

*Introduction –
The Role of the Individual, the State,
and the Private Sector in Human Development*

Latvia Human Development Report 1998 is the fourth annual publication in a series sponsored by UNDP. The purpose of the **Report** is to promote people-centred development, in other words, development whose purpose and point of reference is human welfare. As in previous years, the **Report** analyzes the connection between economic and social processes, raises issues concerning Latvia's human development priorities and provides concrete policy recommendations. The reforms associated with transition have not only broadened people's opportunities, but have also led to such negative results as poverty, unemployment, and the stratification of society, thus retarding human development. This year's **Report** pays special attention to co-operative mechanisms that could limit these negative results and give greater dynamism to the process of human development. Therefore, the concept of a partnership between the individual, the state, and the private sector is at the centre of this **Report**.

What is Human Development?

Human development is a demanding concept. UNDP defines it as a **broadening of people's opportunities** and applies it to everyone. It is very important that people have access to the most basic opportunities - life and security, clean water and healthy food, good health, education, employment, and an adequate standard of living. Only when these basic opportunities are available do other important opportunities open up for people - the establishment of a civil society, participation in political life, the improvement of one's country, care for the environment, the reduction of distrust among groups, help

for the disadvantaged, and the development of one's individuality.

The effort to broaden opportunities focuses attention on the limits of development. The concept of **sustainable human development** espoused by UNDP means development that is balanced in the present and sustainable for the future. It means that economic growth is in harmony with the interests of society's various groups and with the needs of environmental protection. The broadening of opportunities must take place without exacerbating economic imbalances, social exploitation, or the degradation of the environment. In satisfying the needs of the present generation, the rights of future generations to satisfy their needs must not be endangered. The future plays a significant role in the concept of sustainable development, reminding us that we have borrowed the present from our children.

Human development means not only a broadening but also an **equalization of opportunities**. This requires that all members of society have the maximum number of sustainable opportunities for choice. For this reason previous **Reports** have paid a great deal of attention to manifestations of inequality between men and women, between Latvians and members of other ethnic groups, between the rich and the poor, and between different regions of the country. This year's **Report** also draws attention to income inequalities between urban and rural areas, to unequal opportunities for entrepreneurship and employment in different regions of the country, to wage differences between men and women, and to other manifestations of inequality.

Human development is an **inclusive** concept. As last year's **Report** showed in a comprehensive way, human development requires **universal inclusion** and **social cohesion**. In this sense the goals of human development are in agreement with Latvia's

important objectives of reducing the distance between groups and promoting social integration. Social inclusion and cohesion mean that the opportunities and advantages of making significant choices are available to all. A certain amount of inequality may exist even in an "ideal society," but not excessive poverty or deep social gaps, which carry with them the threat of alienation. Social alienation shows itself in many ways. In the 1990s it is a problem not only in Latvia, but also in other parts of the world. However, in the countries in transition alienation is especially widespread. Against their will and for reasons beyond their control, many people find themselves lagging behind. The concept of human development requires that society help these people catch up.

Human development also means a definite *quality of human relations* in which the upper hand belongs to solidarity rather than hate and conflict. Social solidarity comes about when all the significant groups – young people, women, employees and business people, urban and rural residents, members of various ethnic groups – are involved in economic, social, and political life, and relations between them are based on the principles of equality and the harmonization of interests. It is in the public interest to promote solidarity, because a cohesive society with a high degree of solidarity is better able to identify its problems, to work out balanced policies, and to take the steps necessary to reach its goals. This **Report** finds that solidarity among groups, trust in democratic institutions, and the ties characteristic of a developed civil society are gradually taking root in Latvia.

Thus, sustainable human development means the broadening and equalization of opportunities, the sharing of these opportunities with others, as well as the preservation of opportunities for future generations. On the other hand, a lack of opportunities, their unequal distribution in society, and indifference to those lagging behind are the main obstacles to human development.

Indicators of Human Development

As the previous section makes clear, the concept of human development has a broader meaning than the concept of economic growth. Although economic growth creates the material preconditions for a broadening of opportunities, economic indicators cannot be the sole criterion of human development. If human development is examined from the point of view of social welfare and quality of life, other indicators move to the fore: life expectancy, health, education, shelter, and employment.

