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Informative report

Proposals for improvement of the social security system

Ministry of Welfare

2013

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Introduction

The development of globalisation, the economic crisis and its consequences prove that a stable and effective social system not only needs to be created, it has to be developed on a continuous basis. On 3rd October 2008 the European Commission (hereinafter the Commission) published a Recommendation regarding active integration of people who are excluded from the labour market inviting the Member States to review their social protection systems by organising and implementing a common active integration policy based on the following fundamental principles: provision of an adequate income, inclusive labour markets, accessibility of high quality services (education, health care).

Demographic changes, i.e. the decrease of the number of population at working age, low birth rates and increase of the proportional share of elderly people, combined with the increase of poverty and social exclusion, high unemployment level, considerable decrease of the income level of population create challenges for the social security system and their efficient solution will impact the sustainability of the system and its ability to prevent or to minimise the negative impact of these consequences upon the living standard of the population. By way of responding to the above listed problems, on 20th February 2013 the Commission published the Communication „*Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020*”, to which several Commission Staff Working documents on certain topics are annexed (long-term care, health care, reduction of child poverty, homelessness, use of the EU funds). This set of documents forms the Social Investment Package which serves as the EU level policy framework for Member States. The fundamental principle of social investment is sustainability, targeting and investment throughout a person's lifetime.

The Social Investment Package invites Member States to focus more on social investment in order to develop the people's competence and to support their participation in the society and in the labour market. This Commission initiative is intended for ensuring that more efficient and rational use of resources ensures adequate and sustainable social protection, the development of a person's skills and competences provides more possibilities for integration with the society and the labour market, and the social security system complies with the needs of people in cases when there is a social risk and prevents emerging difficulties instead of minimising the caused damage. It is clearly emphasised that the social policy is not viewed as the *expenditure* delaying the economy development; instead it is considered to be a productive *investment* in the development of the economy and the growth of employment.

The European Semester and the recommendations provided to the Member States within this framework is among the most important tools that the Commission intends to use for monitoring the efficiency of the social security systems in Member States. The Recommendations provided by the Commission to Latvia in 2012 and also 2013 emphasise the necessity to *reduce poverty*, in particular highlighting children as a target group, to reform the social assistance system with the goal to ensure better coverage and to provide more efficient support, to solve the long-term and the youth unemployment issue by improving the active labour market policy measures.

Latvia's goals for the poverty reduction are outlined in the *National Development Plan for 2014-2020* and the *National Reform Program* by defining both the priority target groups and outlining the major support areas and directions of action.

The Declaration regarding the intended work of the Cabinet of Ministers led by Valdis Dombrovskis and the Government Action Plan (approved by Decree of the Cabinet of Ministers No. 84 of 16.02.2012 “Regarding the Government Action Plan for implementation of the intended activities of the Cabinet of Ministers headed by Valdis Dombrovskis”) sets

the following task for the Ministry of Welfare; “the implementation of the social assistance system reform by gradual transition from the passive or the benefit based social assistance system to the active system or the system providing incentives to clients and involving in the improvement of one's own situation, in order to secure the maximum added value to the clients and the society as a whole on the basis of available resources (Paragraph 17.2 of the Government Action Plan); and for the Ministry of Environmental Protection and Regional Development: „the development of common conditions for receiving the housing benefit in the country” (Paragraph 17.4 of the Government Action Plan).

On 14th February 2013 the Saeima [Parliament] ratified the **Revised European Social Charter**¹, thus a range of the Articles of the Charter became binding for Latvia, including Article 30 *The right to protection against poverty and social exclusion*.

In order to start the revision of the social security system and to ensure that justified decisions are made in proposing the measures and the directions of action for the improvements of the area, in 2013 the research of the World Bank „Latvia: Who is Unemployed, Inactive or Needy?” (hereinafter the WB study) was carried out. The results of the WB study, along with the general evaluation of the system, outline its deficiencies and identify problems within social assistance system, labour market policy, state social benefits and tax policy, as well as identify the major risk groups of population. The following can be highlighted as the major common problem areas of the social security system in the conclusions drawn within the framework of this research:

- the lack of targeting of the support provided by the state and municipalities and the necessity of its improvement for the most poorest population;
- the necessity to implement measures that would allow smoother transition from social assistance support to paid employment;
- the necessity to define more accurately the priority target groups to be supported;
- the necessity to improve the implementation of certain active employment measures.

The low income families with children, low work intensity households, elderly population, in particular with addiction issues, chronic diseases or disability are the key target groups to whom the support measures need to be improved or for whom new initiatives should be developed.

In addition to the launched initiatives by the Ministry of Welfare in the improvement of the field policy² which offer solutions to several problems identified in the WB study, in this report the Ministry of Welfare analyses in more detail the necessary improvements in the social security system (the minimum income threshold, social assistance, state social benefits and social insurance) by focusing on the directions of the improvement of the support provided to the population exposed to the at-risk-of poverty.

The depth of social problems caused by the economic crisis in Latvia in comparison to other EU Member States, the low financing of the social security system are the challenges that should be considered during the economy recovery period when planning and

¹ The European Social Charter is in force in Latvia from 2 March, 2002. In compliance with Article 13 of the Charter any person who is without adequate resources is entitled to receive social and medical assistance providing for the obligation of Latvia as a signing party to ensure that any person who is without adequate resources and who is unable to secure such resources either by his own efforts or from other sources, in particular by benefits under a social security scheme, is granted adequate assistance, and, in case of sickness, the care necessitated by his condition.

² Strategy for Professional Social Work Development (2014-2020) (announced at the meeting of the State Secretaries on 20.06.2013; VSS-1030), Strategy for implementation of the UN Convention on the Rights of Persons with disabilities (2014-2020) (announced at the meeting of the State Secretaries on 06.06.2013; VSS-598), Strategy for Development of Social Services (2014-2020) (announced at the meeting of the State Secretaries on 01.08.2013; VSS-1509), Strategy for Employment and Inclusive Growth (2014-2020) (a draft is under development).

implementing the social policy. During the economic crisis the social protection system played an essential role in stabilising the situation, however, its positive role has gradually decreased³ and the question regarding the ability of the social security system to provide the protection of the household income on a certain level and to contribute to the stabilisation and the development of the economic cycle has become important.

In Latvia the social security or social protection expenditure are among lowest in comparison to other EU Member States and also among the Baltic countries. Though an increase of the percentage proportional share of the expenditure could be seen in the beginning of the economic crisis from 12.7% of the GDP in 2008 to 16.9% of the GDP in 2010, these indicators still considerably differ from the EU average figures that range from 27% to 29% over the 2005 to 2010 (see Table 1 in the Annex). Also the assessment of the social security expenditure carried out during the post-crisis period⁴ in the Member States verifies that Latvia is among the countries where there is a considerable percentage reduction of the expenditure in 2011 and 2012. In 2011 the proportional share of the GDP of the social protection expenditure decreased in comparison to two preceding years and amounted to 15.1%. According to the statement in the WB study, although the comparison of the social security expenditure among countries also requires detailed evaluation of the fiscal and economic situation and the structure of the expenditure and there is no universal answer to the question how much a country can and should spend for the social security expenditure, it is possible to assess what improvements would be needed in this system⁵. Taking that into account and having regard of the poverty situation in Latvia, the efficiency of the current investment needs to be evaluated and they should be restructured for ensuring that the support is extended to the poorest population. The improvement of the efficiency of the social security expenditure and ensuring that the distribution reduces social inequality between the population belonging to different income groups is also required for ensuring better readiness of the system in case of economic recession⁶. At the same time it should be emphasised that the report does not review necessary actions in other systems (for example, tax, education and health systems) where targeted measures for the reduction of poverty and income inequality also need to be envisaged taking into account the importance of their role.

