

## Introduction — Human Development and Social Cohesion

Since 1995 the annual **Latvia Human Development Report** has been used as a tool to analyze the transition in Latvia, to stimulate debate about Latvia's human development priorities and to advocate people-centred development. As in previous years, the production of this Report has been sponsored by the United Nations Development Programme (UNDP) as part of its mandate to promote **sustainable human development** throughout the world.

### *What is Human Development?*

Human development has been defined as the process of enlarging choices. People make choices every day, pertaining to economic, political, social and cultural life. The availability of some choices is basic to human life — the choice of a long and healthy life, the choice of being educated and the choice of having a decent standard of living are fundamental for human beings. This does not mean that other choices are less important. Choices with regard to political participation, cultural diversity, human rights and freedom are also very important aspects of human life. But the basic human choices are critical, because once they are available, other choices are possible.

The concept of human development, introduced in the first **UNDP Global Human Development Report** published in 1990, challenges the view common until the end of the 1980s that human welfare and “progress” can be measured simply in terms of economic growth. Though economic growth is essential, it is not enough. Human development stresses the importance of bettering the lives of people with the benefits of economic growth. Accordingly, an adequate income, though important, is only one of the many components making up a good life. Development must, therefore, be characterized as more than just the expansion of income and wealth. Its focus must be on **people**.

Sustainability is a fundamental aspect of the concept of human development. While recognizing the role of economic factors in social progress, sustainable human development also emphasizes

the demographic, environmental, cultural, social and political aspects of human well-being and places the quality of people's lives — now and in the future — at the center of development strategies. Sustainability means expanding the choices and opportunities of the present generation without constraining those for future generations, thereby ensuring inter-generational equity.

Most often, sustainability has been understood in terms of the impact of economic development on the natural environment, in terms of respecting and nurturing biological diversity and relying on renewable energy sources. However, sustainability also clearly pertains to a society's institutional, cultural, social and political life. All too often, development falters because of institutional breakdown, cultural conflict, social strife or political fragmentation.

Human development is particularly relevant as a concept as it emphasizes the need for a **balance** of measures aimed at economic, social, political, environmental and cultural objectives. Human development also requires striking a dynamic balance between strengthening **capabilities** and maximizing **choice**.

Enhancing human capabilities begins with ensuring that all members of society have access to the basics — education and training, health care, shelter and nutrition. Human capabilities can be enhanced through such human resources development, but if there are no matching opportunities for choice, human development will quickly falter. Human development is a broader concept than either **human resource development** or **basic needs** or **human welfare**.

Human resource development sees human beings only as inputs to the production process. Human development emphasizes not only the enhancement of human capital, but human beings as participants and beneficiaries of the development process. Similarly, a basic needs approach stresses meeting minimum human requirements, not expanding choices. Human welfare approaches, on the other hand, see people only as recipients in the development process, not as active participants in it. Human development is a **holistic**

## Box i.1

**Measuring Human Development**

The concept of human development is more than its measurement. Even recognizing this fact, the first global **Human Development Report** introduced the Human Development Index (HDI), a measure of human development in a country on the basis of selected variables. The three basic dimensions of human development represented in the HDI are: a long and healthy life, knowledge and a decent standard of living. Life expectancy at birth is the relevant variable chosen for the first dimension. The second dimension is represented by a measure of educational attainment comprising two variables: the adult literacy rate with two-thirds weight and combined primary, secondary and tertiary enrollment ratio with one-third weight. Real GDP per capita (PPPS) acts as a surrogate for a decent standard of living and thus, a proxy for all other dimensions of human development not covered in the health and knowledge dimensions.

The HDI must, however, be kept in perspective. It is not a measure of human happiness or human welfare. Second, it does not give a comprehensive picture of the state of human development in any country. The HDI must be supplemented with other important indicators of human development in order to get a broader picture of human development in any society.