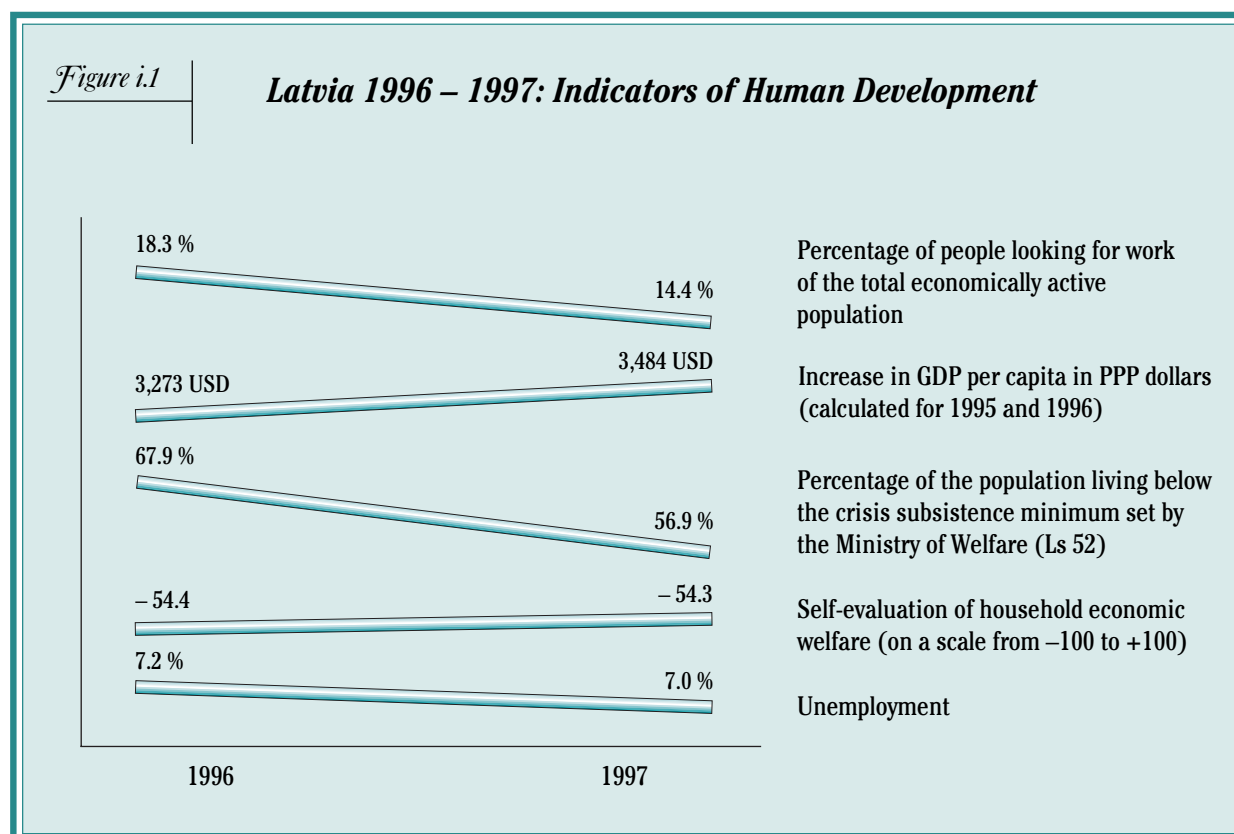
In order to measure and compare human development in different countries, UNDP has introduced the Human Development Index (HDI), which combines three basic variables: 1) gross domestic product per capita, calculated in purchasing power parity dollars, 2) life expectancy at birth, and 3) educational attainment, calculated on the basis of two indicators – adult literacy and enrolment in elementary school, high school, and university in the relevant age groups. (The method for calculating the HDI is described in more detail in the **Latvia Human Development Report 1996**.) These three variables characterize the most important dimensions of human development: material prosperity, health, and knowledge. The HDI is a number between zero and one. Countries with a low level of human development have an HDI below 0.5. Countries with an average level of human development have an HDI between 0.5 and 0.799. Countries with an HDI of 0.8 and higher are considered the most favourable for human development.

Countries with a high level of human development are in the main countries with high average incomes, industrially developed countries, OECD countries, EU and Nordic countries - in other words, countries of the type Latvia is striving to become. However, as was pointed out in the **1996 Global Human Development Report**, economic growth is followed by improvements in the general standard

Table i.1

Latvia's place in the world according to the HDI and Latvia's HDI, 1993 – 1998

	1993		1994		1995		1996		1997		1998	
Estonia	34	0.872	29	0.867	43	0.862	68	0.749	71	0.776	77	0.758
Latvia	35	0.868	30	0.865	48	0.857	55	0.820	92	0.711	92	0.704
Lithuania	29	0.881	28	0.868	71	0.769	81	0.719	76	0.762	79	0.750



of living only when economic development is directed towards supporting human development, reducing poverty and alienation, protecting the environment, and ensuring sustainability. This **Report** also finds that, in spite of Latvia's steady macro-economic improvement, the country has not yet achieved a stable link between its economic success and the quality of life of the majority of the population.

According to the **1998 Global Human Development Report**, Latvia, with a HDI of 0.704, is a country with an average level of human development, ranking 92nd out of 174 countries (see Table i.1). This is the same ranking as last year, but is 8 places higher than Latvia's ranking by GDP per capita. This means that Latvia is "held back" by the comparatively low GDP per capita (which, having overcome the crisis associated with transition, has been increasing in recent years), but is "pulled up" by the comparatively high indicators for education and life expectancy.