As the proposed solutions only provide for the improvement of the system in certain social security areas, moreover, on the basis of limited financial resources, one should be aware that radical changes in the improvement of the poverty situation cannot be achieved in this way and the number of population exposed to the poverty risk will not be considerably reduced only by the measures planned in the welfare area. Considerable changes for the reduction of poverty can only be achieved by implementing a targeted and integrated policy in all the areas which have a direct and an indirect impact on the effective employment possibilities of an individual and the accessibility of required services⁷. The *goal* of the solutions for improvement of the social security system proposed by the Ministry of Welfare is to improve the efficiency of the use of public resources by providing financial support to the poorest and the most vulnerable population, as well as taking into account the results of the WB study to define further medium term objectives for the reduction of income inequality.

³European Commission, Social protection budgets in the crisis in the EU, Working Paper 1/2013, Olivier Bontout & Terezie Lokajickova, 5.lpp.

⁴ *ibid.* p. 17

⁵The WB study „Latvia: Who is Unemployed, Inactive or Needy?“, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 18.

⁶*Ibid.*, p. 10.

⁷ In compliance with the human security priority defined in the National Development Plan of Latvia for 2014-2020.

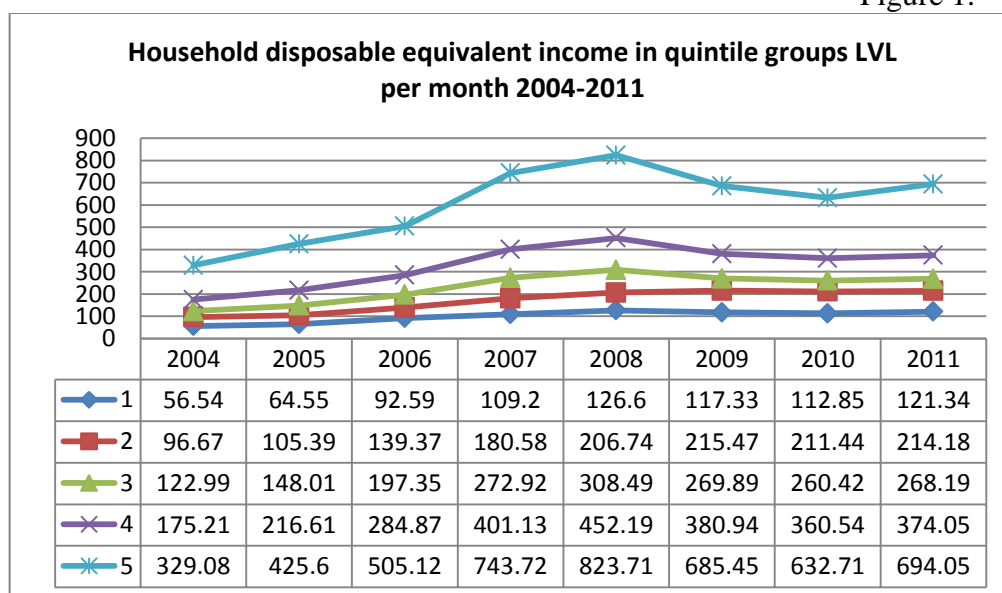
1. DESCRIPTION OF THE SITUATION

1.1. Poverty in Latvia⁸

Along with the fast deterioration of the economic situation as a result of the financial and economic crisis, the reduction of income was characteristic in Latvia in 2008-2010, mainly as a result of losing a job or the reduction of wages, which is also reflected in the average income of population. The income decrease impacted households in all the quintile⁹ groups to a higher or a lesser extent. The highest percentage income was characteristic for better-off households where, in comparison to 2008, the income decreased by 23% in the 5th quintile, by 20% in the 4th quintile and by 16% in the 3rd quintile. Although the percentage reduction in the quintiles of lower income was less (11% in the 1st quintile, and an increase of 1.3% in the 2nd quintile), though it was felt relatively more taking into account the low income amount (see Figure 1).

During the crisis period the difference between the actual income of persons exposed to the poverty risk and the poverty risk threshold (the relative median poverty risk gap) increased from 29% (below the poverty risk threshold) in 2008 to 32% in 2010. This verifies that the depth of poverty in the poorest households increased as a result of the crisis, and as the state and the municipal support to poor persons was increased, the relative median poverty risk gap decreased again to 28.6% in 2011 (see Figure 1 in the Annex).

Figure 1.



Source: Data of the Central Statistics Bureau.

The reduction of income in the first two quintiles was to a large extent impacted by the implementation of the measures of the Social Security Net Strategy¹⁰. This is evidenced by the statistical information regarding the impact of social transfers¹¹ upon the household income which considerably increased during the crisis period

⁸ The poverty situation in Latvia is analysed in this section on the basis of the EU poverty measurement methodology.

⁹ Quintile (EU-SILC research) is one fifth (20%) of the number of surveyed households groups in an ascending order based on the available income per household member.

¹⁰ Order of the Cabinet of Ministers No. 490 "Regarding the Social Security Net Strategy" (adopted on 18 August 2010, protocol no. 36 82.§). Available at www.likumi.lv.

¹¹ Social transfers are pensions and benefits granted by the state and municipalities, subsistence for children, scholarships, social insurance benefits and compensations, including also from other countries.

and minimised the population risk to face poverty. In 2007 and 2008 social transfers reduced the poverty impact by slightly more than 10 percentage points, however, during 2009 and 2011 this impact doubled and social transfers reduced the poverty risk by more than 22 percentage points¹². Social transfers account for the highest proportional share in the disposable income of the households belonging to the first three quintiles, i.e. on average 44% (see Table 2 in the Annex).

According to the research of the World Bank¹³ (hereinafter the WB study) the analysis of the household income in the OECD¹⁴ countries in economic crisis situations attests that the recession has the most negative impact upon low income groups and these groups experience the improvement of the economic situation at the slowest pace. Similar trends can also be seen in Latvia. The increase of average income of households promotes the increase of the poverty risk because the income of poor people do not increase equally to well-off people and the poverty risk continues increasing accordingly¹⁵. The stabilisation of the economic situation has had the most positive impact mainly on better-off households, and households with low income experience the recovery of the economy to a minimum extent. In 2011 the income started growing for the better-off part of the population (the 5th quintile) and increased by 10%. Indicators describing **the income inequality**, including the S80/S20 income quintile share ratio¹⁶, in Latvia are among the highest among the EU Member States, i.e. the income of the 5th quintile is on average 7 times higher the income of the 1st quintile (see Figure 2 in the Annex), while the relevant indicator in the EU is 3-4 times¹⁷. Income inequality is among the main causes for poverty risk in Latvia and this has been a continuous problem for a number of years in the result of unequal redistribution of income. Still, it has to be taken into account that the population income in Latvia is very compact (see Table 1), therefore even slight change in the income of one quintile group can relatively worsen the situation of another quintile group.

Table 1.

**The lowest and highest margin of population income per quintile groups
in 2011, LVL**

		per household member		
		Average	lowest margin	highest margin
		214.01		
Quintiles	1	73.45		up to 113.17
	2	139.92	113.20	164.04
	3	182.57	164.15	204.76
	4	247.07	204.79	306.08
	5	478.79	from 306.22	

Source: Central Statistics Bureau, EU-SILC2012

¹² The publication of the Central Statistical Bureau "Income and living conditions in Latvia in 2012", Riga, 2013.

¹³ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Analysis of the incentive structure created by the tax and benefit system, Financial incentives of the tax and benefit system in Latvia, p.5.

¹⁴ The Organization for Economic Co-operation and Development, hereinafter referred to as OECD.

¹⁵ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 29.

¹⁶ The ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile), the Central Statistical Bureau of Latvia.