In recent times, there have been a number of innovative experiments with the basic framework of the HDI. The 1995 global **Human Development Report** introduced two new indices to account for gender concerns in human development. The first one is the *Gender-related Development Index* (GDI) and the second one is the *Gender Empowerment Measure* (GEM). The GDI is in fact HDI adjusted for gender disparity. Thus the variables included in the GDI are exactly the same variables represented in the HDI, but each accounting for dis-

parity between women and men. On the other hand, GEM attempts to measure economic and political opportunities for women. The four variables included in the GEM are: earned income share of women, percentage of professional and technical female workers, percentage of women administrators and managers and share of parliamentary seats held by women.

The HDI and its different variants measure the average achievements in human development. But they do not measure human deprivation. In order to meet that gap, the 1997 global **Human Development Report** introduced a new index — the *Human Poverty Index* (HPI). The HPI attempts to capture deprivation in many dimensions. Its basic components are the same as in the HDI, with the difference that the HDI captures average achievements in each dimension, while the HPI highlights the magnitude of deprivation. Thus, the variables included in the HPI are percentage of people not expected to survive to age 40 to reflect deprivation in terms of a long and healthy life, adult illiteracy rate to represent deprivation in knowledge and access to health services, access to safe water and percentage of malnourished children under-5 as a composite variable to represent deprivation in overall economic provisioning.

One innovation with regard to all these indices is their disaggregation in terms of regions, states or provinces, rural-urban break-up and ethnic groups. The exercise of disaggregation of HDI, GDI and HPI has been carried out for a number of countries and the results are very revealing. They show enormous inequalities and disparities within societies, leading to serious policy dialogues among various constituencies in countries. Disaggregated HDI, GDI and HPI have provided policy-makers with a true picture of their societies.

concept that embraces human resource development, meeting basic needs and strengthening human welfare.

In Latvia, as in other countries in transition, the collapse of communism and the rebirth of democracy and the market have radically expanded the range of people's social, economic, political and cultural choices. However, the expansion of people's choices has also been accompanied by new inequities, social exclusion and human insecurity. For development to benefit all members of society, good public policy and active public participation are required. **For human development to improve in a sustainable manner, the expansion of choice must go hand in hand with enhancing the capabilities of all members of society and fostering social cohesion.**

Promoting social cohesion means continually addressing both the sources and the consequences of social exclusion. Ensuring that the basic needs

of the worst-off are met is not only the moral responsibility of governments and societies, it is also good public policy. Imbalances such as gross inequality and poverty lead to tensions, alienation and social fragmentation that undermine successful development in the long-run. Thus, creating and maintaining social cohesion is an essential precondition for sustainable human development.

### ***Human Development, Economic Growth and Transition***

As noted above, economic growth is a necessary but insufficient condition for successful human development. The interdependence of economic growth and human development is particularly evident in the early stages of transition, such as Latvia has experienced since the restoration of independence in 1991. During this time Latvia has focused on reversing the economic decline, restart-

ing economic growth and providing a firm basis for human development (see Figure i.1).

These comprehensive economic reform efforts began to bear fruit in 1996 and economic growth rates are expected to not only continue, but further grow in the coming years. However, there is no automatic link between economic growth and human development. Public policy plays a crucial role in translating the fruits of growth into better lives. The human development paradigm, therefore, asks the question: growth of what, growth for whom and growth by whom? The *quality* of growth is as important as its *quantity*.

Successful macroeconomic stabilization and restoration of economic growth in Latvia alone will not ensure a successful “transition”. Low inflation and prudent fiscal management — policy objectives which Latvia has now successfully and sustainably achieved — are not ends in themselves. Rather they are primarily means to enhance the well-being of Latvia’s residents through improvement in the country’s economic performance.

It is also becoming apparent that a greater sense of legitimacy, more efficient government and more focus on issues of equity are all required as necessary conditions for continued, sustained economic growth. In Latvia today, there is clearly a need to not only sustain the economic growth that has been achieved, but to take the steps to ensure that all can share in the benefits of economic growth and thus overcome the inequalities that have emerged.