Other indexes prepared by UNDP, such as the *Gender Empowerment Measure* or the *Human Poverty Index*, can also be used to characterize human development. Changes over time in some human development indicators are shown in Figure i.1, and a broader statistical overview of the various indicators of human development in Latvia is given in the statistical appendix to this **Report**. However, the purpose of indexes and indicators is not to rank countries, but rather to stimulate discussion about the tasks

essential for each country's human development, which must accord with its cultural characteristics and future goals. Human development is a creative process and Latvia should pay more attention to those elements of human development and those indicators of the country's condition which are tied to modern developmental trends, such as foreign language skills, computer literacy, and access to the Internet.

The Focus of This Report

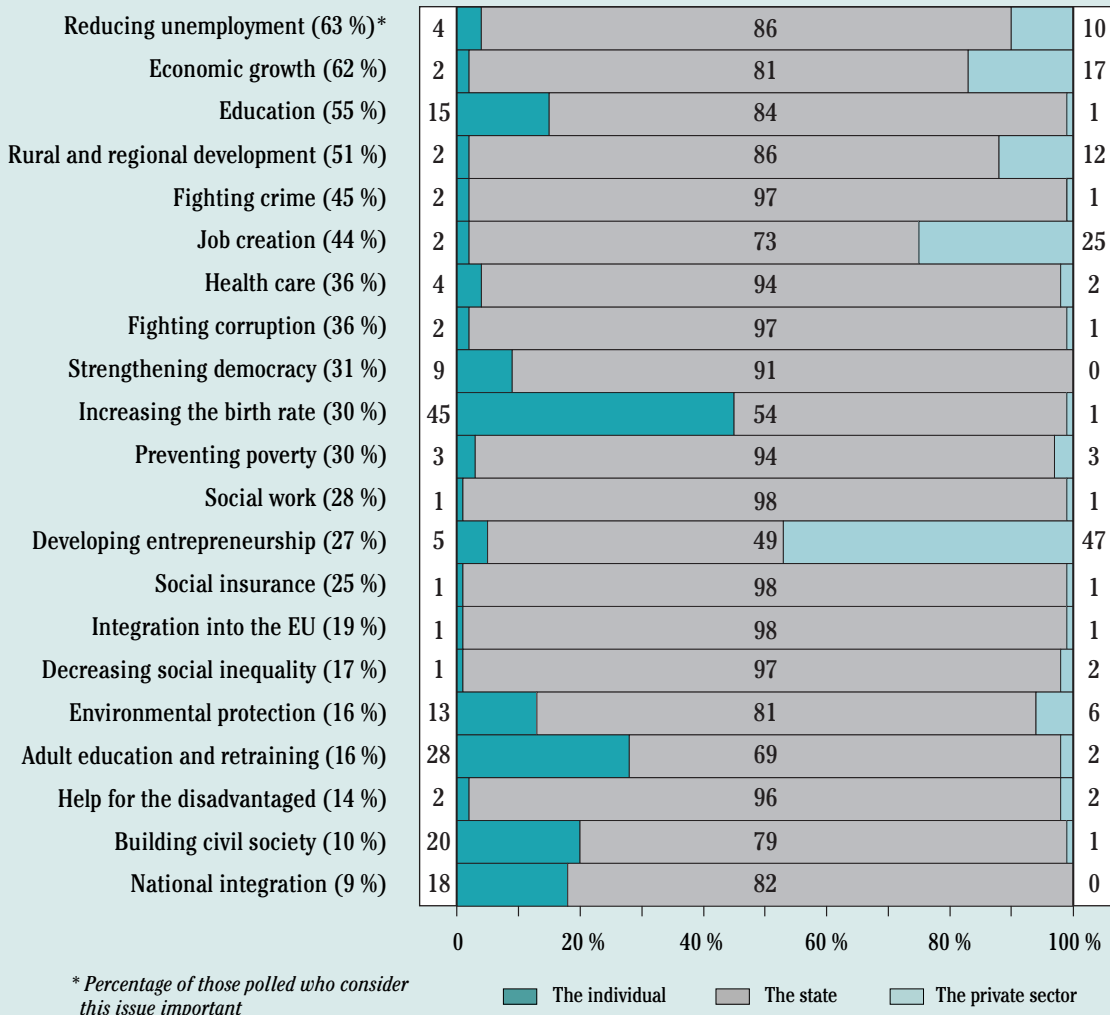
The purpose of this year's **Report** is two-fold: 1) to identify the main goals of human development, and 2) to explore the mechanisms of co-operation which allow these goals to be achieved. In the **Report** the goals of human development are examined in their relation to the necessities of everyday life and the principles of sustainable development, while the mechanisms of co-operation are analyzed in terms of the interaction between three main partners: the individual, the state, and the private sector.