¹⁷ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Labour market and social conditions diagnostic, Poverty, inequality and the social impact of the financial crisis in Latvia, pp. 9, 10.

The problem of compact income was identified already in 2002 by the Dutch researcher F. Gassmann who studied about the poverty in Latvia arriving at the conclusion that „[...] there is no middle class in Latvia because the distribution of the other 80% of the population is very compact from the point of view of both the income and the expenses”¹⁸.

At-risk-of-poverty threshold¹⁹ for a single person household amounted to 1877 lats per year or 156 lats per month (see Figure 3 in the Annex). From the percentage point of view the poverty risk threshold gradually decreased over the period from 2008 to 2010 and started increasing in 2011 which can be explained in two ways. First, during the crisis period the income mainly decreased in better-off households (mainly due to income from paid work), thus also reducing the poverty threshold amount and the number of people whose income is below this threshold. Second, the income which was slightly above or below the poverty threshold during the pre-crisis period mainly referred to the persons at pre-retirement age (above 60 years) with stable low income; for the age group 65+, among the other age groups, the income is still among the lowest during the last four years (see Figure 4 in the Annex) and basically it did no change during the crisis period due to the stability of the social insurance payments (old-age pensions). Thus, along with the decrease of the poverty risk threshold, the income of majority of these persons was no longer below the poverty threshold²⁰. However, in 2011 the poverty risk threshold increased because the income of better-off households where persons at the pre-retirement and retirement age do not account for a large proportional share increased and the poverty risk increased accordingly, in particular, for persons aged above 60 years. This means that if relatively low income is maintained for persons above 60 years of age also in future, this age group could again account for the highest proportional share among the poorest population.

The depth of the economic crisis and the impact of the negative consequences caused by it upon the living standard of the population clearly reflects in the poverty and material deprivation indicators by demonstrating both general trends and the population groups most exposed to the poverty risk. The highest poverty risks, continuously over the period of three years, are faced by **single parent and large families as well as single person households**. In 2011 the at-risk-of poverty for single parent families was 41.5% (i.e. almost one half of the single parent families live on the poverty threshold), in large families it was 35.9% (accordingly, one in three large families is poor) and in a single person households it was 27.6% (almost one in three persons in Latvia who live alone live on the poverty threshold), while the average at-risk-of-poverty rate was 19.2% (see Figure 5 in the Annex). Also the proportional share of children living in single parent families is highest in Latvia and amounts to 23.3% (the average in the EU-27 is 13.6%)²¹. Thus, the analysis of the poverty indicators per age groups attests that in 2011 children were most exposed to the poverty risk (24.4%), followed by youth (20.1%) and the population aged from 50 to 64 years (20.1%) (see Figure 6 in the Annex). The poverty risk of children and a part of young people to a large extent depends on the income of parents. Since 2008 the income decreased most for young people and people aged from 45 to 64 years which partially impacted also the increase of the poverty of children and youth. The child poverty can also be explained by emigration trends, in particular, over the period from 2008 to 2010 when the total emigration amounted to 102 thousand people and quite often children were left with the other parent, grandparents,

¹⁸ Gassmann, F. (2002). Social reality of 10 years` transitional period. Series of the social policy studies "Reform of the welfare system today and in future". pp. 55-65, Ministry of Welfare of the Republic of Latvia and the United Nations Development Program, Riga.

¹⁹ The poverty risk threshold equals 60% of the median equivalent disposable income (in compliance with the EU poverty measurement methodology).

²⁰The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Labour market and social conditions diagnostic, Poverty, inequality and the social impact of the financial crisis in Latvia, p. 25.

²¹Eurostat, Statistics in Focus, Population and social conditions, 52/2011.

other relatives or friends. Moreover, the number of such cases still tends to grow (from 2855 pupils from grades 1-12 during 2008/2009 to 3325 in 2010/2011)²².

At the same time it should be pointed out that 26% of the population exposed to the at-risk-of poverty are employed people revealing the relevance of the **working poor problem** in Latvia²³. The comparison of the average gross wage in the EU Member States on the basis of levelled prices, the wage in Latvia is among the lowest followed only by Bulgaria and Romania (see Figure 7 in the Annex). Moreover, in Latvia there is a particularly high labour force tax rate in relation to persons who receive low income: the tax ratio for employed persons without dependants in 2010 was the 6th highest among the EU residents who earn 67% of the average wage. The tax ratio for persons earning high income is considerably below the average EU level resulting in high income inequality in the country. In comparison to other EU Member States, the poverty risk for households with very low work intensity is highest in the Baltic countries²⁴. Almost two thirds of the poorest population are composed by the persons who live in a household with a very low work intensity. Since 2011 the number of employed persons who are declared as compliant with the status of a needy person has decreased (from 33.5 ths. persons in 2010 to 27.2 ths. persons in 2012), however, their proportional share among needy persons is increasing (from 14.7% in 2010 to 15.4% in 2012) and still can be deemed as high.

The analysis of the poverty risk for certain population groups reveal a clear **regional and educational impact**²⁵. Persons with primary or secondary education are more exposed to the poverty risk than persons with a higher education. The poverty risk for persons with a higher education amounts to 7% and for persons with primary education it is 42%. The same trend can also be observed among the rural and urban population - rural population is considerably more exposed to the at-risk-of poverty than urban population.

Within the poverty context also the **health** issue is equally important taking into account that it impacts an individual working capability and the quality of life in general. Due to a low income and complicated accessibility of health care, for example, long waiting lists, the attitude by general practitioners and the price of services²⁶ people face restricted access to health care services. Inappropriate health status can be the cause of unemployment, in the result of which a person has limited possibilities to gain sufficient income, thus becoming exposed to the risk of poverty and social exclusion.

In comparison to other EU Member States, in Latvia there is the second highest **material deprivation rate**²⁷ and **severe material deprivation rate**²⁸, which indicates a high proportional share of population who are not able to pay for utilities, to keep their house warm and to buy healthy food, not mentioning the ability to cover unexpected expenses and to a vacation for one week per year outside home. The material deprivation rate in the EU was 18.2% and severe material deprivation rate was 8.8% in 2011, in Latvia these indicators

²²Informative report on the situation of children in Latvia in 2010. Available at <http://poLVLis.mk.gov.lv/view.do?id=3883>.

²³ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Labour market and social conditions diagnostic, Poverty, inequality and the social impact of the financial crisis in Latvia, p. 29.

