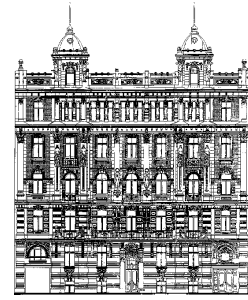




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*Involvement of Private Sector and Non-governmental
Organizations in Provision of Social Services in
Latvia. Current Position and Future Paths.*

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2003

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Date

/January 13, 2003/

Acknowledgements

I would like to express gratitude to my supervisor Alf Vanags who provided me with a useful guidance, especially during the early stages of the writing.

Thesis writing would be impossible unless there were responsive experts who kindly agreed to participate in interviews and in the panel discussion. I will not reproduce the whole list of experts here. It is included in the appendix. But I appreciate the input of each expert. I am especially grateful to Inese Krustiņa who helped me to arrange a competent expert panel for the discussion, and also came up with many interesting ideas during the discussion.

I also want to thank all people from SSE Riga staff and administration who helped me with organizing the panel discussion. My gratitude goes to Zane Loža for moderating the panel discussion, Diāna Pauna and Inese Ozola for assistance and contribution with SSE Riga premises, Evita Lune for active participation in the discussion, Evita Keiša and Gita Grīnberga for helping with invitation cards, and Juris Kuģenieks for technical assistance.

I would like to say special thanks to Andris Strazds who helped me by providing useful consultations in a critical moment few days before submission of the thesis.

Finally, my mother, Māra Graudiņa, deserves my highest gratitude for her valuable suggestions regarding the research subject and assistance during the writing process.

Abstract

The purpose of this paper is to explore the field of social services and to find out what are the different incentives and barriers that determine the role of private sector and non-governmental organizations (NGOs) in provision of social services in Latvia. It also tries to assess whether non-governmental organizations and especially entrepreneurs may consider social services as an attractive business opportunity.

In order to answer these questions quantitative and qualitative research methods were used, semi-structured interviews were conducted, and panel discussion of experts was organized. The fieldwork also included study of previously published papers on the subject.

The paper defines social services, provides description of market for social services in Latvia, and describes the mechanics for provisions of social services in Riga and in Ogre municipality. A subject of particular interest is co-operation between municipality, private sector, and NGOs. The paper also discusses motivation of municipality officials, private companies, and NGOs, as well as touches upon problems related to sector of social services as such.

The theoretical part of the report discusses issues such as economics of the market, economics of market failure, and objectives of the public policy. These are later linked to the role of private sector and NGOs.

The analysis shows that currently market for social services in general cannot do without assistance from the government and local governments in particular. As a result, the success of private entrepreneurs and NGOs in the sector of social services depends on their ability to co-operate with municipalities and receive the financial support.

In the nearest future private sector and NGOs may help the local governments to deal with increasing burden of responsibility for social services. They may help the municipalities to attract necessary human and financial resources.

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1. Introduction

People in the business community are very similar. They read the same periodicals, watch the same news, have roughly the same education, and think of the world in similar terms. And they have roughly the same understanding of what is business. They would say, it is about multibillion companies catching the train of globalization and giving spectacular returns. Or it is about financial markets and the price of risk. Or it is about individuals taking risks.

However, somewhere in the same world there are people who experience adversity of life. They are in a social distress or cannot fully support themselves. Fortunately, they are not alone. There are others who help them not to become marginalized. They take care of them and solve their problems from day to day. And they get paid. Is this a business?

The subject of this paper is social services. This is a field we know relatively little about. And this is not surprising. Social sector is not the field that advertised in *The Economist* or the *Financial Times*. There are also relatively few researches in this area. Those that exist typically look at social services from the political perspective.

Yet this discussion goes beyond the political debate. Starting from the last quarter of the 20th century there has been an increasing activity by non-governmental organizations (NGOs) and the private sector in provision of social services in European Countries. This has happened in Latvia during the last decade as well. As a result, we can talk about the market for social services. Still, so far we know little about the attributes of this market.

This paper takes a market perspective and analyzes market for social services in Latvia. The purpose of the paper is:

- To find out what are the different incentives and barriers that determine the role of private sector and non-governmental organizations (NGOs) in provision of social services in Latvia.
- To assess whether non-governmental organizations and especially entrepreneurs may consider social services as an attractive business opportunity.

Answers to these questions are relevant to those private entrepreneurs and NGOs that consider an option to enter the market for social services. They are also important to recent and coming graduates from schools of social work. Finally, they are interesting from theoretic point of view in order to understand where is the borderline between private and public.

The paper is organized as follows. Section 2 defines social services and sets the platform for understanding the subject. Section 3 describes the methodology of the research

as well as defines and gives examples of social services that are studied in this paper. Section 4 provides the theoretical framework for understanding economics of governments and markets. Section 5 describes social services in Latvia with the help of theoretical framework developed in Section 4. It also defines the role of private sector and NGOs in social services. Section 6 presents two case studies, which describe how social services are dealt with in Riga and Ogre municipalities. Section 7 discusses different aspects relevant to social services, private sector and NGOs. Section 8 draws the conclusions.

2. Definition of Social Services

The term ‘social services’ is relatively new in Latvia. There are confusions about what it means both at the regulatory level and in the society. Some people use the term ‘social services’ while they are actually talking about social protection. Others mix up social services and social aid. In order to avoid such mistakes, let us set the platform for understanding the terms that are frequently used with regard to social issues. First of all, one should make clear the distinction between social protection, social aid, and social services.

According to Spicker (2000, p. 94-95), social protection is necessary in order to secure welfare. The idea of ‘social protection’ is based on principles of collective action, solidarity and risk pooling. Its goal is to cover a range of contingencies that may happen to the members of the society. It also includes provision of services to particular individuals in need. The social services is a part of social protection because it is also a part of offering security. In Latvia, Law on Social Security governs practices of social protection.

‘Social services’ are defined as organized or institutional forms of service delivery, provided as charitable provision, mutual aid, non-profit, unpaid and private services. Those are services for people in need. Their distinguishable characteristic is that they address issues, which are likely to make people dependent on others (Spicker 2000, p.100-101). These are issues like sickness, old age, disability, unemployment, bereavement or spiritual health. Social services in Latvia are governed by the Law on Social Services and Social Aid. The most recent amendments of this law are adopted since January 1, 2003.

The new law makes clear distinction between ‘social services’ and ‘social aid’. Social aid is a cash benefit, benefit in kind or other relief to a person in material distress, which is allotted according to specific criteria. (Latvian Law on Social Services and Social Aid, 2003, Section 1, article 1, paragraph (17).) Social services, though, are organized forms of service delivery, as defined in the previous paragraph.

Often the local government and the community at large regard the beneficiaries of social aid as a kind of beggars receiving handouts from municipality. This view is wrong from ethical point of view to say at least. But the most dangerous mistake happens if we preserve the same attitude towards the users of social services. As a matter of fact, the user of social services does not receive relief of any kind. Instead, social services help the users to maintain the social role and social status that they are entitled to in the modern society, taking into account their age, gender and other social, psychological, or geographical factors. Moreover, in certain cases it is the user (not the local government or the taxpayers) who pays for the provision. Still the discussion is complex, because in most cases it is the local government which provides or pays for the social services.

3. Methodology

3.1. The scope of the thesis

The concept of social services as used in this thesis is narrower than under the general definition presented earlier. First limitation is the providers. I am primarily interested in services that are or might be provided by private individuals or NGOs.

Table 1.
Types of Community Care

General (for all individuals)

- Assessment (of an individual's or family's social, economic, physical, and psychological situation)
- Service plan
- Case management
- Advocacy
- Hot lines, early warning systems
- Transportation

Family support

- Respite care
- Child care
- Parent training
- Counseling
- Peer support groups
- Homemaker services
- Home visiting (crisis intervention, risk management)
- Domestic violence counseling
- Alcohol treatment and rehabilitation
- Family planning
- Day treatment for troubled children and youth

People with disabilities

- Inclusive education
- Special education classes
- Sheltered workshops, job training and placement
- Special day schools for children with disabilities
- Rehabilitation (to promote self-care and self-reliance)
- Technical aids

Elderly

- Senior citizens centers (meals, social activity)
- Home visiting (food, health, household chores)
- Respite care (for caregivers)
- Small-scale enterprises and co-operatives

Out-of-home placement

- Kinship foster care
- Non-kinship foster care
- Temporary shelter (for battered woman and their children)
- Supportive apartments (semi-independent living for children and the elderly)
- Small group homes
- Relocation homes for a family (with supervised, therapeutic treatment)
- Adoption

Source: Tobis, D., 2000.