In general terms, all countries in transition are experiencing six different kinds of inequality in various forms of severity. These are inequality in income distribution and income levels, gender inequalities, ethnic and social disparities, inter-generational differences and regional differences. To a greater or lesser extent, all of these forms of inequality are in evidence in Latvia, as they are in all countries undergoing a fundamental transition.

Despite the achievements during the first phases of transition, Latvia needs to take stock of its assets, weaknesses and priorities to address these inequalities and **restore the balance** between capabilities and choice. It cannot be emphasized

too strongly that there is **not** a trade-off between the pursuit of equity, or social cohesion, and economic growth. Preserving social cohesion is essential for sustainable economic growth, and thus policies that address these issues also indirectly raise the prospect of higher rates of economic growth.

### *Measurement of Human Development*

The Human Development Index (HDI) was developed in 1990 as a tool for quantifying the quality of life. The HDI is calculated from three basic variables — per capita economic wealth, the level of education and life expectancy. The methodology for calculation of the HDI has been adapted since 1990 in an ongoing effort to better reflect the value implied by each variable. As the HDI remains an imperfect tool, other supplementary indices have been developed to measure human deprivation and the gender dimensions of development (see Box i.1).

Measurement of human development has made it possible to identify such global trends as the changing role of women, the nature of freedom and security and the equity of income distribution and economic growth (see Box i.2). However, it is equally important to undertake national analyses that more accurately reflect national priorities and concerns and cover a wider range of topics than is possible in a global report. Such an initiative — the production of national Human Development Reports — was first taken by UNDP’s Regional Bureau for Europe and the CIS in 1995 and has already provided a better basis for discussion of transition issues and for policy-formulation in areas crucial for the future prosperity and stability of the countries of the region.

As the table below shows, both Latvia’s HDI and its ranking in comparison with other countries have fallen steadily since independence. The drop in the index and the ranking was particularly steep in the 1997 global Report and can be explained by the change in the method of calculating gross domestic product (GDP) based on purchasing power parity in US\$ terms, and the fact that data were

**Table i.1**

#### **Latvia’s HDI Rank and HDI Value, 1993-1997**

	1993		1994		1995		1996		1997	
Estonia	34	0.872	29	0.867	43	0.862	68	0.749	71	0.776
Latvia	35	0.868	30	0.865	48	0.857	55	0.820	92	0.711
Lithuania	29	0.881	28	0.868	71	0.769	81	0.719	76	0.762

## Box i.2

## Global Human Development Reports: Varied Themes

Each of the UNDP global **Human Development Reports** since 1990 has had a different theme as a focus. All, however, have proposed concrete policy recommendations to promote sustainable human development.

The theme of the **1990 Human Development Report** was *concept and measurement of human development*. The Report defined the concept of human development, introduced the Human Development Index as a tool for measuring and comparing the quality of life, and provided various indicators of human development.

*Financing human development* was the main focus of the **1991 Human Development Report**. The basic point made in the Report is that the absence of political will, not the inadequacy of resources, is the main constraint to human development. The Report suggests ways to restructure national budgets as well as aid allocations to generate more resources for human development.

The **1992 Human Development Report** looked at the *international dimension of human development*. The Report concluded that unless the industrial world opens its doors to developing countries for trade, capital flow and migration, international inequality will increase and human development will not be achieved.

*People's participation* was the theme of the **1993 Human Development Report**. The Report showed how "jobless growth" inhibits people's participation in markets. It also examined how participation is enhanced through people-friendly markets, decentralized government and the institutions of civil society, particularly NGOs.

It is the security of people, not territorial security which is more fundamental for human development. That was the message of the **1994 Human Development Report** whose theme was *human security*. The Report also attempted to identify the peace dividend from reduced military expenditures and to assess how it could be used for enhancing human development.