In previous years the **Latvia Human Development Report** has examined the difficulties of transition and the tasks of human development and has also suggested desirable models for human development. The 1995 **Report**, addressing the situation of the disadvantaged and of women, found falling in-

Figure i.2

Human Development: Goals and Responsibilities

What are the main goals of human development? Who is responsible for attaining these goals? (percentage of those who mentioned the relevant issue)



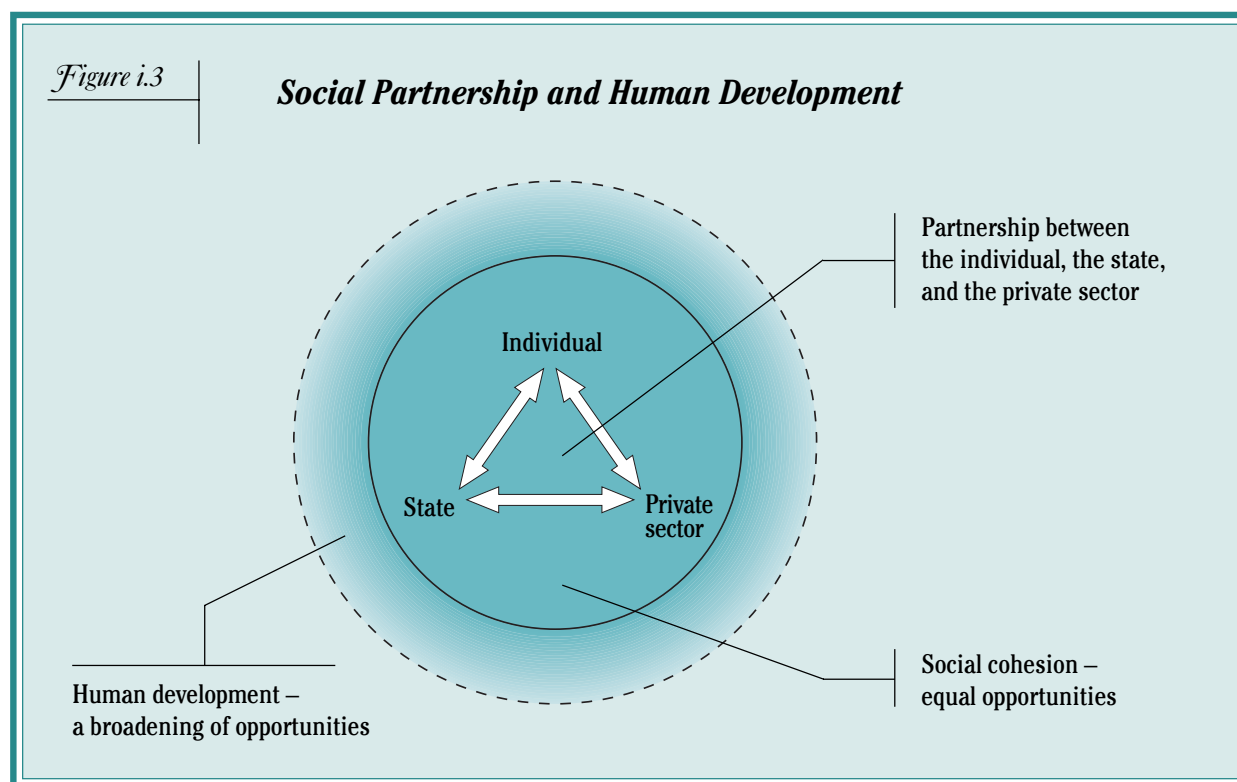
come accompanied by growing poverty and unemployment. The 1996 **Report** examined human development through the prism of living standards, educational reform, and participation in civil society. The basic theme of the 1997 **Report** was human development and social cohesion. It pointed to three main problem areas that threaten human development: 1) socio-economic inequality and poverty, 2) ethnic relations and integration, and 3) regional differences.

There are no unimportant tasks in human development, but it is possible, indeed necessary, to discuss priorities. This is especially important in a small country like Latvia, where resources for human development are limited, but the economy and society are small and dynamic. In the interests of human

development Latvian society should be able to agree on focused and effective action that not only meets present needs but also strengthens the long-term competitiveness and potential of the nation. Economic growth and education present themselves as the areas suitable for such focused and unified action.

In writing this year's **Report**, a special poll was conducted to determine public opinion on the tasks of human development in Latvia. The poll shows that unemployment, economic growth, and education are ranked as the three most important priorities (see Figure i.2). These are followed by regional development, the fight against crime, and creating new jobs. A relatively smaller number of those interviewed gave priority to social issues.