Second, the type of social services that I am interested in is a so-called ‘community care’. This is delivery of services to particular groups, such as the elderly, the mentally ill, or people with disabilities, for which local authorities take the responsibility. As it will be argued later, co-operation between local governments, voluntary sector, and commercial sector is a very important topic in this discussion. **Table 1.** summarizes and gives examples of social services that are concerned in this report.

To the extent that it is possible I concentrate on services which are:

- (1) professional services (require a special education, such as psychologist or social worker with highest education) and
- (2) prophylactic services (the main aim of the service is to make person able to recover and return effectively in normal life).

The discussion does not focus on any particular service under the rubric of ‘community care’. Though the researches show that there are substantial differences in market conditions among different services, for example, between residential care for elderly and day centers for mentally retarded youth (see Walsh et al. 1997, p. 126-127). However, these differences mostly influence the terms and the conditions in which contracts between actors in the market are concluded. Still the overall framework for contracting and providing social services as well as the relevant issues are similar in all cases. Thus, it is legitimate to explore and discuss problems encountered by private sector and NGOs in the social services sector without going deep into specificity of a particular service.

The discussion briefly touches exclusive social services to rich people as a potential market for commercial service providers. Term ‘exclusive’ in this paper denote services, which are relatively expensive, probably luxury, and which are paid by the users or their families. In particular, this could be an expensive residential care for elderly people. However, even though there is a notion that such sector exists, there is a lack of reliable information about the size and the functioning of the sector. Such private initiatives currently are not subject to any special registry or quality control from state or local government agency. As a result, this discussion cannot be developed beyond the point of pure speculations.

This paper does not cover services to mentally retarded elderly people, for which the government and the Ministry of Welfare have direct responsibility. This is because the relationship between the government (represented by the Ministry of Welfare), private sector, and NGOs is another complex issue, which is out of the scope of this paper. Besides, starting from year 2004, responsibility for all social services will be shifted to local governments.

Thus, the analysis of relationship between providers of the services and the local governments is more important and farsighted.

There will be changes in responsibilities and consolidation of local government as a part of Administrative and Territorial Reform that is planned to be carried out in the nearest future. However, the impact of Administrative and Territorial Reform on provision of social services is out of the scope of this paper.

3.2. Empirical Research

The aim of empirical research was to gather information about the development of social services in Latvia during the recent years as well as collect opinions about the possible future prospects of the sector. It focused particularly on the role private sector and NGOs in provision of social services.

The research used both quantitative and qualitative methods. The aim of the quantitative part was to understand the institutional mechanics of market for social services and obtain the information for the case studies. The aim of the qualitative part was to find out different issues that facilitate or hinder the development of social services sector in Latvia.

The research consisted of pre-research, interviews with experts, panel discussion of experts, and taking part in NGO Forum 2002.

3.3. Pre-Research (Library Research)

The starting point of the empirical study was what we could call a library research. The aim of this part was to gather information about the social services sector and get acquainted with previously published works on the subject as well as with the academic literature. This included: description of the market for social services in Latvia, government approaches towards the social policy, information about the providers of the social services, classification and types of social services, as well as comparative information about the social services in different countries. Searching information on the Internet and looking at tertiary sources (books and articles based on secondary sources) was also a part of this research stage.

3.4. Interviews

The first part of empirical research consisted of semi-structured interviews with people working in the field of social services. In order to obtain the wider set of perspectives, different stakeholders were interviewed. They represented municipalities, social services departments of local governments, and social service establishments owned by local governments, private sector and NGOs. For better understanding of the underlying problems

the opinion of users of the services was also surveyed. The list of experts surveyed is included in Appendix 1.

3.5. Panel discussion of experts

The second part of the empirical study was the panel discussion of experts, which was organized with the support from SSE Riga. The subject of the discussion was “Involvement of private sector and non-governmental organizations in provision of social services in Latvia.”

The procedure of the discussion was as follows. There were 6 speakers, each of whom represented interests of regulators, educational institutions, private sector, NGO’s, or clients. Each speaker prepared a 10 – 15 min presentation on topic agreed before and shared his opinion and perspective on issues related to role of the government, private sector, and NGO’s in provision of social services in Latvia.

The presentations followed one by one, and there was time for discussions after all experts had finished their presentations. First the presenters were given a chance to ask questions to each other. Afterwards, the audience was given the opportunity to ask questions as well.

The participants

I had invited participants from LR Saeima, educational institutions, private institutions and NGO’s. I also tried to organize an interested and competent audience, who could pose intelligent questions. The audience was comprised of people from the state and private institutions, SSE Riga students and students of economics and social work from other universities.

The location

The administration agreed to contribute with the premises of SSE Riga as a location of the panel discussion.

Use of the results

The panel discussion was taped. The ideas and conclusions of the discussion were used as inputs for this paper.

The list of experts who took part in the panel discussion is included in Appendix 2. It also contains a list of the topics that were presented.

3.6. NGO Forum 2002

Another part of my fieldwork was presence at the NGO Forum 2002, which was organized by Latvian NGO Center and took place on Wednesday, November 27. The major subject in the forum was co-operation between NGOs, the government, and the private sector as it stands today and the opportunities for co-operation in the future.

I would like to highlight particularly a presentation by Māris Kučinskis, mayor of Valmiera, “Entrepreneurs and NGOs – best partners for municipality. Why?” and a panel discussion with the subject “Co-operation among NGOs, the government, and the private sector – opportunities today and tomorrow.”

3.7. The Presentation of Empirical Data

The background information about how the market for social services in Latvia works is presented by using the structure of theoretical framework developed in section 4. It is then followed by two case studies from Latvia, namely, Riga municipality and municipality of Ogre.

4. Theoretical Framework

This section presents the theoretical vocabulary used in the thesis and provides a framework for defining the roles of the different actors in the social services. Before proceeding further I would like to acknowledge my intellectual debt to Lois Duff whose book provided me with a consistent framework for understanding markets for public services (see Duff 1997), which I have used to analyze the market for social services in this paper.

4.1. Market Mechanism

The starting point of our theoretical discussion is perfect competition model. It is relevant due to several reasons. First of all, this model is used to explain the functioning of a capitalist economy, the institutional framework under which Latvian economy and economies of the developed states currently operate. In order to better understand and evaluate the performance of a certain sector or government’s policy towards it, one should find out what are the attributes of the market and what implications they have on policymaking. Second, many recent public policy reforms and decisions in European Union and in CEE countries (for instance privatization) are based on predictions of perfect competition model (Duff 1997, p. 13). Social services is yet another area where introduction of the market approach is proposed as a solution to different problems.

Perfect competition model makes a number of assumptions. The most important are the following:

- There are many independent producers and consumers in the economy. No one has sufficient power to influence the price or other market outcomes
- Individuals and companies are assumed to be rational and self-interested. Everybody wants to maximize his/her utility or profits. The utility of a single person is independent from utility of others.
- Companies always strive to maximize their profits and minimize the costs.
- In each market there is always a clearing-price that is determined by the point at which quantity demanded equals the quantity supplied (market equilibrium).
- The government does not intervene
- It is assumed that there is perfect knowledge

The consumers in the market are acting in accordance with Law of Demand. It states that, other things equal, consumers will buy more units of the same good if the price decreases and less units if the price goes up. The Law of the Supply determines the behavior of producers. According to this law, other things equal, the higher is the price of the good, the higher is the quantity of good supplied (Cimdiņa 1998, p. 4.2. and 5.2).

