs across the whole of Latvia, especially in small towns and rural areas. Sociological surveys in the countryside show that a range of local needs (such as environmental protection, revitalization of cultural life, information on the activities of local authorities) could be met at little or no expense, just by activating and organizing society.