It is significant that people consider economic



improvements such as a growing economy, the reduction of unemployment, rural and regional development, and the creation of new jobs to be the most important preconditions for human development. They hope that economic growth will increase their social well-being. These hopes are closely connected with the desire for responsible political leadership. Clearly, people want government to implement policies that strengthen the connection between economics and welfare. The “economization” of public consciousness points to something more than just a sense that society does not provide sufficiently for all its members. In fact, it also reflects a growing desire for long-term, balanced government policies that would not only stimulate the market and the private sector, but also provide for a more equitable distribution of economic opportunities and achievements. For this reason the **Report** hopes to stimulate debate on the need for more harmonious policies in which economic liberalism is balanced by a social approach to managing the economy and society.

It is important to realize that human development priorities, once chosen, require adequate financing. Therefore Chapter 1 of the **Report** presents a detailed analysis of government investment and the structure of the national budget from the perspective of human development goals. Subsequent chapters examine the contribution of the private sector, of non-governmental organizations, and of individuals. However, choosing a set of priorities does not mean that

other human development goals can be ignored. On the contrary, their implementation must become more focused and effective.

Having set out the goals of human development, someone must also take responsibility for achieving them. For this reason previous **Latvia Human Development Reports** have done more than simply point out problems. The **Reports** have also made recommendations as to how specific institutions could help overcome these problems. This year’s **Report** focuses on the responsibilities of society’s “leading actors”: the individual, the state, and the private sector.

The basic theme of this year’s **Report** is *the role of the individual, the state, and the private sector in human development*. In formulating this theme, the **Report** wishes to promote discussion and a deeper understanding of the responsibilities that must be assumed by each of the partners. The **Report** maintains that the goals of human development can be reached only when the individual, the state, and the private sector co-operate, when each of these actors is aware of their role and takes responsibility for their actions. The **Report** argues that a partnership between the individual, the state, and the private sector is of decisive importance for human development (see Figure i.3).

More often than not, society does not recognize the true potential of each of these actors. People still expect a great deal from the state, but are not sufficiently aware of their own potential and

hardly consider the role of the private sector. As Figure i.2 shows, the state is expected to assume responsibility and initiative in every area of human development. Even the promotion of economic growth is associated to a greater extent with the state than with the private sector.

The historical origins of these heightened expectations with regard to the state come not only from communist political ideology, but also from the era when the state was the driving force of development both in the USSR and in the industrially developed countries. The role of the state cannot be denied, but it should not be exaggerated. That can lead to negative consequences if individuals do not show enough initiative, do not participate sufficiently in the establishment of civil society, and then become alienated from the state when it (inevitably) fails to provide for all their desires.

For its part the state, lacking funds and pressured by public demand, has difficulty gaining societal approval for its policies. Moreover, the growing private sector, which would gladly strengthen its public legitimacy and invest in human development, has difficulty doing so if the public does not place sufficient value on its role. Therefore, this **Report** aims to promote discussion and a better understanding of the possibilities for co-operation between the individual, the state, and the private sector in attaining the goals of human development. These possibilities are greater than is sometimes thought, and this **Report** points to numerous instances where this interaction is already happening and new forms of co-operation are emerging.

Thus, this **Report** took shape around the concept of a triangle of co-operation between the individual, the state, and the private sector. It examines the specific situation of each partner and the possibilities for working together, thereby moving the focus of analysis from the corners of the triangle to the lines of co-operation.

Regarding the individual, the themes of competitiveness, the development of human resources, and social protection are in the forefront. The strengthening of trust, decentralization of power, participation in civil society, as well as the quality of public services are crucial to the link between the individual and the state. Enhanced employability and the more effective use of the labour force are central to the interaction between the individual and the private sector. In analyzing the state, the **Report** focuses on the need to fight corruption, to increase the administrative effectiveness of both national and local government, and to create a better business environment by implementing positive regulatory policies, encouraging proper industrial relations, and creating incentives for companies to follow socially responsible em-

ployment practices. Looking at the private sector, the **Report** discusses both its growth and its opportunities to participate in human development by supporting professional education, by educating and fairly remunerating employees, and by becoming involved in trilateral discussions between employers, employees, and the government.

The **Report** has four chapters. Each chapter begins with a summary of the issues addressed and ends with conclusions and recommendations.

How to Promote Human Development in Latvia

Based on the analysis provided in the **Report** it is possible to formulate a number of conclusions about the type of large-scale activities that would make a significant contribution to human development.

The Formation of Individual Competitiveness and the Development of Human Resources

The **Report** argues that the formation of individual competitiveness, the development of human resources, and social assistance to the disadvantaged are the three goals which must be pursued if human development is to be to the advantage of every member of society.

It is the task of the state to create equal conditions for all individuals and to support individual competitiveness. Until now the state has played a minor role in developing individual competitiveness. The state has adopted the liberal position that everyone is responsible for themselves. It shifted the burden of responsibility for their own welfare onto the shoulders of individuals before many of them were ready to bear up under its weight. It neglected the fact that the Soviet regime made many people dependent on the state's external support. Now these people, finding themselves in a crisis situation, having lost their jobs or not having passed the state language examination, do not know how to answer the crucial question: "What should *I* do now?"