The basic message presented in the **1995 Human Development Report** was "development, if not engendered, is endangered." With *gender and human development* as its theme, the Report concluded that progress has been made in building women's capabilities, but not opportunities. The Report also pointed out that out of the \$23 trillion global output, about \$11 trillion can be accounted for by unpaid work by women.

The theme of the **1996 Human Development Report** was *economic growth for human development*. It maintained that unless growth is properly managed, it can be jobless rather than job-creating, ruthless rather than pro-poor, voiceless rather than participatory, rootless rather than culturally sensitive and futureless rather than environmentally sound. The Report concluded that there is no automatic link between economic growth and human development and that such a link can be forged only through deliberate public policy.

*Human poverty* is the theme of the **1997 Human Development Report**. The Report highlights the many dimensions of human poverty, stressing not only income poverty, but also various forms of social exclusion such as the lack of access to basic education, health care and participation opportunities. The Report presents an agenda for poverty eradication by the 21st century.

taken from 1994, when the Latvian economy was just heading into the low point of its decline (see Figure i.1 and Box i.3).

### ***Building on Latvia's Previous Human Development Reports***

As this is the third **Human Development Report** for Latvia, a substantial store of data and analysis is already available. The **Latvia Human Development Report 1995** introduced and analyzed a wide range of topics under two main headings — social integration and rising social stress. The Report investigated the development of Latvia's multi-ethnic society and the integration of marginal and vulnerable groups, the role of women and the reemergence of civil society. The Report also examined growing poverty and unemployment, deteriorating health and rising crime. The **Report** made a number of recommendations, particularly for reducing poverty.

The 1996 **Report** included a more thorough discussion of human development as a concept and its applicability to the transition in Latvia. It also analyzed economic policies and changing living standards, reviewed education reform and provided a critical examination of participation and the strengthening of civil society in Latvia. Four themes recurred throughout the **Report**: the implications of the retreat of the state and the advance of civil society; distrust of the public sphere as an obstacle to human development; the linkage between freedom, responsibility and opportunity; and the use of "non-monetary" tools to promote human development. This integrated approach allowed the 1996 **Report** to provide not only analysis, but also a host of concrete policy recommendations, which in turn stimulated more interest in the **Report** as a forum for debate.

The global **1997 Human Development Report** placed Latvia in 92nd place in the world. On the one hand, this ranking points to some of the

disturbing trends of recent years — low per capita income, deteriorating health, as well as a certain decline in overall levels of education. On the other hand, the evidence presented in both the 1995 and the 1996 **Reports** shows that Latvia has achieved a great deal since the restoration of independence in 1991.

The political system has proved relatively effective in providing stable government and the benefits of the democratization process and the move towards a society based on the rule of law have begun to be felt. Tight fiscal and monetary policies have been instrumental in achieving macroeconomic stabilization and laying the groundwork for economic growth. Latvia's long-term foreign policy goals of European integration and membership of NATO were brought closer with accession to the Council of Europe and associate membership of the EU, although much remains to be done in this field.

### *Latvia Human Development Report 1997*

The **Latvia Human Development Report 1997** was conceived in order to help identify human development priorities in the current phase of the transition and to stimulate debate on formulating more effective policy measures for addressing those priorities. The feedback received after the publication of last year's **Report**, recently published data, and current policy debates all suggest that there are three broad areas where inequalities and disparities represent the greatest challenges to greater social cohesion and increased human development. These are 1) socio-economic inequality and growing poverty; 2) ethnic relations and national integration; and 3) regional development.

As this **Report** shows, imbalances in these realms are straining the social fabric and, left unattended, may hinder Latvia's future development.

Existing ethnic, linguistic and regional diversity has been supplemented in recent years by a growing divide between rich and poor, between the city and the country, and between state and society. In order to strengthen social cohesion, Latvia must address inequitable access to opportunities and a widespread perception of social, economic and political disenfranchisement among both citizens and non-citizens.