²⁴Ibid. p. 25

²⁵ Ibid, p. 25, 26. 29

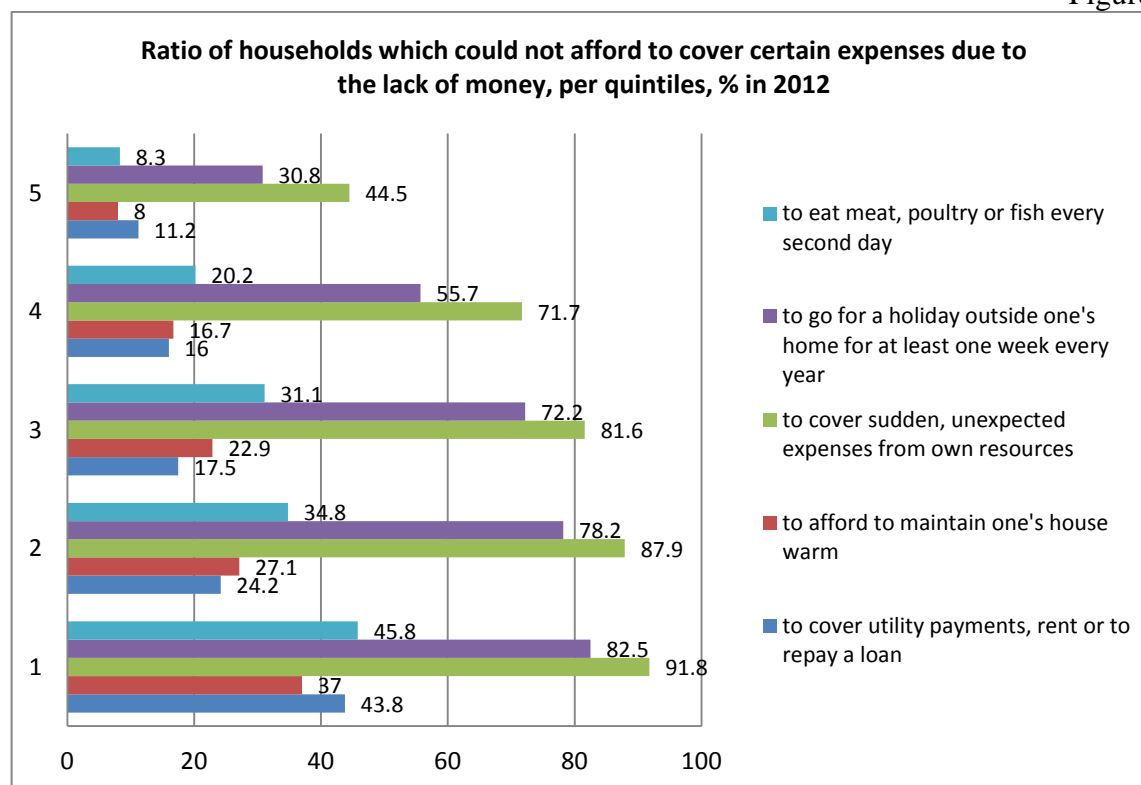
²⁶ Research "Satisfaction of the population with health care services and the possibilities of receiving them" (2008), National Health Service. Available at <http://www.vmnvd.gov.lv/lv/petijumi-un-zinojumi/iedzivotju-apmierintba-ar-veselbas-aprpes-pakalpojumiem-un-to-saemas-iespjm>. Viewed on 05.10.2013.

²⁷ Material deprivation indicator describes the proportional share of the persons who correspond to at least three criteria of material deprivation: the lack of financial capacity 1) to cover utility payments, rent or to repay a loan; 2) to afford to maintain one's house warm; 3) to cover sudden, unexpected expenses from own resources; 4) to eat meat, poultry or fish every second day; 5) to go for a holiday outside one's home for at least one week every year; 6) to use a car for one's own needs; 7) to possess a washing machine; 8) a colour TV; 9) a telephone.

²⁸ Severe material deprivation is characteristic of the persons who correspond to at least four criteria of material deprivation (see the features of material deprivation defined in footnote No. 27).

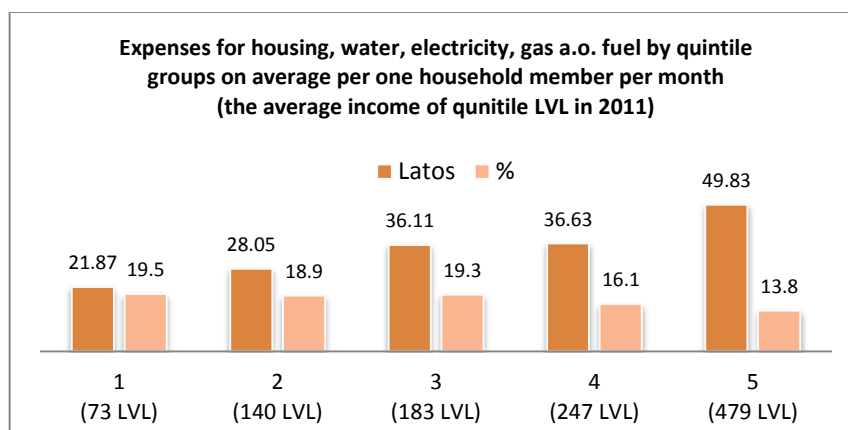
were 49% and 31% accordingly. The severe material deprivation rate for households of the 1st quintile in Latvia is almost a triple of the average EU-27 indicator (LV - 61.5% and EU-27 - 22.6%). Moreover, this trend can actually be observed for all quintile groups. The ability to cover the costs related to the household differs considerable between the better-off (5th quintile) and the poorer (1st quintile) population (see Figure 2), though to cover the unexpected expenses cause problems for all quintile groups.

Figure 2.



In 2012 the proportional share of the households belonging to the 1st quintile who were not able to pay utility bills, rent or to repay loans in comparison to 2008 has more than doubled. Expenses for the housing utilities accounted for the second highest proportional share of expenses of the total household expenses after the expenses for food, i.e. 16.6% in 2011. In the households belonging to the 1st quintile, the expenses for the housing accounted for almost one fifth (19.5%) of the total expenses for consumption. Taking into account the margin of average income per household member of the 1st quintile, i.e. 73 lats, the proportional share of the housing expenses account for almost one third of the income of this quintile, and for the second and the third quintile one fifth of the income (see Figure 3). Although the proportional share of income differs, between the 3rd and the 4th quintile the absolute expenses are equal and amount to 36 lats per household member per month. The proportional share of the housing expenses is very high for the households of the 3rd quintile. The proportional share of these expenses is by just 0.2 percentage points lower in the poorest, i.e. the first quintile (the income margin from 0 to 113 lats per month).

Figure 3.



Source: Central Statistical Bureau

It shall be noted that in 2011 the expenses related to the housing caused very high financial difficulties for almost 45% of households (44% in 2012)²⁹.

Taking into account the high debt liabilities of households for utilities, the envisaged measures of the energy market liberalisation and the expected increase of the expenses of electricity consumers, the solutions proposed by the Ministry of Welfare should be evaluated within the context with the measures planned by the Ministry of Economics for the minimisation of the energy poverty under the market liberalisation situation and development of common criteria for the housing benefit.

The evaluation of the poverty situation reveals that:

- single parent and large families, a single person households, low work intensity households and households of unemployed persons, as well as children, youth and people at a pre-retirement age are the main population groups exposed to the poverty risk;
- population with low income almost does not experience the stabilisation of the economic situation and the increase of the average income of households is recorded in the result of the increase of income of better-off households;
- the problem of working poor is becoming more important as it can increase the poverty risk of these persons over a medium and long term and cause additional burden for the social security system;
- social transfers play an important role in the stabilisation of the income of poor households both during the economic crisis and the post-crisis period;
- poverty reasons arise from unequal re-distribution of income, still the compact income of the population of Latvia should be taken into account along with the regional, educational and health impact;
- due to low income there is high material deprivation in the country promoting poverty and social exclusion.

The disproportional increase of income and the compact income of the population along with the increase of the proportional share of population exposed to the inequality and poverty risk in Latvia create challenges for the implementation of policies because it is equally important to find a balance, so that the proposed support mechanisms would provide adequate support to the poorest population in crisis situations, would be able to minimise the consequences caused by the economic crisis and would encourage the activation and the employment of people at the same time.

²⁹ Publication by the Central Statistical Bureau "Income and living conditions in Latvia in 2012", Riga, 2013.

1.2. Minimum income thresholds in Latvia

Various reporting systems and sets of statistical indicators which vary between the EU Member States are used for the analysis of the poverty situation and the development of social inclusion policy. The indicators defined at EU level are used for the comparative analysis of social situation of the Member States. Also for the purpose of attaining the poverty reduction targets defined in the "EU 2020" strategy³⁰ a set of indicators which allow the analysing of the progress in this area and performing of the mutually comparative analysis is developed.