The interaction between supply and demand (the “invisible hand”) leads the market towards its equilibrium quantity and price.

The economists argue that market forces lead towards efficiency in production and efficiency in consumption (Duff 1997, p. 13). The producers will produce goods at the minimum cost and design the products so that they match people’s willingness to pay for them. Consumers, on the other hand, will purchase goods in accordance with their personal preferences and financial limits. Efficiency in consumption will be reached when it will not be possible to increase welfare by redistribution of the goods among the consumers. Total efficiency will be maximized when both output and welfare from the consumption of goods reach the optimal level.

Efficiency in production, efficiency in consumption, and trading leads towards efficient allocation of resources in the economy. A term Pareto efficiency is used to evaluate efficiency of resource allocation. Pareto efficiency or Pareto optimality is an ideal state when it is not possible to reallocate resources so as to make someone better off without hurting anybody else. If it were possible, the position would be called Pareto inefficient and there would be room for Pareto improvement.

4.2. Market Failure

If perfect competition model leads to efficiency in production, consumption and resource allocation, why it is not applied throughout the real world? The answer lies in the limitations of the model. First of all, the model concentrates on market relations and ignores any social, moral or political considerations. In reality, though, and in social services in particular, there are many other aspects that affect market relations and outcomes, such as political issues, relationship between the user and the provider of services, and possible opportunistic behavior from the side of the provider (Walsh et al. 1997, p. 114-115).

Second, there are many cases where the markets fail. Market failure occurs when assumptions of perfect competition are not met. In such cases markets do not bring socially desirable outcomes. For example, perfect competition assumes that there is perfect information. However, in reality information asymmetry is one of the biggest problems in any market be it financial markets or market for social services. In case of the imperfect information producers may behave in opportunistic manner, manipulate with consumers and charge higher prices or offer lower quality products. It might also be the case that due to some circumstances supply and demand do not meet, thereby driving certain products out of the market. This is especially undesirable if there are social groups that desperately need that particular product.

In addition, theory does not say that Pareto efficient allocation of resources will bring socially desirable distribution of income. Where the participants end up in the trading process depends on the initial distribution of endowments with which they begin. There will be different Pareto-optimal trading results for each different initial endowment distribution. Hence, an important ethical aspect is also involved. It concerns acceptability of the initial and the final distribution of endowments and the inequalities that exist (Vickers 1997, p. 122).

In such a situation the government often comes into play. The branch of economics called 'welfare economics' studies the role of the governments in relation to market failures and inequalities. Welfare economics would suggest that when market failure occurs, the government can step in, reallocate the resources, and make society at large better off. An important notion in welfare economics is that instead of arbitrary regulation of the market the government should ensure that the markets work as if they were perfectly competitive.

Before discussing the role and objectives of the government, let us first dwell more on the nature of market failures and the problem of inequalities that are present in the market.

Public and semi-public goods

The cause of the market failure might lie in the nature or characteristics of the good itself. Thus, for instance, market failure occurs in the case of public goods (Horváth and Péteri 2001, Chapter 1). One of the problems associated with public goods is free riding. People might want to enjoy the public goods without paying for them. This is possible due to another key characteristic of a public good, namely, non-excludability. It means that it is hard to exclude a person from consuming the good. Furthermore, by enjoying the public good and not paying for it, a person does not take consumption away from others. This is called non-rivalry in consumption. Because of non-excludability, non-rivalry in consumption as well as the free riders' problem market solutions to public goods may lead to inefficient levels of provision.

Semi-public goods are goods that have varying degrees of non-excludability and non-rivalry in consumption. Social services in general belong to this category of goods. From the government's perspective an important question is whether it is feasible and desirable to exclude these goods. Likewise the public goods, pure market solutions are limited in their applicability in the case of semi-public goods, because they may lead to undesirable outcomes.

Merit goods

Merit goods are very much like the public goods. These are goods, which from the point of view of the society everybody should consume. An important idea here is that people do not always act in their best interests and underconsume certain goods. Thus, the objective of the government is to indicate the efficient level of consumption.

Social services have characteristics of merit goods. According to the Latvian Law on Social Services and Social Aid, each citizen of Latvia has *a right* to receive social services. An order in which person is entitled to receive these services is governed by regulations issued by the Cabinet of Ministers. (Section 1, Article 3, paragraphs (1) and (2).)

Other examples of merit goods are health and education.

Externalities

According to the theory, in a perfectly competitive market there will be Pareto optimal allocation of resources. However, this is the case only if private costs and benefits of the individual match the social costs and benefits. If, in turn, private costs (or benefits) are greater or smaller than social costs (or benefits), the market outcome will be too much or too

little of a particular good or service. The resources will be misallocated and there will be a market failure. Externalities arise when a third party, who is not directly involved in the trading process, is affected by production or consumption decisions by producers and consumers through mechanism other than market prices (Duff 1997, p. 17).

Market imperfections

Market imperfections are about violations of assumptions of perfect competition model. There are three blocks of problems under this heading. These are market structure imperfections, capital market imperfections, and information-related imperfections. Market imperfections are important in light of distribution of power between producers and consumers and of them having control over each other.

Market structure imperfections are connected with assumptions about working interaction between many suppliers and many consumers. First question is whether a particular structure is optimal for the market. Second question: given the optimal structure of the market, what are the reasons that hinder successful functioning of its mechanism. A special topic under this heading is sources and impact of monopolies.

Capital market imperfections deal with problems connected with knowledge, power, and access to capital markets. The ability to raise financing for new projects depends on socio-economic status of the producer and also on the project he or she may undertake.

Information-related imperfections cover assumption about perfect information as well as problem with wrong incentives. These include asymmetry of information, the principal-agent problem, adverse selection and moral hazard.

Inequalities

As it was noted earlier, Pareto criterion establishes efficient allocation of resources among those who compete for them. However, it does not mean that this will bring a socially desirable distribution of income. Welfare economics suggest that there must be mechanisms to direct the resources and the benefits from market outcomes to both those who can pay for them and those who need them most. Markets in principle are not concerned with equitable distribution of its outcomes. In cases when the 'invisible hand' is not strong enough to ensure acceptable standards of living to all members of the society, markets have failed to bring equitable distribution of resources.

Governments are concerned with various dimensions of inequalities. In this paper two concepts are used to define equity: horizontal equity; and vertical equity. Horizontal equity

implies that people with similar needs should be treated equally. Vertical equity is about different treatment of people with different needs. Vertical equity is often concerned with redistribution of income. The goal of the government is to eliminate differences in quality of life among different social groups.

Other important issues

There are other relevant issues such as property rights and transaction costs that play an important role in case the market fails. However, these are not examined in this paper. First, it is because of time and space limitations. Second, these issues are not specific only to social services sector. Rather these are problems on the level of the whole economy.

4.3. The Role of the Government

This sub-section discusses the objectives of the government and the approaches it may take to deal with market failures. According to Duff (1997, p. 33), the understanding of government objectives is crucial because it helps to understand the reasoning behind the particular choices of public policy. The government approaches presented in this subsection will be discussed in later sections devoted particularly for social services.

Government objectives

Government objectives can be divided into three areas: economic efficiency objectives; administrative efficiency objectives; and equity objectives.

Economic efficiency deals with getting the most out of the resources available. An important notion here is that it is not necessarily the best possible allocation of resources from a purely economic point of view. In case of the public policy, it is the resource allocation on which the society puts the highest value.

Administrative efficiency deals with two main issues. The first one is related to accountability and quality of the decisions made about the use of the resources at hand. The second issue is the control over administrative costs that are involved when executing a particular approach of public policy. As we will see later, this objective explains why social services and especially 'community care' are assigned to local governments rather than to national government.

Equity objectives deal with distribution of income, basic services, and wealth in its wider meaning. The aim of the government is to achieve the distribution that is *fair*. This objective is very much different from economic efficiency objective, and in reality they may

contradict each other. The equity objective is also related to notion of ‘social protection’ that was defined in the beginning of this paper.

Government approaches

In general government can intervene in three ways: finance and public provision; regulation; and taxes and subsidies.