Until now individual competitiveness has been left to the individual. Some have been able to compete while others have not. The situation of any individual in Latvia today is determined not only by reforms beyond their control, but also by the individual's own participation in the changes, by their role in the strengthening of particular organizations and the improvement of their own welfare. If an individual has done no more than passively react to the conse-

Box i.1

The 1998 Global Human Development Report: Consumption and Human Development

Since 1990 UNDP publishes annual global **Human Development Reports**, which allow countries to see themselves in a global context and focuses the attention of international society on common human problems. The **global Reports** also provide in-depth analysis of specific issues.

The **1998 Global Human Development Report**, which appeared 9 September 1998, is devoted to an analysis of consumption. By describing the explosive growth in the consumption of energy, telecommunications, cars, and other goods over the past ten years, the **Global Report** draws attention to the highly inequitable distribution of consumption among the world's inhabitants and to the negative results this explosion of consumption has on the environment.

World consumption is very unevenly divided among countries and among the various population groups within these countries. This inequality is vividly portrayed on the **Report's** cover, which depicts rich countries as consumer skyscrapers and poor countries as hovels. The wealthiest 20% of the world population accounts for 86% of the world's private consumption, while the poorest 20% accounts for only 1.3%. These people are often denied even their minimum needs for food and shelter. World consumption is also unbalanced in terms of priorities. For example, it would cost 13 billion dollars a year to take care of the basic food and health care needs of every person on earth. That is 4 billion dollars less than the inhabitants of Europe and the USA spend annually on pet food.

The **Global Report** suggests that consumption must increase in the poorer countries in order to provide for people's basic needs, while the wealthier countries need a different model of consumption, one whose main appeal is not "buy more!", but rather "consume only what is needed for development!" Chapter 1 of this year's **Latvia Human Development Report** also draws attention to the fact that many families in Latvia live on the edges of subsistence. The limitations on what they can consume do not encourage human development.

The **1998 Global Report** also discusses the moral aspects of consumption, because problems are caused not by consumption as such but rather by consumption

that is unfriendly to people in general and various social groups in particular, to the environment, to countries as a whole, and to future generations. The problem is consumption at someone else's expense and with no regard to consequences. The **Global Report** suggests specific solutions for encouraging socially responsible consumption by introducing environmentally friendly technologies, making use of ecological trademarks, promoting co-operation between consumers and producers, and introducing more environmental and consumption taxes. The protection of consumer rights, education, and the spread of information are also highly emphasized.

Latvia must also seriously consider how to ensure that in the future, as consumption increases and the fashion for consumption flourishes, people will feel responsible for the consequences of their consumption. As shown by the following analysis (see Chapters 1 and 2), consumption has become a lifestyle for the minority of Latvia's population that finds itself at the top of the pyramid of wealth, while many of the poor consume just enough to survive. One must take care that the new lifestyles, which are founded on consumption, do not buttress economic inequality with new disparities in culture, behaviour, and style. In this regard the **Global Report** offers some stimulating ideas, urging that children and young people be inculcated not only with a spirit of individualism, but also with a sense of community and solidarity. Then there might be some hope that, on becoming active consumers, these young people will be aware of the effect of their consumption on other people. A balance between self-awareness and community-awareness, between individualism and solidarity, is the basis for socially responsible consumption that promotes human development.

The **Global Reports** are also important because they encourage Latvian society to become more aware of its involvement in global developments. Global trends reach Latvia mostly through the medium of the economy, thanks to the operations of international companies and the workings of free trade. However, the **Global Reports** and UNDP affirm that globalization also has humanitarian dimensions that demand solidarity with other countries and regions.

quences of change, more often than not the results have been unfavourable. Social stratification studies show that during the period of transition personal prosperity and satisfaction with life has increased for those individuals who have become involved in the private sector either as entrepreneurs or as skilled

employees, as well as for those who have a "multi-active" lifestyle, working at several jobs and creating several sources of income for themselves. This shows that participation in change has been dependent on certain crucial human resources that are not shared equally by all: education, connections, initiative, and,

not infrequently, access to the powers-that-be.

Precisely because not everyone has enjoyed the same opportunities (for example, with regard to privatization) and the same resources, society has become divided into “losers” and “winners.” The boundary between these groups cannot be drawn strictly, but it is certainly felt in society. The political elite, the educated and the entrepreneurial, the young and the active, businessmen and women, the new professionals called forth by the market economy, and the growing middle class are numbered among the successful. They have been able to use social transformation to their own advantage, and they are simultaneously the product and the producer of these changes. A second group is made up of those people for whom the changes have brought more losses than gains, and their present circumstances are formed by an accretion of the negative consequences of the transition.