The European Council defined a common goal for the European Union in 2000 (in Lisbon, Nice) - **reduction of poverty and social exclusion**. In this respect, the European Council at its meeting in December 2001 in Laeken approved the first 18 common monetary poverty and income inequality indicators³¹, by the application of which the progress of the member states in the implementation of the social inclusion goals should be evaluated and monitored. These indicators are relative and they are derived from the median income level, accordingly they *describe the relative and not the absolute poverty risk among the residents of country*. The indicators of the monetary poverty and income inequality are obtained in the survey "European Union Statistics on Income and Living Conditions" (hereinafter EU-SILC survey) which is performed by the Central Statistical Bureau, and they are calculated on the basis of the equivalence scales³². These indicators should be viewed as a common set reflecting the EU social problems in a balanced way. Laeken indicators refer to *four important social inclusion dimensions* (financial poverty, employment, health and education) highlighting numerous social exclusion aspects.

The evaluation of the practice of EU Member States in the application of certain indicators for planning the poverty and social exclusion reduction policy leads to a conclusion that different income thresholds are used as a reference system and these systems are modified in compliance with the national policy framework, as well as in compliance with the social and economic situation of each country. Thus, it is not possible to refer to the practical application of a "pure ideal model" or certain benchmarks as the best practice examples.

In order to reflect the current minimum income levels in Latvia, their practical application and the drawbacks of the existing system in a more objective manner from the point of view of the policy planning, this section will present the evaluation of the criteria of defining of poverty from both the legal and the methodological point of view.

Five minimum income thresholds can be defined in Latvia and they differ from the point of view of their objective of use, legal justification and methodological calculation (see Table 2).

³⁰ The poverty reduction target in Latvia defined in the "EU 2020" Strategy by 2020: to prevent the risk of poverty and social exclusion for 121 ths. people in Latvia. The target indicator consists of two indicators: the proportional share of persons subjected to the poverty risk and/or the ratio of persons living in households with very low work intensity (%). The defined poverty reduction target in the EU by 2020: to eliminate the poverty risk for minimum 20 million residents of the EU. This target is measured by three indicators: the proportional share of persons subjected to the poverty risk, the severe material deprivation rate and/or the ratio of persons living in households with very low work intensity (%).

³¹ On the website of the Central Statistical Bureau of the Republic of Latvia: data bases → population and social processes → monetary poverty and income inequality. On the website of the EU Statistical Office Eurostat:

http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database.

³² On the website of the Central Statistical Bureau of the Republic of Latvia: <http://www.csb.gov.lv/statistikas-temas/metodologija/nabadzibas-ienakumu-nevienlidziba-36833.html>. Viewed on 14.01.2013.

Table 2.

Poverty risk or minimum income thresholds in Latvia

THRESHOLD	In regulatory enactments	The methodology of calculation
The income threshold of a needy person	Defined	None
The income threshold of a low-income person (differentiated across municipalities)	Defined	None
Guaranteed minimum income (GMI) level threshold	Defined	None
Poverty risk threshold	Not defined	Yes
Minimum subsistence level income	Not defined	Yes

Source: Kūla, E. Poverty threshold alternatives in Latvia. Master's Thesis (2013), accessible at the library of Vidzeme University of Applied Sciences.

The major problems due to existence of these different income thresholds are related to the fact that it is not possible to develop a targeted and measurable policy because resources are not focused for attaining the goal and also to their interpretation (various indicators are used for reflection of the problem), different views in the society regarding their application (for example, the poverty risk threshold is not used in the legislation because it is defined by the EU, but the minimum subsistence level is regularly used by media although it is not applied in the legislation), and their justification and link to the indicators describing the population income. The poverty or the minimum income thresholds defined in regulatory enactments are not justified and are not related with the indicators describing the situation of population. They are defined taking into account the financial possibilities of the particular moment and they define particular income level which determines the people's entitlement to various services, for example, the benefit for ensuring the GMI level, allowances for poor persons for the accessibility of various services, etc. The minimum subsistence level and the poverty risk threshold, which are not defined in the legislation and are calculated in compliance with the particular methodology, are mainly used for statistical purposes.

The income level of a needy person was linked to the minimum wage until 2010, i.e. it was defined that the income of a needy person per family member does not exceed 50% of the minimum wage set in the country as on the 1st January of the relevant year for the last three months. From 2010 the income level of a needy person was no longer linked to the minimum wage and was set as a constant amount, i.e., a family (person) should be considered as needy if its average income per family member per month does not exceed 90 lats during the last three months³³. The status of a needy family (person) entitles to receive a range of various services and support with preferential conditions.

Different from the income level of a needy person, **the income level of a low income person** is defined individually by each municipality by defining it in the relevant binding municipal regulations. The national legislation only provides that the income level of a low income person shall not be lower than the income level of a needy person. This means that municipalities are authorised to establish the social assistance policy which is more favourable to their residents. The evaluation of the data of national statistical reports for 2010 and 2011 regarding the low income level in municipalities leads to the conclusion that:

- the possibility of setting the income level of a low income person above the income level of a needy person was used by 50 municipalities or 42% of all municipalities

³³ Regulations of the CoM No. 299, 30.03.2010.

- (of which 3 are cities: Rīga, Jūrmala and Jēkabpils) in 2010 and 45 or 37% of the municipalities (of which 4 are cities: Rīga, Jēkabpils, Ventspils and Jūrmala) in 2011;
- the income levels of a low-income person vary from LVL 99 to LVL 259 in 2010 and from LVL 100 to LVL 250 in 2011.

The GMI level is reviewed on an annual basis in compliance with the negotiations between the Ministry of Welfare and the Latvian Association of Local and Regional Governments in relation to the annual draft central budget. Thus, the GMI level is an amount set in the result of a compromise and it is not related with any of the amounts describing the household income and is not based on a methodologically justified calculation. Municipalities are also authorised to set a higher GMI level than set by the government. This possibility was used by 28 municipalities out of 119 in 2013 (23.5%)³⁴. Families or single persons who are recognized as needy are entitled to receive the benefit for ensuring the GMI level. This benefit is calculated as the difference between the GMI level set by the Cabinet of Ministers or the municipality (35 lats per month or as set by the municipality in 2013) per family member and the total income of the needy family (person)³⁵.

The link of subsistence minimum indicator with regulatory enactments was legally suspended in 2003 when the new Regulation of the Cabinet of Ministers on the status of a needy person entered into force in 2003³⁶. However, in practice the minimum subsistence level was not taken into account since 1996 when on 26th March were adopted Regulations of the Cabinet of Ministers No. 75 "Regulations on the social assistance benefit to poor families and the evaluation of the material condition of poor families". Accordingly the indicator of the subsistence minimum is just informative by nature and it is basically used for statistical purposes, mainly in mass media for describing or comparing various incomes of people. Still, the Central Statistical Bureau calculates this indicator every year because it is included in the National Statistical Information Program approved by the Cabinet of Ministers. The content of the minimum subsistence consumer basket of goods and services and the consumption norms were defined in 1991, therefore this listing reflects the prevailing view regarding the minimum consumption needs at the end of the 1980-ies. The current minimum consumption basket contains food items, consumer goods and services the amount of which ensured the minimum subsistence level as accepted in the society at that time, excluding, inter alia, health care and education services, which are not just a necessity, but are an essential expenditure item in the consumption basket of people nowadays³⁷.

The poverty risk threshold is the EU indicator which is calculated according to the methodology of the EU Statistical Office EUROSTAT and is 60% of the disposable income median³⁸ recalculated per equivalent consumer. In Latvia this indicator has been used since 2003 when one of the EU pre-accession documents was developed, i.e. „Joint Memorandum on Social Inclusion of Latvia”. This indicator is also used for statistical purposes and for the comparison of situation with other EU Member States, however, it is not binding in the national legislation.

As seen in Figure 4, the minimum income thresholds set in regulatory enactments in Latvia are considerably below the poverty risk threshold calculated according to EU methodology. Accordingly, the beneficiaries of the GMI benefit accounted for 1.37% of the

³⁴ The MoW survey results are available at the website of the MoW by following this link <http://www.lm.gov.lv/text/2225>.