Finance and public provision

In case of market failure governments can intervene by financing and/or providing the good. This is especially common in cases of public goods and merit goods. Here it is important to draw the separation line between providing function and financing function. The government can undertake both, either, or any mixture of these two functions. For example, instead of financing and producing internally the government can provide financing to external agent (NGO for instance) who produces the good and delivers it to the customers.

Regulation

Governments can use regulations in order to influence the outcomes of the market. One set of regulations are different economic and standard regulations that determine quality, quantity, price and other characteristics of the goods produced. It may also apply regulations to overcome externalities. A vivid example is set of regulations that limit pollution. Finally, regulations can be used to deal with market imperfections. These may include facilitating access to capital markets, improving information, and changing the structure of the market. For example, in a situation where the pure market does not work government can create internal markets, where many suppliers compete for a limited number of government orders. In this case it is possible to achieve that the market would function as if it was perfectly competitive (Duff 1997, p. 50).

Taxes and Subsidies.

Taxes and subsidies can be used as means for obtaining finance for provision of public services. These can be also used in order to alter prices of goods. Another application of these tools is concerned with redistribution of income and wealth. Finally, taxes can be used to overcome externalities (see Duff 1997, p. 41).

This paper will to a large extent focus on government actions on the local level. Thus, the emphasis here will be is on approaches, which local governments can take. Since taxes

and subsidies are within the competence of national governments, these approaches will not be discussed in detail. In the successive analysis taxes and subsidies will be assumed to be exogenous factors.

5. Social Services in Latvia

Sections 2 and 3 defined social services and presented the scope of the services that are discussed in this paper. Section 4 presented the theoretical framework for understanding economics of governments and markets. Based on the theory presented in earlier and the empirical research carried out for the purposes of this thesis, this section describes the characteristics of market for social services in Latvia.

5.1. The Background

Welfare economics suggest that social services and social protection is the responsibility of the government and its agencies. Throughout the 20th century this has also been the dominating view in European countries and especially in the Soviet Union. Though the approaches used in different countries were not the same throughout the century. The most significant differences began to appear in the 1970s.

The main differences were in distinction between public policy, market, non-profit sector, and the responsibility of the family. Whereas this distinction was made clear in Western European countries, it did not exist in the Soviet Union. Here the role of all these actors was played by the government (Tausz 2002, p. 6).

The practices used in Soviet Union have had a big influence on the development of social services in Latvia. When the Soviet Union broke apart, the newly born independent Republic of Latvia inherited Soviet system of social services and social care. Therefore it is useful to look at the its main characteristics.

Majority of social services in Soviet Union were in the form of state owned institutional establishments. These were primarily residential institutions for elderly and mentally handicapped and orphanages for children. The main characteristic of these institutions was that they were big and specialized. The overall emphasis was on medical treatment and medical rehabilitation. By the structure, people who arrived into one of these institutions were not supposed to return into “normal life” or “normal society”. Except for orphanages, people spent their lives in those institutions (Tobis 2000, p. 11).

Interestingly enough, the scope of social services was not very wide in Soviet Union. Many of the services that are available today were not present or even dreamed of during those days. However, one should take into account that many social problems, which persist

today, were not present either. The rest of the problems were also addressed by different other formal or informal mechanisms of the socialist system.

When the Soviet Union broke apart, social services in Latvia became the responsibility of the newly born government. The responsibility was divided among national and local governments. During the first years of transition there was no other choice than to maintain the existing institutions of social care. However, these services soon proved to be unsuitable for the new environment. Socioeconomic changes and raising inequalities in the society drastically increased the amount of social services demanded. There was a demand for new types of social services as well. The cost of providing those services, though, had increased. Moreover the old type of dealing with social problems proved to be inefficient and very expensive.

As a result, during the last decade both social services and government policies have been subject to changes. Government policy has also been influenced by general movement of deregulation towards greater reliance on market forces. Specifically, governments have shifted from production to consumption subsidies by implementing the principle “money follows the consumer”. The role of local authorities in provision of social services has increased. Moreover, starting from year 2004, the local governments will bear responsibility for all kinds of social services.

Socioeconomic and demographic factors also have played important role. Economic development, low salaries, and unemployment (especially in rural areas) affect the social conditions and social environment in the country, which in turn has direct impact on the market for social services. Changes in demand for social services are also caused by growing proportion of elderly people, who have specific social needs.

To sum up, national and local governments face a number of challenges within the field of social services. There has been a drastic increase in the costs of providing social services and the demand for these services has also increased. The governments have responded to these changes by altering the way in which social services are provided and financed. One of the approaches used to better meet the demands of consumers is a more market-oriented approach and development of community-based services.

5.2. Characteristics of the Current System for Allocation of the Resources

Based on the theoretical framework presented in section 4, this sub-section discusses special characteristics of the market for social services due to which a pure market provision would be undesirable. Afterwards the objectives of the government are presented.

The market

The presence of externalities

Social services cannot be treated as a purely private good because there are spill-over effects to third parties. The quality of social services determines the quality of the surrounding social environment.

The externalities may be positive. For example, good social services may create the atmosphere of 'safety' and 'peace' in the community, thereby making it 'a nice place to live in'. The externalities may be negative as well. For instance, if there were no social services to troubled children and youth, a neighborhood could turn into unsafe and risky place, suffering from criminal activities and narcotism.

It is unlikely that a private producer of social services will take the wider impact of better services into account. Thus, in the presence of externalities the market will lead to undesirable outcomes.

The presence of market imperfections

There are various market imperfections present in the field of social services. Looking from the provision side, these are capital market imperfections. The entrepreneurs who would like to start the business in the field of social services would have problems with obtaining loan finance. Banks would be willing to supply loans to projects with above average returns or with collateral. Otherwise they would require higher than usual interest rate. According to the experts in the panel discussion, currently it is not possible to earn profits in the field of social services. The majority of people who are in urgent need for social services cannot afford to pay for them (Ineta Robiņa, Panel Discussion, November 28, 2002).

From the demand side there are problems with imperfect information and uneven distribution of power between providers and consumers. There is a lack of information about the services available and about the order and characteristics of receiving those services (Ivanova 2001). Even when receiving the services consumer has limited ability to make comparisons and ensure that he or she receives the best service and/or pays a fair price for that. The issue of power is also important. First of all, the users of social services are often people from marginal social groups. As a result their ability to speak out and to be heard is also very limited. Further more, social service is basically an experience good. The service is actually co-produced in interaction between the provider and consumer (Walsh et al. 1997,

114-115). Even if the consumer has an opportunity to be heard, it is hard to make any quality assessment, especially if we are looking backwards and evaluating service that has been produced in the past. In this situation a private producer may behave opportunistically and the outcomes would be undesirable.

The presence of inequalities

Currently there are inequalities in the society with regard to distribution of income. As a result people who need social services the most are those who cannot pay for them. If we accept the argument of merit good, which states that everybody should have the right to consume at least the minimum standard of social services, there is a need of government intervention.

Government Objectives

Administrative efficiency objectives

According to the Law on Local Governments, the responsibility for social services in Latvia is delegated to local level administration. The shift of responsibility from the national government towards the municipalities is a part of achieving administrative efficiency. The underlying assumption is that local governments are closer to the customers and can better address their needs (Tausz 2002, p. 11).

As a result, local authorities have complete freedom over the form and the design of social services that they provide to each particular individual. Local authorities are also given freedom to choose between producing the service or purchasing it from the outside. If they find it convenient they may delegate provision of social services to private organizations and NGOs.

Economic efficiency objectives

National government forces the local governments to achieve economic efficiency, by limiting their budgets and increasing their responsibility for the services. It is assumed that financial constraints will force the local governments to find more efficient solutions to social problems (Ivanova 2001).

Delegation of responsibility for production of social services to private sector and NGOs may also be a way to increase economic efficiency.

Equity objectives

To achieve equity objectives the government has passed the guidelines that govern the order in which the social services should be provided. First of all, they determine who is eligible to receive social assistance. Second, they give recommendations about how the services should be designed. An important notion is that instead of offering standard solutions, local governments should focus on the needs of the consumer. By providing adequate services to those who need them the most, the regulators aim to solve problems of horizontal and vertical equity.