Unfortunately, as shown by the previous and the present **Reports**, differences between losers and winners have a tendency to become structurally embedded as the signs of inequality become more closely tied to specific social groups, such as rural residents, pensioners, single mothers, families with many children, the disabled, those of pre-pension age looking for work, and those who lack the will, the skills, or the resources to find alternate employment in a competitive environment. All these groups find themselves in an unfavourable situation due to a combination of factors: they have lower incomes, greater difficulty finding work, more limited opportunities for communication, and all the other problems created by poverty. While the successful keep increasing their material and social welfare, the unsuccessful suffer the negative effects alone, fighting for survival without any particular support from society or the state.

The question of how to balance these two trends leads to the question of the responsibility of the state for providing equal opportunities for every individual and to the question of the role of the state in developing individual competitiveness.

Competitiveness means the individual's readiness to operate within the capitalist system of incentives. This system is ruled by private interest, the profit motive, and the laws of the market. It is in constant motion, always calling for better products and services, for self-improvement, for more work, and for the ability to manage stress. Individual competitiveness is determined primarily by education, qualifications, and initiative, therefore Chapter 3 of the **Report** analyzes the development of employability and questions of professional education, whereas Chapter 4 analyzes the opportunities and problems associated with starting a business and of

self-employment. For its part, Chapter 2 demonstrates that those who live in poverty require urgent assistance.

The role of the state in the development of individual competitiveness and human resources must become pro-active and significantly larger. Every government programme, regardless of whether it is a part of rural, regional, industrial, employment, or anti-poverty policy, should include more projects to develop human resources through information, education, the strengthening of social ties, and support for local initiative. The **Report** indicates (see Chapters 2 and 3) that the process of developing human resources may lead to successful co-operation between the state, civil society, and the private sector, especially by taking advantage of the opportunities presented by non-governmental organizations.

However, there will always be people in society who lag behind. Therefore, the development of human resources must be balanced by measures to provide social security for those who are unable to get by on their own. Previous **Reports** have commended the reform of the social insurance and social security systems in Latvia. However, as indicated in this **Report**, economic and bureaucratic obstacles still exist and receiving assistance can be difficult for those who need it most.

Improving Public Administration

Despite its shrinking role, the state is still the central institution responsible for ensuring balanced and sustainable social development. Therefore, the effectiveness of public administration is assuming an ever larger role in relation to human development.

Recently UNDP and the World Bank have published several reports devoted to the reform of public administration. These reports argue that the disengagement of the state from the direct management of the economy and from the provision of welfare must be linked to the strengthening of the state's administrative ability and effectiveness. Discussions of the role of the state bring to the fore the question of good and effective administration both on the national and the local level. In order to ensure good administration, several principles must be observed:

- In all cases political decisions must be *responsible*, made in accordance with the principle of public choice, and striving for the maximum good of society as a whole.
- National and local government agencies must be *good administrators*, they must handle public resources and public expenditures accurately and honestly.
- Political leaders must give an *account* of their actions to the voters, but civil servants must give an

account of their actions to the politicians and the public. Institutionalized procedures must be established, determining how these accounts are to be presented and how the public can demand accountability and explanations from politicians, civil servants, and national and local government agencies. Institutionalized procedures must also be established, allowing people to appeal the decisions of the government administration and to enforce the observance of their legal rights. The *accountability* of those in power to the public is fundamental not only to good administration but also to human development.

- Administration must be *transparent*. The public must have free access to information on the decisions and the actions of national and local government agencies and of other public organizations. Transparency must also be institutionalized: procedures for gaining access to information must be clearly defined by law.

The reports produced by UNDP and the World Bank find that these principles are not always observed in the countries in transition. Mechanisms of accountability are insufficiently institutionalized and there is a lack of transparency. This often leads to low-quality public services, questionable administration of public spending, and corruption. As a result, not only is administrative effectiveness lowered, but the population at large and the business sector suffer and the confidence gap between the public, the state, and the private sector widens.

Public administration reform, which was begun after the reestablishment of independence, has made significant advances in Latvia. As shown in Chapter 2, the central administration, the civil service, and local governments are taking steps toward decentralization, redefining themselves as service providers and establishing mechanisms for the transfer to civil society and to the private sector of those functions for which they are better suited. However, there is much that can still be improved. Analysis shows that arbitrary interpretations of the law in official instructions and by individual officials makes interaction with government institutions more difficult and creates the risk of corruption. Clear, simple, and transparent procedures are needed, defining how public administration should serve its clients. This would not only strengthen public administration but also build that trust between individuals and the state which is so important for human development.

Participation by the Private Sector

In today's economy people's welfare depends to a significant degree on the successful functioning of the private sector and on the extent to which it has managed to take over functions no longer performed

by the state. The private sector's ability to participate in human development is particularly dependent on how favourable conditions are for its activities.