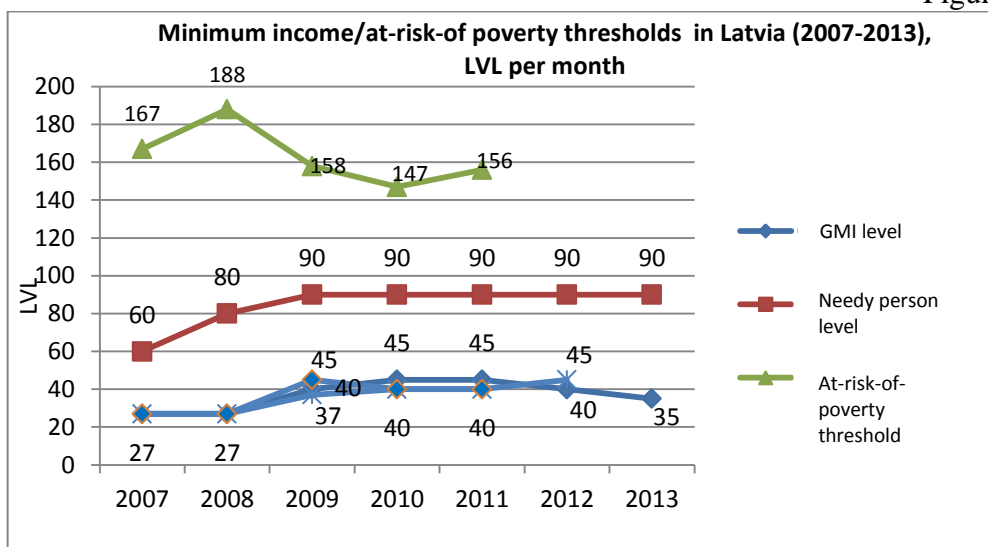
³⁵ Regulations of the CoM No. 550, 17.06.2009

³⁶ Regulations of the CoM No. 97, 25.02.2003

³⁷ Kūla, E. The minimum subsistence level as a human security factor.// Publication "Social human security: development of abilities, cooperation, inclusion. - the Academic Publishing House of the University of Latvia, 2013, pp. 122-140

³⁸ **Median** is a statistics indicator describing the centre value (the division middle point) of the observations grouped from the lowest value to the highest one.

total population, needy persons for 4.16% in August 2013, and 19.2% of the Latvian population was below the at-risk-of-poverty threshold calculated in compliance with the EU methodology in 2011.

Figure 4³⁹

* until 31.09.2009 the GMI level was set equal to LVL 37, later it was differentiated and set equal to LVL 40 for adults and LVL 45 for children.

Source: The Ministry of Welfare and the Central Statistical Bureau

In the WB evaluation of the social assistance system **the low GMI level** which is not related with objective minimum income or poverty indicators is stated as **a major drawback**. As a result the conditions for updating these levels are not set and therefore the actual impact by benefits upon the reduction of poverty considerably decreases. Different from Latvia, in many EU Member States the minimum provision schemes (which is an analogue of the GMI benefit from the content point of view) are developed based on poverty thresholds or other minimum subsistence standards, which are updated in compliance with the increase of wages or consumer prices⁴⁰. As there are differences between the minimum income threshold regulated in Latvia, resources are granted to each individual in a crisis situation and they are not always efficient in improving the individual's situation, and the minimum income level which is defined according to the methodology applied in the EU Member States, are the major reasons for improving the adequacy and efficiency of the use of public resources.

In order to ensure that the social security measures are targeted and proper solutions are offered for effective reduction of poverty and social exclusion, the primary condition is the setting of a benchmarking system which is linked to objective indicators describing the population income. As the **minimum income thresholds defined in the legislation are not justified**, it is necessary to define a legally precise and methodologically justified minimum income threshold, which would serve as the basis for the planning of further support and would eliminate the drawbacks of the system when there are several minimum income thresholds for various categories of people at the same time.

It should be noted that the setting of a legally correct and methodologically justified minimum income threshold is just one stage of the arrangement of the system followed by improvements in the organisation of social assistance system in order to satisfy an

³⁹ The data regarding the at-risk-of-risk poverty threshold are reflected until 2011 because no more updated data are available.

⁴⁰ The WB study „Latvia: Who is Unemployed, Inactive or Needy?“, Review of key design parameters and legislation for social assistance programs in Latvia, Latvia GMI Program: main design characteristics and comparison with minimum income schemes in other EU Member States, pp. 5, 6.

individual's daily needs and to develop an individual's abilities and willingness to resume obtaining income from paid work.

In order to evaluate which approach is most suitable, in the course of defining of the methodologically justified minimum income threshold, the strengths and the weaknesses of two traditional poverty measurement approaches⁴¹ are presented in Table 3⁴².

Table 3.

Strengths and weakness of the approaches for measurement of absolute and relative poverty

Approach	Strengths	Weaknesses	
Absolute poverty ⁴³	A relevant set of goods required for daily consumption is defined.	The demand for certain goods and services, based upon the people's needs, may change irrespective of the changes in the welfare level.	
		A common set of goods and services disregards the different needs of different population groups, for example, depending on age, health condition, etc.	
		Regular revising of the basket is necessary.	
		It is mainly applied in developing countries.	
Relative poverty ⁴⁴	People assess their income relatively, based on average income in the country, the poverty line is perceived as an appropriate poverty measurement accordingly.	The contradictory interpretation of the indicator due to its relative nature.	
			The poverty line includes different costs compliant with each individual (an individual should not follow the set of particular goods and services, he/she consumes what is considered necessary for him/her).
			It is mainly applied in developed countries.

Source: Ministry of Welfare

As it can be seen, the absolute poverty approach is characterised by more drawbacks than the relative poverty approach. As the minimum subsistence income calculated in Latvia

⁴¹ In compliance with the general classification the poverty definitions can be divided into three groups: absolute poverty, relative poverty and subjective poverty (Social Work Glossary, Ed. L.Šiļņeva, prof., Dr.paed. – Rīga: Attīstība, 2000. p. 18) This table presents the strengths and the weaknesses of absolute and relative poverty.

⁴² Ravallion, M. (2010). Poverty Lines Across the World. World Bank, Policy Research Working Paper No.5284. Washington DC. Available at http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/04/27/000158349_20100427143536/Rendered/PDF/WPS5284.pdf. Viewed on 24.05.2013.

⁴³ They are developed on the basis of subsistence by applying two methods in practice: (1) The method of receiving subsistence - energy (focused on one function, i.e. the subsistence) and (2) The method of the costs of the basic needs (a set of food and consumer items). The minimum subsistence level and, to some extent, the GMI level complies with this classification in Latvia.

⁴⁴ It is set as a constant proportion, usually 40%-60% of the median or the mean household disposable equivalent income. It complies with the at-risk-of- poverty threshold set in the EU and, to some extent, with the income level of a needy person set in Latvia while it was linked to the minimum wage defined in the country.

is obsolete from the content viewpoint and one consumer basket cannot be adequately applied to different types of households, if this indicator is selected as a benchmark, it would be necessary to revise the basket of goods and services methodologically in compliance with different types of households, their structure, as well as other conditions which can impact their consumption expenses (for example, dependant family members with chronic diseases, persons with disability, schoolchildren, etc.). Moreover, the question regarding the amount of goods and services included in this basket and their compliance with the needs of households, conditions for making changes to and updating of the indicator always raises a discussion. The relative at-risk-of-poverty rate reflects the population income more objectively because it includes various goods and services necessary for an individual and it is linked with the actual income of people, however, being a relative indicator, it can sometimes be evaluated contradictory in relation to absolute indicators, for example, during the economic growth the mean or median income increases, however, the income of particular groups of the population (mainly persons with low income) remain unchanged which is mainly related to the income inequality. Accordingly, the interpretation of this indicator often necessitates a more detailed analysis of the income situation for drawing particular conclusions.