5.3. Alternative Models for Development of Social Services in a Municipality.

Based on the information presented above, two conceptual models for development of social services in a municipality can be defined. For simplicity let us assume that a consumer cannot afford to buy social services he or she needs. As it was argued in section 4, this is a very realistic assumption.

A conservative municipality would develop its social services in accordance with model presented in Figure 1. This municipality takes the responsibility for both finance and production of the services. This is by no means a novelty, but an ordinary way of public provision. This is also the way all municipalities started in early 90s. The advantage of this approach is that it is simple and corresponds with understanding of social assistance under Soviet regime. The main drawback is that, in case of limited budget, the local government cannot afford to supply all services that are needed in the community.

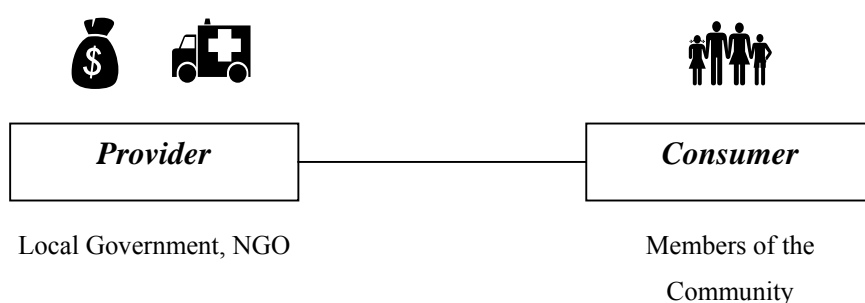
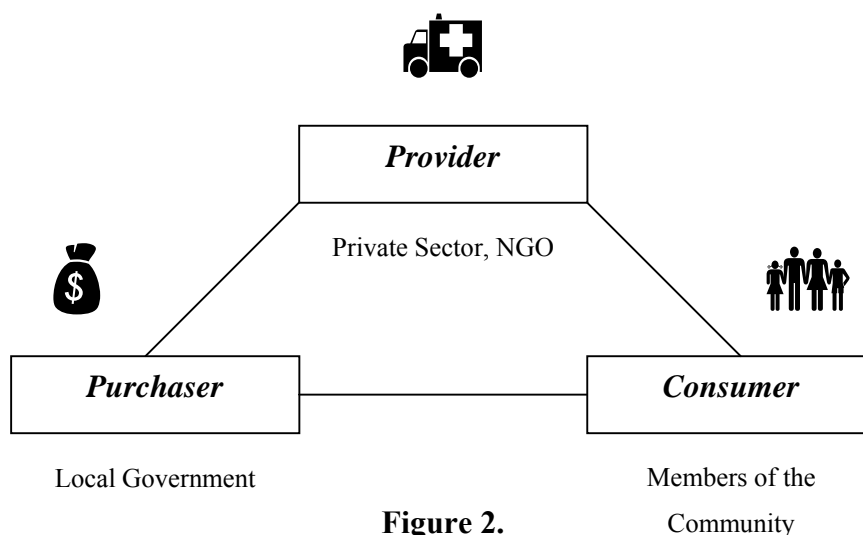


Figure 1.

Yet another problem is that in this setting private providers are ruled out. Even if there are entrepreneurs who are capable and willing to provide the necessary social services, they will not enter this market unless there are paying customers.

However that might be, in this setting nobody is prohibited to offer services for free. If the society wants social services in excess to those supplied by the government, it can bring them into life by doing voluntary work or by creating NGOs. This is the idea behind a public goods theory. It says that governments are limited to providing the services that the “median” voter is willing to support through paying his or her taxes. Those people who want additional services and are willing to pay for them can do so voluntarily by making donations to respective NGO’s (Hudson 1995, p.292).

A more sophisticated approach is presented in Figure 2. It rests on the idea of separation between providing and purchasing functions. Local government in this case does not produce the services, but rather acts as agent between customer and provider.



The function of the local government in this model is called ‘purchasing’. It is not called ‘financing’, because the responsibility of the local government is much wider than just paying money to the provider. According to Walsh et al. (1997, p. 82), it may also include assessing individual needs, judging priorities, developing service systems, and arranging care from a variety of potential suppliers. The local government’s task in this case is also to defend the interests of the consumer. It should ensure about the quality of services and about the performance of the provider.

This task is by no means simple. Furthermore, it may involve new expenses connected with administration of the service system and quality controls.

However, the benefits may outweigh the costs. First of all, in this setting private sector and market-based NGOs come into play. As the number of potential providers

increase, there is more competition in the market. If the competition is both cost- and quality-based, this will lead to more efficient solutions and innovative approaches in tackling social issues.

The problem in this case is that in social services it is unclear to what extent cost savings can be achieved without sacrificing quality (Walsh et al. 1997, p. 19). Besides this model also requires that there is a large number of competing suppliers. That is not the case in rural municipalities where there is a lack of skilled human resources in the sphere of social services (Ivanova 2001).

At this stage let us lift our assumption that the consumers cannot pay themselves for social services they receive. If the consumers are able to pay and if there is a number of potential suppliers we would have a situation as described in Figure 3. This is a modification of model presented in Figure 1. Even though it looks similar to the first model, it has different assumptions, and therefore the ideas working behind it are also different. Whereas in the first model we had local government as a sponsor and sole provider of social services, in this case various providers are competing to attract the paying consumers.

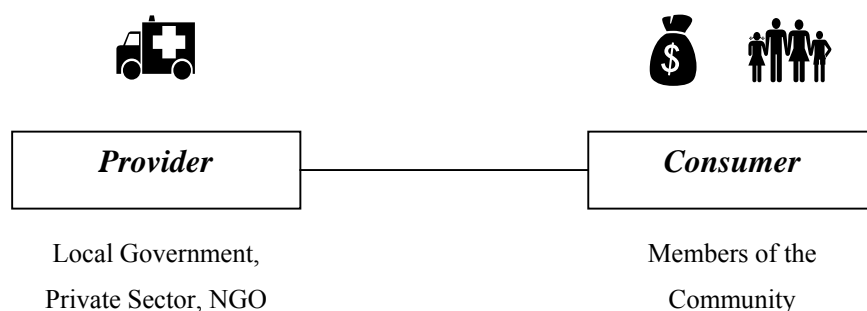


Figure 3.

In ideal world where perfect competition model holds this would be always the case. But an example from real life could be a situation when there is a particular niche, like exclusive residential care, where people are ready to pay high price for high quality service.

The models presented in this section are not mutually exclusive. In reality a municipality can use an optimal combination of them. For example, it could use the following mixture of social services models: (1) provide publicly services, which are essential, but not profitable; (2) purchase services for with there is a large number of potential suppliers; and (3) leave the profitable sectors for the market.

5.4. Role and Capacity of Private sector and NGOs

Previous subsection illustrated the alternative mechanisms how private sector and NGOs can enter the market for social services in Latvia. This subsection will cover issues that are related to capacity of these organizations to provide these services.

The most important factor in social services is human resources. The researches show that currently there is a boom in social education in Latvia (Tausz 2002, p.60). Thus, there are professional people, graduates, who can apply their skills and knowledge about social work by working in respective private organizations and NGOs.

The possible gains from involvement of private organizations in social services are the same as in any other field. These are economic efficiency, bigger number of suppliers, greater choice of services, and higher quality. The main concern about the private providers is whether market relations between actors are viable and desirable in market for social services. Another argument often used by public authorities is that private companies do offer better quality services, but as a result they are more expensive.

A halfway solution between public and private is a delegation of public services to NGOs. In general there seems to be a positive bias towards NGOs in public debates and in the literature. It seems that NGOs can solve any problem in the world (see for example Tausz 2002, p. 145). This attitude finds expression also in a preferential treatment of NGOs to private organizations (Walsh et al. 1997, p. 188). Nevertheless, NGOs have proven to be capable of undertaking provision of social services in Latvia. A good example is a day care center for mentally retarded youth “Latgales Priekšpilsētas Rūpju Bērns”, which was examined during my fieldwork.