To some extent these problems can be attributed to the temporary strains of the transition and the difficult process of creating a new political and economic system virtually from scratch. However, it is essential to raise public awareness about the existence of inequality and social exclusion, to stimulate debate about these challenges and the most effective means of meeting them, and to take action to promote social cohesion.

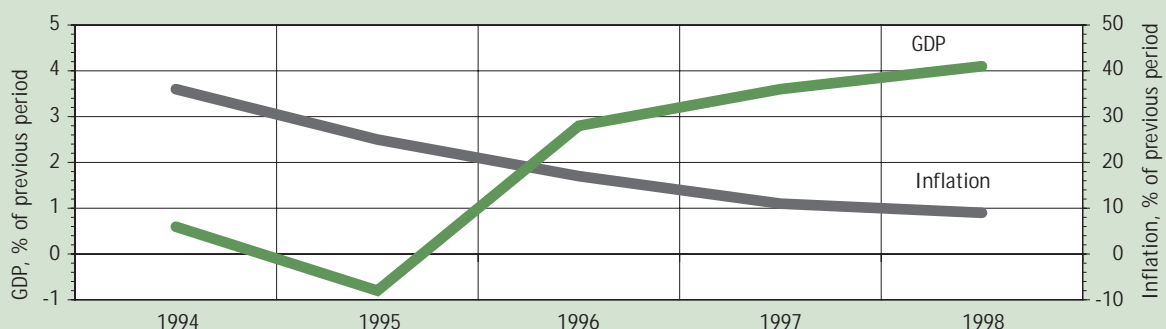
**Chapter 1** reviews the economic trends of the past year and examines not only the quantity, but also the quality of economic growth. The evidence marshaled in this chapter suggests that an economic turning point may have been reached, but that the benefits of growth have not yet been effectively channeled towards human development priorities.

**Chapter 2** focuses on the need to address growing poverty, socio-economic inequality and social exclusion. The results of the Household Budget Survey suggest that the trend towards increasing income inequality has been arrested, but that a substantial segment of Latvia's population lives in poverty. However, inequality in access to health care and education have become more pronounced, while recent trends in civil society suggest that alienation and distrust of the public sphere remain widespread.

**Chapter 3** addresses an issue area that has been at the center of political debate in Latvia since the restoration of independence — ethnic relations

Figure i.1

### Changes in Growth and Inflation in Latvia, 1994-1998



## Box i.3

## Latvia's Human Development Index

The **Latvia Human Development Report 1996** introduced the relevance of human development in the Latvian context and also looked critically at the calculation of Latvia's human development index (HDI) which, as noted, remains an imperfect tool. Recalculation of the index in the **Latvia Human Development Report 1996** (page 22), using amended figures available to the Latvian team, indicated that Latvia's HDI had been overestimated in the global report and that the actual index was considerably lower than the **Global Human Development Report** had suggested. Thus, the **Latvia Human Development Report 1996** gave Latvia a HDI of 0.721 for 1994.

In the **1997 Global Human Development Report**, released in June 1997, Latvia's HDI was calculated to be 0.711 (using 1994 statistics) which ranked Latvia ninety second of 175 countries. The drop in Latvia's HDI value from the **Global Report** published the year before was the second largest worldwide and the fall in ranking was the greatest as compared with the 1996 HDR (37 places). The HDI in the **Global 1997 Human Development Report** placed Latvia's neighbours Estonia and Lithuania in 71st and 76th place, respectively.

While the fall in Latvia's ranking is dramatic, as the **Latvia Human Development Report 1996** showed, the figures used in previous **Global Reports** were probably over-estimates. Nevertheless, the main cause for the fall lies with the living standards indicator — per capita GDP — which clearly did decline in the period to 1994, the year from which data are taken.

This being said, comparisons of the HDI value from one year to another should be done with care, and changes in HDI values should be interpreted with caution. This is because changes in HDI may not represent a genuine decline but instead may well reflect revisions in statistical series which are being continuously updated with improved data.