The state is dependent on the private sector because it is the main source of tax revenue which ensures the state's existence. On the other hand, the private sector is dependent on the state because it creates the institutional framework for business activity. Since most jobs are in the private sector and it is the foundation of the material welfare of most people's families, the benefits individuals reap and the losses they suffer depend on the relations between the state and the private sector and the degree to which they support each other.

Although this mutual relationship may seem obvious, its importance is not consistently reflected either in public opinion or in the interaction between government agencies and the private sector. The **Report's** analysis indicates that the private sector can participate in human development in several practical ways:

- Business associations can participate in various consultative boards and co-operate with government officials in drafting the laws and regulations that affect business activity.

- Businesspeople can co-operate with state institutions, institutes for professional education, and the State Employment Service on issues related to professional education and retraining.

- Businesspeople can co-operate with state institutions and NGOs in fighting corruption, which brings short-term gains to the few but harms the entire private sector by distorting the business environment. Similarly, it is in the long-term interest of the private sector to reduce the impact of the shadow economy because tax evasion, illegal labour, and unfair competition limit honest business, long-term growth, and investment.

- An organization providing balanced representation to a range of business associations from various sectors of the economy and representing both large and small businesses can be established in co-operation with the state. Balanced representation is especially important for small and medium-sized businesses, as the welfare of a majority of the population depends on their performance.

- Large, medium-sized and small businesses can form organic, corporate connections in order to complement each other's economic functions, because small businesses can be very good at developing business skills while large businesses can be important creators of jobs. Such co-operation could also help solve problems with deliveries and marketing and develop the human resources needed in business.

- Since companies are dependent on the social environment and on the conditions in which their

employees and customers live as a community, it is in the interests of business to co-operate more actively with groups formed by the public itself. NGOs and businesses can become partners in shaping a better living environment and in finding solutions to their community's social problems.

Balanced and Socially Responsible Policy

During the 1990s policy has been influenced by neo-liberal ideas that associate development with the forces of the free market and with a decrease in the role of the state. These ideas have determined the economic policies of many countries and the activities of international financial institutions. They correspond to the liberal and democratic character of Western political systems and the individualistic values of Western societies. Since the reestablishment of independence the policies of the Latvian government have also been guided by neo-liberal ideas.

However, the global **Human Development Reports** show that the human development index is higher in those countries where an effective market economy is combined with the optimal level of state regulation. The necessity of balancing the market with state regulation was shown by the 1998 Asian and Russian economic crises, which have encouraged discussion about the need for more active, transparent, and inclusive state policies in the areas of infrastructure, investment, and employment.

The market and the state complement each other. The market reacts to the needs of those who are able to pay. However, society also has common social needs, for instance, education, environmental protection, and social security. Reliance on market forces alone can lead to significant imbalances, the formation of monopolies, regional differences, income inequality, social problems and, in the end, to the self-destruction of the market. That is why the regulating role of the state is needed to ensure fair and honest competition, to stimulate business activity, and to promote employment and social security.

Collective Strategies in Human Development

The late 1990s have seen the growth of a paradigm in the planning and implementation of development projects that is based on the assumption that

the beneficiaries of development must be among its participants and co-authors. This theory can also be applied to human development, which is not possible without the extensive participation of the population and of public and private organizations. Therefore, the **Report** examines a number of emerging trends in Latvian society demonstrating the development of collective action and of promising mechanisms of co-operation between individuals, NGOs, businesses, and state and municipal institutions.

Collective strategies are an important resource for human development. Because they are initiated by civil society, they are better able to identify the needs of society and to mobilize people for action. Collective strategies are often more successful than individual ones. It is easier for central institutions and financial donors to support them. Collective strategies also facilitate the transfer of functions from the state to the private sector.

Today in Latvia the majority of collective strategies can be found in the third sector. They can be found in NGOs, which co-operate among themselves and with local governments, businesses, and the media, and in the initiatives of local activists, consumer protection organizations, and women's and youth associations. They can also be seen in the efforts of businesses to form associations and to co-operate with state institutions. To a lesser extent collective strategies can be found in the field of economic co-operation, in farmers' co-operatives, and in the economic collaboration between small and medium-sized businesses. The success of collective strategies depends on a culture and tradition of co-operation that is only in the process of emerging in Latvia.

However, the benefits accruing from collective strategies are obvious. First, they strengthen participatory democracy and civil society. Second, they increase opportunities for solving economic and social problems and for communicating best practices to other groups. Third, they ensure that community and group initiatives will be transformed into real business projects. In Latvia this third opportunity has found support in the Programme for Regions Requiring Special Assistance, in the Rural Development Programme, and in the work of the Non-Governmental Organizations Center.

Notwithstanding the difficulties, it is clear that collective strategies act as a bridge between civil society and private business, achieve good results, and deserve support.