However that might be, theory and empirical data shows that the success of private sector and NGOs in the sector of social services is largely dependent on their successful co-operation with local authorities. Thus, the role of private initiative in provision of social services depends on understanding and support from local governments.

6. Case Studies

6.1. Role of NGOs in provision of social services in Riga Municipality

Before we start the discussion it is useful to clarify a confusing trick of the old Latvian Law of Commerce. In Western European countries NGOs or non-profit organization are the ones that are community based (Hudson 1995, p.11). They are sharply separated from limited companies, which represent private sector. Under the old Latvian Law of Commerce, though, the status of NGO is assigned not only to community organizations, but also to private

limited companies that have declared to be not-for-profit (commit themselves not to withdraw their profits; Nikolajeva 1999, p.5). Thus, in this discussion the term NGO could designate both community organization and a private not-for-profit organization.

The information in this part is based on presentation made by Anita Gaigala, chairwoman of Social Assistance Department of Riga Municipality, during the panel discussion of experts.

History

First NGOs in Riga Municipality started to form in early nineties. This was also the time when Municipality started to buy services from those organizations. The first deal was with community organization “Rūpju Bērns” that took care of mentally retarded children in one of the outskirts of Riga. Later services were purchased from private organizations and limited companies as well.

Dynamics

In year 1995 NGO sector received 2% of Riga Municipality’s budget for Social Assistance in payments for provision of social services. The share of NGOs has increased ever since. In 2002, Riga municipality has paid 18% of its budget for Social Aid to NGOs. The budget for Social Assistance has itself increased two times during this period.

Legal Mechanism and Co-operation

According to the law, Municipality can delegate its functions to NGOs. This is also the mechanism how social services are assigned to NGOs.

The Municipality and NGOs can co-operate in several ways. First, Municipality can purchase the service and pay the whole sum of it. Second, Municipality can purchase a part of the service or cover only a part of expenses related to provision of the service. Third, Municipality can support NGO materially (for example, pay public utilities payment). Finally, Municipality can support separate projects of NGOs.

Services Purchased

About 75-80% of social rehabilitation services to mentally retarded people are purchased from NGOs. These include alternative care for people with mental disabilities: day centers, family support center, group apartments, and work for disabled. Besides, Riga Municipality purchases rehabilitation services for children who have suffered from violence, elderly

people, and people who have just come out of imprisonment. Transportation for people with special needs is also supplied by NGOs.

Reasons for Co-operation

NGOs consolidate people with similar thinking, determination and goals. They are closer to people and can better address their needs. They often have high intellectual potential and strong leadership. NGOs are very flexible and quickly adapt to changing environment and requirements.

An important sign speaking in favor of the NGO is its ability to raise additional financing from institutional donors and funds both domestic and foreign.

Reasons for Refusing the Co-operation

The main reason for refusing to co-operate with NGOs is the lack of finance. For example, in 2001 only 12 out of 67 submitted projects received financing from the Municipality. Other reasons are incomplete cash budgets and failure to obey the regulations issued by the Cabinet of Ministers.

6.2. Absence of Private Initiative in Ogre Municipality.

The information presented in this section is based on personal communication with Inta Auziņa, chairwoman of Social Assistance Department of Ogre Municipality (Inta Auziņa, PC, January 6, 2003).

History

Social assistance department of Ogre municipality was established in 1992. Its goal is to design a system for social assistance that provides necessary social aid and services to the members of Ogre community. It has assumed full responsibility for financing and provision of social services and social assistance in the community.

The social assistance department works under direct supervision of municipality. The municipality does not intervene in planning or design of social services. The department has full autonomy to decide about the nature and amount of social assistance provided. At the same time it has to give an account and reconcile each and every expense with the municipality.

Budget

Social Assistance in Ogre municipality receives about 6% of the total budget of the municipality and this share is gradually rising. This is quite a handsome result if compared to national average of about 2%¹ (Tausz 2002, p.161).

Though this information may be interpreted differently. One interpretation may be that as a regional center, Ogre municipality has more resources and hence capacity to deal with social problems than a number of small rural municipalities in Latvia. The other interpretation is that Ogre municipality is less efficient. However that might be, these are pure speculations. First, it is not possible to make credible national comparisons because of administrative and demographic differences among the municipalities. Second, there is no systematic database about the amount and scope of social assistance in the country (Tausz 2002, p. 164).

Services Supplied

Ogre municipality provides day care and short-term residential care to children from poor and disadvantaged families. Day center for mentally retarded youth is also established. Different consumer and health services related to social care are also provided. These include dining facility, sewing shop, dentistry, and medical rehabilitation. Services are supplied to people with low income and to marginal social groups.

The rest of social services are designed and provided on ad hoc bases. In a 'case of emergency' when a person requests social services, the staff of social assistance department looks at the regulations, decides what kind of assistance is necessary, and designs the solution. These are usually issues like helping an elderly person who cannot go to the shop and buy food or simple home care. Very often neighbors or relatives of a person in need are involved in this assistance. From the professional point of view this assistance does not deserve to be labeled a 'social service' (Juris Reihlers, Panel Discussion of Experts, November 28, 2002).

Reasons for absence of co-operation

According to Inta Auziņa (PC, January 6, 2003), the main reason why social assistance of Ogre municipality does not co-operate with external providers is the notion that this is more costly than to do everything internally. However, when we went deeper in the discussion

¹ The data presented in Tausz (2002, p. 161.) was only for years 1997 – 1999. However, given the trends in social policy during the last decade, I assume that the situation until now has not changed radically

about the ways in which private sector and NGOs could assist the municipality, she agreed that even within the limits of the budget such co-operation is possible.

As another alternative to public provision community-based services were mentioned. Mrs. Auziņa used this term in the narrowest sense, meaning an informal support from the community.

6.3. Reflection on the Case Studies

This section compares the case studies in terms of alternative models for providing social services discussed in section 5.3.

Ogre municipality has organized its social services in a conservative way as described in section 5.3. and presented in Figure 1. It has assumed the responsibility for both financing and provision of social services. Riga municipality, on the other hand, has in certain cases implemented the second approach and purchases services from private providers and NGOs (see Figure 2. in section 5.3.)

This shows that both models are viable and are present in reality. At the same time the first model still seems to dominate when examining the approaches used by the municipalities. One explanation is that the second model is relatively new and it will take time before it becomes a common practice. Besides, even though the second model is intellectually more appealing and has a relative success in Riga municipality, it can not be dogmatically suggested to all municipalities. There are many differences in administrative structure, territorial organization, and demographic situation among municipalities in Latvia. The particular characteristics of municipalities may define their optimal social policy choice-set.

However that might be, as far as the experience of Riga municipality shows, the market approach seems to be working.

7. Discussion

This section discusses different problems related to social services that were discovered during the fieldwork.

7.1. Social Services and the Government

This subsection focuses on issues that are related to the role of the government in regulation, finance, and provision of social services. It also discusses the role of the right incentives and motivation of regulators and officials.

The Role of the Government

The first question that is always discussed in relation to governments and social services is how much if at all should the government be involved in finance and provision of social services. The opinions on this matter differ greatly. On the one extreme there are leftists who say that all social services should be provided by the state. On the other extreme there are radical rightists who claim that the 'invisible hand' will do the entire job, just let the markets function. The latter idea has become increasingly popular during the last decade because of limited budgets of state and local authorities. The theory and the empirical research carried out for the purposes of this thesis show that the role of the government in finance and provision of social services is irreplaceable. If left alone, markets will lead to undesirable outcomes.

This has important implications for the development of new social services. The overall attitude of authorities in local governments is that they should only preserve a minimum standard of social services. If there are new services popping up and there is a corresponding demand for them, the government should not intervene. The market will show whether these services are viable or not. This is a dangerous attitude. In this case many necessary services may be driven out of the market or become available only to a limited group of people – those who can pay for that.