Major conclusions and possible solutions to problems:

- the poverty or the minimum income thresholds defined in regulatory enactments are not justified and are not related with the indicators describing the situation of population;
- in order to ensure that the social security measures are targeted and proper solutions are offered for effective reduction of poverty and social exclusion, it is necessary to define a benchmarking system which is linked to objective indicators describing the population income;
- for the purpose of creation of a benchmarking system a methodologically justified minimum income threshold needs to be defined taking into account the strengths and the weaknesses of various poverty measurement approaches.

2. CHALLENGES AND SOLUTIONS OF THE SOCIAL SECURITY (PROTECTION) SYSTEM

The social security system is a set of the measures provided by the state and municipalities aimed at social protection of persons and the compliance with the social fundamental rights. At the level of the Council of Europe, the basic documents which define standards in the social area are **the revised European Social Charter** and **the European Code of Social Security**, and they are aimed at attaining more uniformity among countries by encouraging the progress of national social policies and guaranteeing the minimum level in provision of social services compliant with set standards. According to these documents, the basic elements of social security refer to social services, social insurance, medical care services and other.

In the Lisbon Treaty which provides the basis for the operation of the European Union includes the **EU Charter of Fundamental Rights**, which was adopted by Saeima [Parliament] on 8 May 2008 by ratifying the Lisbon Treaty. In compliance with this document, Latvia has undertaken⁴⁵ to provide legal, economic and social protection to the family. The EU Charter of Fundamental Rights stipulates that⁴⁶ the Union recognises and complies with the entitlement to social provision benefits and social services which, in compliance with the legislation of the Union and national legislation and practice, provide protection in the cases, like *maternity, disease, accident at work, being dependent or old age, as well as a loss of a job*. The EU Charter of Fundamental Rights also states that⁴⁷ by combating social exclusion and poverty, the Union recognises and complies with the entitlement to *social assistance* and *assistance in respect to housing*, in order to ensure dignified life to those who do not have sufficient resources in compliance with the Union legislation and national legislation and practice.

The WB study states⁴⁸ that **the aim of social protection is** to provide support to poor persons and more vulnerable persons, as well as individuals, families and communities in cases of various social risks. As seen by the WB, the social protection system consists of social insurance and social assistance programs and the labour market policy. Social insurance programs are financed from the social insurance contributions and they are aimed at providing income at the moment when it has decreased in a particular social risk situation, for example, at retirement age, when a person becomes disabled or loses parents.

In Latvia there is social security or social protection system for protecting the population both against a short-term loss of income (disease, maternity, paternity, child care) and providing the means of subsistence to persons upon finishing the active employment (retired persons), upon becoming disabled, losing a job, suffering at an accident at work, etc. In 2012 39.7%⁴⁹ of the population of Latvia received income from the social insurance system (state social insurance budget) and 20.2%⁵⁰ received income from the central budget as state social benefits. In compliance with the social security system established in Latvia, families or persons who have insufficient financial means for providing daily needs and whose income is below the income level of a needy person defined in the country (90 lats per

⁴⁵ Part One of Article 33 of the EU Charter of Fundamental Rights.

⁴⁶ Part One of Article 34 of the EU Charter of Fundamental Rights.

⁴⁷ Part Three of Article 34 of the EU Charter of Fundamental Rights.

⁴⁸ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 5.

⁴⁹ In 2012, the state pensions (except service pensions to military officers and the officials of Satversme Defence Bureau) and benefits from the social insurance budget were paid to 812.7 ths. persons for the total amount of 1,386.2 mill. lats.

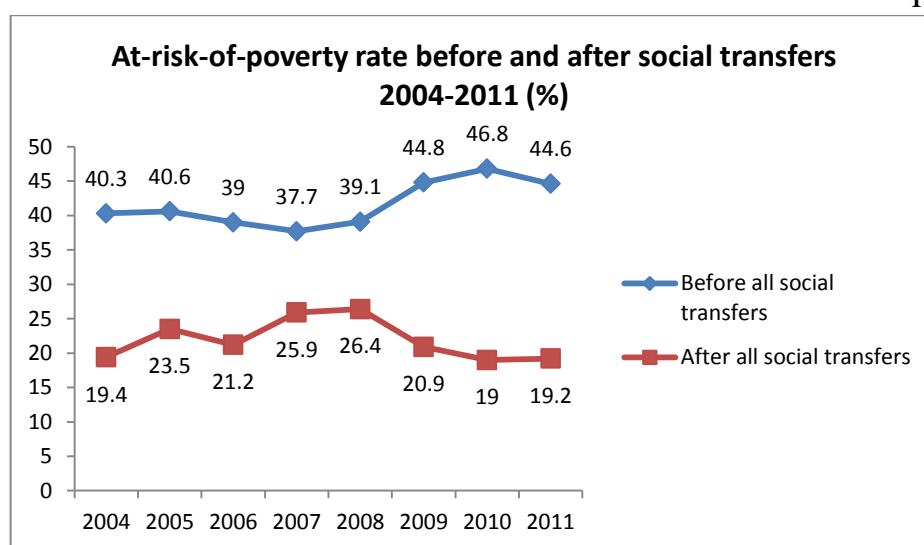
⁵⁰ In 2012 benefits from the central budget were paid to 413.4 ths. persons for the total amount of 112 mill. lats.

person in a household), can apply for assistance at the municipality. 12.9%⁵¹ of the population of Latvia received municipal social assistance benefits in 2012.

In compliance with the estimations made in the WB study⁵² social security measures have a high impact upon the prevention of the poverty risk. The social insurance system plays the major role and the municipal social assistance system has little impact upon the reduction of poverty, which attests that by paying social insurance contributions, in case of a specific social risk, the received income prevents the risk of becoming exposed to poverty to a greater extent than if the support is received from the social assistance for the provision of the minimum basic needs.

As it can be seen in Figure 4, the highest impact of social transfers upon the reduction of poverty can be seen during a crisis period when the income of the population decreased considerably due to different situations, by preventing the risk of becoming exposed to poverty. 44.6% of the Latvian population would have been exposed to the poverty risk situation without social transfers in 2011. However, due to operation of the system, the poverty risk was eliminated by social transfers for one fifth of the population.

Figure 5.



Source: Central Statistical Bureau

Though the total impact of the social security system upon the reduction of poverty was identified, in the WB study deficiencies were found in each of the areas requiring for changes in the policies in order to attain both more targeted provision of support to the poorest population in the country, as well as the incentives for the clients of social assistance to get involved in paid work, and to more accurately identify the groups of the population who need support, and to implement employment measures more efficiently.

2.1. Social insurance

Since 1996 essential reform of the social insurance system has been implemented in Latvia, i.e. a new **system based on social insurance contributions has been implemented**, which guarantees **protection in case of all the traditional social risks** – upon reaching the retirement age, becoming disabled, losing a supporter, in case of a disease, maternity leave,

⁵¹ Municipal social assistance benefits (means-tested) in the total amount of 41,028.7 ths. lats were paid to 264.8 ths. persons with low income in 2012.

⁵² The WB study „Latvia: Who is Unemployed, Inactive or Needy?“, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 66.

child care, upon losing a job, as well as in case of suffering at an accident at work or from an occupational disease.