In the case of the **Global Human Development Report's** HDI calculation for Latvia, in different years different methods were used to assess per capita GDP by purchasing power parity indicators. For the period 1993-1996, purchasing power parity (PPP) data were calculated using the so-called Atlas method, which is used by the World Bank as a standard conversion method to avoid the influence of price and currency exchange rate fluctuations. This is achieved by adjusting the given year's and two previous years' exchange rate and inflation fluctuations in the specific country and the G5 countries. Other organiza-

tions, including OECD and EUROSTAT, use the European comparison programme.

In contrast, the value for the HDI presented by the **Latvia Human Development Report** was prepared using the information available from the Central Statistical Bureau. Per capita GDP was calculated on the basis of OECD findings on Purchasing Power Parities. In its official publications, the Central Statistical Bureau uses data calculated by this method. OECD member states and the EU statistics bureau regularly calculate Purchasing Power Parities. In 1993 Latvia was also invited to participate in the implementation of the international comparison programme. Comparisons between states are possible using detailed information on GDP expenditure patterns and the price level of a common "basket" of representative goods and services. Comparisons under the full programme are made every 3 to 5 years. In other years the main indicators are extrapolated using the base year data and information on the size of the GDP and price level changes.

Purchasing power parity shows how much must be spent in each country's currency to purchase the same volume of goods and services. Comparing the size of the per capita GDP adjusted for purchasing power parity, we can see that in 1993 (see **Latvia Human Development Report 1996**) in the Baltic States it is low when compared to Austria and other Central and East European countries. Furthermore, the PPP index for Latvia is the lowest of the Baltic States. This can be partly explained by the fact that 1993 was a particularly difficult year for the Latvian economy and was characterized by the implementation of various economic reforms, the fruits of which are only beginning to be seen now.

While both improved statistical measurement and the continued drop in the economy in 1994 explained most of the drop in Latvia's HDI value, it was also affected by two other indicators: 1) a significant decline in life expectancy at birth from 69 years in 1993 to 67.9 years in 1994; and 2) a decline in the gross enrollment ratio from 72 percent to 67 percent (as reported by UNESCO based on national statistics on the number of enrolled students). As these are clearly two important issues affecting human development in Latvia, this year's **Latvia Human Development Report** will examine both in greater detail in Chapter 2 below.

and the challenge of national integration. A significant proportion of the population of Latvia is comprised of non-Latvians, many of whom do not currently hold Latvian citizenship or speak proficient Latvian. The chapter focuses on the issues of citizenship and language policy, analyzing the achievements, problems and prospects of national integration.

**Chapter 4** investigates regional development in Latvia and provides a host of social and economic data suggesting imbalances in this realm. The countryside is experiencing very serious social and economic problems, nearly one half of the population of Latvia lives in the greater Riga area, and the benefits of a booming transit business have not been equally felt throughout the country. The

current territorial-administrative reforms, which are aimed at creating more efficient local government, should help to address some problems, though there is an urgent need for more effective regional development policy at the national level.

The quality of economic growth, addressing poverty and socio-economic inequality, promoting national integration and developing Latvia's regions were identified as the most acute human development questions for Latvia by many who participated in discussions of last year's **Report**. This is consistent with an assessment of regional trends in Central and Eastern Europe, which indicate that maintaining social cohesion is one of the major challenges of the coming years. If coordinated policies to address the root causes, rather than the symptoms of social exclusion are formulated and implemented not only by government, but also by other

actors in society (e.g. NGOs, the private sector, and so on), the results can be high quality, sustainable economic growth that benefits all and stimulates an improvement in other human development indicators, greater social and economic equity and increased government efficiency and legitimacy.

The **Latvia Human Development Report 1997** is, therefore, aimed not only at policy-makers in Latvia, but also at those who influence policy — the media, non-governmental structures, academics, the private sector, as well as Latvia's international partners. While information and analysis are essential as strong foundations for the **Report**, one of the most important goals is to provide concrete policy recommendations that can stimulate dialogue and action so that Latvia can better reach its full development potential.