Therefore the government and the local governments in particular should be involved in continuous assessment of existing services and planning of new ones. This planning should be done in co-operation with NGOs and private entrepreneurs who offer social services. In most cases private sector and NGOs can bring new services into life only when they receive support from the local government.

Attitude towards Social Services

Social services in Latvia are often regarded as qualitatively different from other public services. Walsh has described the existence of the same problem in UK (see Walsh et al. 1997, p. 119), though in Latvia it is even more acute. One of the explanations is that there is still a lack of political traditions and appropriate agencies dealing with social problems in Latvia (Tausz 2002, p. 12). The other problem is that, unlike other public services, it is hard to think of social services as of a good, which is produced and consumed.

The results of these confusions are bad. First of all, the users of social services are treated as beggars of the state, feeling shame for these provisions. Second, this is reflected in the budgets for social services, which are as small as possible.

Lack of Finance – not the Only Problem

Typically lack of financing is mentioned as the main problem why social services develop so slowly. People in need cannot pay for the services, and the municipalities have a rather limited budget for this kind of problems. However, the panel discussion revealed that there are underlying problems that determine the role of social services in the society and consequently the role of private sector and NGOs in the social services.

There is no uniform agreement even at the regulatory level about what are and what are not social services, who should provide them, and what are the quality requirements. The social status of social services and social workers is ambiguous. As a result, it is unclear how to value social services, and how to compare one provider with another. In such a situation, in order to minimize the risks and possible failure, the authorities in charge give as little money to social services as possible (Panel Discussion, November 28, 2002).

Consequently the status of the whole sector is devalued, and the services provided are of very low quality. The prestige of the social work is forced down. The chaos in the bottom creates a feedback loop back to the regulators, who become even more confused and doubtful about the solidity of social services sector.

Motivation of Officials

According to Inese Krustiņa (Panel Discussion, November 28, 2002), the officials in municipality are not motivated to solve the problems of people in the community. They are not eager to design co-operation schemes with private sector and NGOs either. This was also noted by the experts surveyed by Robiņa (2002, p. 42).

This is a serious problem since we know that co-operation between private initiative and the municipality for the benefit of community is one of the drivers of social services development.

This is not only a problem in Riga municipality. Researches by NGO Center show that the majority of municipalities in Latvia do not have designed a mechanism for co-operation with NGOs or the private sector. They have vague visions at best (Andra Indriksone, NGO Forum 2002, November 27, 2002).

Social Education

Currently there is a mismatch in the legislation and social education (Inese Krustiņa, Panel Discussion, November 28, 2002). Let us illustrate this problem with an observation from the

field or higher education. There are several universities that have produced recent and coming graduates with higher education in the field of social work. The state supports morally and even financially the education of those people. However, there are no places for those people to work. At least there are no places that would be acceptable for a person with higher education (Juris Reihlers, PC, November 27, 2002).

This is a deeply worrying situation. According to Tausz (2002, p. 60), such situation can undermine the confidence in social education and the social services sector as a whole. Besides, the graduates of schools of social work are the potential human resources for NGOs and the private sector in the field of social services.

7.2. Issues Related to Private Sector and NGOs

Motivation of Private Sector and NGOs in the market for social services

The panel discussion revealed that there is difference between motives of private sector and NGOs.

NGOs enter the field of social services because they have some sense of mission to improve the world and reduce the suffering. For example, NGO “Rūpju Bērnus” was established because the founders or the organization had experienced themselves what it takes to have a mentally retarded child in the family. They spotted the deficiency in the supply of social services and decided join their efforts, take the initiative and help each other and people who would have similar problems in the future. The main goals were to improve the lives of mentally retarded youth in their community and to help the parents who have a mentally retarded child in their family. Financial considerations were not the primary concern.

Private company, though, enters the market only if it can earn some profits or at least survive. That is because entrepreneur risks with much more his/her own capital than founders of a community organization do. Besides, unlike founders of community organizations entrepreneurs are usually not employed in any other enterprise, but their own, and do not have any other source of income.

However that might be, the panel discussion showed that there is almost no possibility to earn profits in the market for social services. Even though private entrepreneurs beat the community organizations in quality of the service (Juris Reihlers, Panel Discussion, November 28, 2002), due to lack of financial resources municipalities are buying services at

the lowest possible cost. As a result, entrepreneurs are forced to engage into price war with community organizations, which supply services at or even below a marginal cost.

In order to stay in the market, private organizations either should supply services, which community organizations cannot produce or cross-subsidize the loss-making activities by carrying out activities that are profitable. For example, the organization “Mūžība”, that was examined during my fieldwork, provides a funeral service in order to subsidize other social services it offers, such as consultations of a psychologist in crisis situations.

In these circumstances only those private organizations that are at least to some extent value-led will remain in the market for social services. Thus, the differences in motivation of NGOs and private companies in social services sector are not as big as one would expect in theory.

Competition between Private Sector and NGOs

As noted earlier, currently NGOs enjoy preferential treatment if compared to private organizations. An interesting question is whether they should be allowed to compete fairly. Entrepreneurs are angry because NGOs strip away contracts with municipalities. NGOs, on the other hand, are worried about their survival and even ask for more relieves.

From the theoretic point of view, preferential treatment of competitor is a market failure and leads to inefficient allocation of resources. This suggests that private entrepreneurs and NGOs should be allowed to compete fairly.

Furthermore, if the advantages of NGOs are permanent, all entrepreneurs will establish NGOs, thereby making such preferential treatment useless.

Fragmentized NGO Sector

According to Biruta Grāve (Panel Discussion, November 28, 2002), Chairwoman of NGO “Latgales Priekšpilsētas Rūjpu Bērns, NGO sector in Latvia is very fragmented. As a result, there is a big number of small NGOs with little power and voice. These organizations have a very limited ability to implement their mission and influence the decisions taken by the local governments.

In such a situation, a national organization of NGOs plays a key role. For example in UK there is a National Council of Voluntary Organizations. It does a great job in order to promote the activities of NGOs in public services in order to bring benefits to community (see Bush 2001).

In Latvia there is a similar organization called NGO Center. However, it is more concentrated on monitoring of public policy than on helping to solve everyday issues of

NGOs. It has not been very active with regard to social services either. So there is a room for improvement. On the other hand, there is nothing that prohibits NGOs to form alliances with each other by themselves. This is yet another way how NGOs can increase their bargaining power.

7.3. Future Paths

Private Initiative and Small Local Governments

Starting from year 2004 responsibility for all social services will be shifted to local governments. This implies that municipalities will also have to manage orphanages and residential institutions for mentally retarded people.

Many small local governments are increasingly worried about their capacity to deal with these issues. There is a lack of both financial and human resources. Still the services must be supplied.

Private sector and NGOs can help the local governments to deal with these problems. They may provide new innovative ways to deal with social services, attract additional human resources, and increase the capacity of the local governments to undertake different social programs. In cases of small rural municipalities a single private provider or NGO could serve several municipalities at a time, thus being able to survive and provide several communities with necessary services.

The Effects of the New Legislation

A new legislation governing provision of social services is adopted since January 1, 2003. The opinions of experts about the new Law on Social Services and Social Aid are contradictory. Because of the short time period since these rules are active, it was not possible to examine the new law in detail within the scope of this thesis.

However, some positive aspects can be noted. The new law gives more specific definition of social services and describes the different types of them. These may bring more clarity when it comes to concluding contracts between local governments, private sector, and NGOs.

Exclusive Social Care

As the economy develops and the purchasing power of people increases, this might be area where private providers and market-based NGOs could be increasingly active in the future. In

particular, they could concentrate on expensive care to elderly people. As for now, there is a lack of reliable information about this market segment in Latvia.

8. Conclusions

The purpose of this paper was to explore the field of social services and to find out what are the different incentives and barriers that determine the role of private sector and non-governmental organizations (NGOs) in provision of social services in Latvia. It also tried to assess whether non-governmental organizations and especially entrepreneurs may consider social services as an attractive business opportunity.

It defined social services, provided description of market for social services in Latvia, and described forms of co-operation between the local government, private sector and NGOs. It also discussed specific issues like motivation of private sector and NGOs in the market for social services, as well as touched upon problems related to sector of social services as such. For more detailed analysis two case studies were carried out by looking at how the development of social services and co-operation between local government and private initiative works in Riga and Ogre municipality.

The theoretical analysis of market for social services in Latvia showed that it is subject to variety of market failures. First, social services have characteristics of semi-public and merit goods. Hence, the government should intervene to indicate the efficient level of production and consumption. Second, social services have spillover effects to third parties and there is a presence of externalities. Third, they are subject to various market imperfections. Finally there are inequalities in access and means by which members of the community can consume social services.

Because of market imperfections a pure market allocation of social services would lead to undesirable outcomes. First, not everybody who needs the services would be able to consume them. Second, many services that are needed would not be supplied in the market, because often people who need them cannot afford to pay for their provision. As a result, majority of social services in Latvia are financed, provided, and administered by the government or municipalities.

The government has a number of objectives that it aims to meet in the field of social services. These can be summarized as administrative efficiency objectives, economic efficiency objectives, and equity objectives. In order to meet these objectives the national government has assigned the responsibility for planning and design of social services to local

governments, tightened the budgets for social assistance, and issued the regulations about the order in which members of the community are entitled to receive social services.

Section 5 presented alternative models how local governments can develop social services in the community. They can finance and provide the services publicly or purchase the services from private sector and NGOs. In exceptional cases, when consumers can afford to pay for the services and when there are potential suppliers, the municipality may leave provision of the services to the market.

The case study of Riga and Ogre municipalities showed that the models described in section 5 are present in reality. In particular, the example of Riga municipality shows that there can be a successful co-operation between municipality and private initiative in provision of social services. However the choice whether the local government purchases services from outside or not may depend on many different factors like the budget, administrative structure, territorial organization, and demographic situation in the municipality.

The case studies illustrate that success of private sector and NGOs depends on their abilities to co-operate with municipalities. The analysis shows that currently in most cases social services sector is not strong enough to do without the assistance from the local government. Though the local governments are not always willing to co-operate. Typically lack of finance is mentioned as the main reason why local government refuse to co-operate with private sector and NGOs.

However, the panel discussion of experts revealed that there are other problems than money that determine the ambiguous role and slow growth of social services sector. There is no agreement even at the regulatory level about what are and what are not social services, who should provide them, and what are the quality requirements. Besides the officials are not always motivated to co-operate with private sector and NGOs.

In order to have more influence on the local governments and their decisions, private sector, NGOs and the community should form alliances. The role of NGO Center as the unifying organization in this process could be very important.

The analysis of motivation issues revealed that even though in theory there is strong difference between motivation of NGOs and the private sector, in social services this borderline is not so strict. Probably the incentives to choose a particular form of organization depend on tax considerations and the level restrictions on economic activity more than on motivation. As a result, there are fewer grounds for preferential treatment of NGOs over the private organizations.

The analysis of future prospects for private sector and NGOs in the field of social services shows that they may play an important role in helping the municipalities to overcome difficulties coming with year 2004. In 2004 the responsibility for all social services in Latvia will be shifted to local governments. Many and especially small local governments have lack of financial and human resources to handle this responsibility.

The recently adopted Law on Social Services and Social Aid may have positive effect on the development of social services sector in the future. It defines social services more specifically and provides guidelines for their realization. Another potential niche for elaboration is exclusive social services sector that may grow in line with economic development. However, in this paper these issues are discussed on the level of pure speculations and may constitute grounds for further research.

Finally, given the current situation and future prospects of the market for social services, we should answer the question whether entrepreneurs may consider it a serious business opportunity. It is clear that this market is not a Bonanza where one can earn abnormal profits today or in the future. But definitely there is a way for an entrepreneur to enter this market, do a good job, and survive in the long run. Besides, municipalities are increasingly aware of the need for such cooperation. Thus, I believe that both NGOs and private entrepreneurs will be increasingly active in the field of social services in the future.

9. References

Primary Research

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Appendix 1. List of Experts Surveyed**Inta Auziņa**

Ogre Municipality. Chairwoman of Social Aid Department
Personal Communication, January 6, 2003.

Aija Barča

Deputy of 7. Saeima. Chairwomen of Saeima Social and Employment Matters Committee.
Personal Communication, November 26, 2002.

Laima Čakste

Social Aid Fund. Head of Information Department.
Personal Communication, November 27, 2002.

Anita Gaigala

Riga Municipality. Chairwoman of Social Aid Department.
Personal Communication, November 25, 2002.

Biruta Grāve

Community Organization Latgales Priekšpilsētas “Rūpju Bērns”
Personal Communication, November 22, 2002.

Andra Indriksone

NGO Center. Public Policy Observer.
Personal Communication, December 19, 2002.

Inese Krustiņa

Riga Municipality. Chairwoman of client service center “Vienas Pieturas Aģentūra”.
Personal Communication, November 26, 2002.

Mudīte Mardoka

Community Fund “Cerība Tev”. Representative.
Personal Communication, November 25, 2002.

Elmārs Pļaviņš

Community Fund “Cerība Tev”.

President. Personal Communication, November 22, 2002.

Juris Reihlers

Service “Mūžiņa” Ltd. Director.

Personal Communication, November 27, 2002.

Ineta Robiņa

Social House, Rēzinas street 10/2, Riga.

Personal Communication, November 22, 2002.

Appendix 2. List of Experts in the Panel Discussion

Anita Gaigala

Riga Municipality. Chairwoman of Social Aid Department.

Topic

Role of NGOs in provision of social services in Riga Municipality. In which cases the municipality cooperates and in which cases it refuses to support private initiative.

Information

Anita Gaigala has participated in the development of the system for social services and social aid in Riga municipality since its early stages. Her conviction is that provision of many social services should be delegated to NGOs.

Biruta Grāve

Community Organization Latgales Priekšpilsētas “Rūpju Bērns”

Topic

Motivation of NGO in social services sector. What are the most acute problems? What are the characteristics of environment where the NGOs operate? Is there a competition? Is there support from government, NGO Center, or other agencies?

Information

The mission of NGO “Rūpju Bērns” is to provide equal opportunities, high quality of living, and integration in the society to children and youth with special needs. NGO “Rūpju Bērns” has established support center for families, two day centers, and a short term residential facility.

Inese Krustiņa

Riga Municipality. Head of the client service center “Vienas Pieturas Aģentūra”.

Topic

The introduction of new kinds of social services into practice. The attitude and motivation of regulators and officials. Problems and examples.

Information

Client service center “Vienas Pieturas Aģentūra” (One Stop Agency) provides information about different public services available in Riga municipality to citizens of Riga. Inese Krustiņa has coordinated provision of social services while working at Kurzeme directorate

of Riga municipality. She also gives lectures at Latvian Christian Academy and advocates a new kind of social services – social-caritative work.

Mudīte Mardoka

Community Fund “Cerība Tev”. Representative.

Topic

Role of NGOs in rehabilitation of social groups. Co-operation between NGOs in daily operations and when raising finance.

Information

The mission of Community Fund “Cerība Tev” is to promote charity, education, and Christian values in the community. It offers practical help (human aid, material support to the poor), spiritual assistance (consultations in crisis situations), and education (seminars and literature).

Ineta Robiņa

Social House, Rēznas street 10/2, Riga.

Topic

What are the areas where private sector and NGOs should be involved? What is the co-operation between private sector and NGOs?

Information

Ineta Robiņa has defended a Master Thesis with title “Housing Policy for Elderly People in Riga”. Currently she is working at social house in Rēzna Street 10/2, Riga, and daily encounters with problems related to co-operation between NGOs and private organizations.

Juris Reihlers

Service “Mūžība” Ltd. Director.

Topic

Motivation of a private entrepreneur in social services sector. What are the most acute problems? What are the characteristics of environment where the business operates? Is there a competition? Is there support from the government, NGO Center, or other agencies?

Information

Service “Mūžība” Ltd. provides consultation of a psychologist in crisis situations. The other profile of the company is funeral service.