Social insurance guarantees a certain replacement of income in compliance with individual social insurance contributions. For example, the replacement percentage of the benefits related with demography is set to 70% (for the parents' benefit) and 80% (for the maternity and the paternity benefit), for the sickness leave benefit it is 80%, the replacement percentage of the unemployment benefit depends on the person's individual insurance term and the length of the period of receiving the unemployment benefit, the replacement of the disability pension depends on the person's individual insurance term, the average wage for the purpose of insurance contributions prior to the disability and the category of disability. The replacement level of the old-age pension is impacted by both the individual insurance term and the average wage for the purpose of insurance contributions from which social contributions were made, as well as the pension capital indices and the age of retiring, and the guarantees and additional allowances to be applied in the calculation of the pension. As the social insurance pensions and benefits directly depend on the income from which social insurance contributions were declared/ made, during creation of this system the consideration was given to creating an interest in declaring all the income, regular contributions and an incentive to stay longer in the labour market.

Along with the increase of income and social contributions accordingly, also the average amounts of social insurance services and the protection of insured persons in case of various social risks will increase.

In the result of the evaluation of the state **support in case of unemployment**⁵³, the WB study admits that, in comparison to other EU Member States, in Latvia there are relatively easy conditions for receiving the unemployment benefit. The strict conditions applicable to the definition of the amount of the benefit, in particular, regarding employed persons with low income, are referred to as negative factors. Despite the fact that in Latvia the replacement level in case of unemployment is on average equal to the replacement level in other EU Member States, Latvia is the only country where the minimum and the maximum level is not set for the unemployment benefit (except the crisis period when restrictions to the payment of the benefit were set until the end of 2014). Thus, the system is more favourable to employed persons with high income and affords less protection to the earners of low wages. Moreover, the referred negative aspects of the current system include the length of the payment of the unemployment benefit, which, irrespective of the extension of the term for receiving it during the crisis period, is still among shortest in comparison to most EU and OECD countries. Thus, in the situation when there are high unemployment rates, in particular the long-term unemployment, and limited employment possibilities during the post-crisis period, additional burden for the social assistance system is created and the poverty risk of the unemployed persons who do not receive the unemployment benefit increases. Taking into account the identified deficiencies, it is necessary to carry out in-depth research for the identification of different causes behind the problems and the impact of eventual solutions.

In the course of development of the social security system, the focus was on ensuring that **the social insurance system is self-financing**, i.e. its revenue would cover its expenditure. The stability of special budget was influenced by the additional decisions regarding services that are financed from the social insurance budget and do not have the financial coverage from social insurance contributions. In 2010 the Cabinet of Ministers approved the concept regarding the long-term stability of the social insurance⁵⁴ providing for the long-term implementation of several measures, including the increasing of retirement age

⁵³ The WB study „Latvia: Who is Unemployed, Inactive or Needy?“, Analysis of the incentive structure created by the tax and benefit system, Financial incentives of the tax and benefit system in Latvia, p.7.

⁵⁴ Available at <http://polsis.mk.gov.lv/view.do?id=3518> . Viewed on 11.10.2013

and the transfer of expenditure not characteristic to the insurance budget to the central budget financing.

Although the social rights, which also include the rights to social provision, are very important, they are, at the same time, specific, different human rights because the implementation of these rights depends on the economic situation and the available resources of each country which is impacted by the collection of valid taxes. Thus, the country not only has the right to balance its obligations in the area of social rights with its economic possibilities, it is also obliged to do this. In the contrary situation, the performance of other state obligations, including the implementation of other social rights, may be endangered. The necessity to avoid the creation of a deficit in the special budget and the necessity to ensure that the payment of pensions and benefits is also possible in future should be especially focused on.

Starting from 1996, the **minimum amount of the old-age pension** is defined in the country, i.e. if the amount of old-age pension, calculated for the person, is low (is not sufficient), it is supplemented up to a certain level from the resources of the social insurance budget (i.e. the minimum income threshold for pensions has been set). Within the social insurance system, the minimum pension amount for a person mainly forms in cases when the person has a short employment term or has been working with a comparatively low wage, or has opted to use the allowances for making contributions provided for in the system (for example, the recipients of author's fees, patent holders).

At present, the minimum old-age pension is defined on the basis of the amount of the state social security benefit⁵⁵ (see Section 2.2), by applying relevant coefficients to it taking into account a person's insurance term. Different coefficients are set for disability pensions for disability categories I (higher) and II and the minimum pension amounts for the persons who are disabled since childhood are higher than for the other persons. The pension in case of the loss of a supporter shall not be below the state social security benefit. Moreover, for each dependant it shall not be below 65% of the state social security benefit (see Table 3 in the Appendix).

In May 2013, out of the total number of the old-age pension recipients, 13.5% of the old age pensioners received the minimum old-age pensions and 25% received the minimum disability pension. The proportional share is comparatively high, in particular as regards the recipients of disability pensions. However, the comparison of the average amount of the state pensions in May 2013 and the minimum guaranteed amounts provided for by the legislation demonstrates that, for example, in the case of the disability pension, the amount provided for in the legislation amounts to 61% or 53% of the average disability pension in the country. Thus, the amount which is more than a half of the amount received by the persons who have made social insurance contributions for a longer time period or from comparatively high income is guaranteed to a person. As regards the old-age pensions, for persons with the insurance term above 40 years, 40% of the mean old age-pension is guaranteed. It should be noted that the average amount of the old-age pension was LVL 190.41 in May this year at the average insurance term, which is above 38 years.

The currently valid minimum amount of the old-age pension is comparatively low and the number of its recipients is comparatively high. On one hand, the minimum amount should be set at the level that allows covering of an individual's basic needs. On the other hand, it may not impact the incentive of people to make social contributions. If high minimum amounts of the old-age pension are set, persons will have no incentive to pay social insurance contributions from all the income from work, because in case of working and making social insurance contributions from the minimum wage, the guaranteed pension amount will approach the average pension amount. 36% of employed persons were making

⁵⁵ The state social security benefit in general cases amounts to LVL 45 from 1 January 2006. For persons with disability since childhood, the state social security benefit amounts to LVL 75 from 1 January 2009.

social insurance contributions from the minimum wage which was approximately LVL 200 in 2012. If a person has been working for all the life, i.e. 40 years and has been making social insurance contributions from the minimum wage, at the age of 65 years his/ her old-age pension is slightly above the minimum amount (see Table 4 in the Appendix). If the employment term is shorter and a person has just had the minimum wage during this term, the old-age pension will be set equal to the minimum amount.

Any additional guarantees applied for the calculation of pensions in order to increase the amount of the granted pension (from the special budget), and which do not have an actual coverage from the social insurance contributions, have an additional financial burden for other participants of the system. Moreover, it should be taken into account that this impacts not only the stability of the social insurance system, but also the future income of a person.

According to statistical data analysed in Section 1.1, during the economic growth and development period, elderly people is the age group which is exposed to the highest poverty risks. The poverty risk starts increasing from the age of 50+ and this is related to the inability to maintain one's position on the labour market due to the lack of new skills or health condition. The analysis of WB study data indicates that the highest group of the population encountering difficulties on the labour market and having irregular income is elderly people who, inter alia, suffer from chronic diseases. Pensions account for the main income within the age group 65+. It should be mentioned that 10% to 14% of the beneficiaries of the GMI benefit are the recipients of the old-age and disability pension. Essential support is needed not only regarding income, but also ensuring the availability of social and health care services.

The basic principle behind the operation of social insurance system is self-financing, therefore any change regarding the minimum pension amount should be assessed along with the average pension amounts. Moreover, in order to increase the income for elderly people, it is necessary to implement short-term measures aimed at increasing the income of current elderly persons and persons with disability, and the measures that would encourage persons to gain the maximum benefit from the social insurance system and to take care of their future income today should be implemented over long-term. One of the possible solutions for avoiding the additional expenditure for the social insurance system caused by the increasing of the granted low pensions to the minimum level, as well as for promoting higher responsibility of the state for the financial provision for the persons upon disability, losing a supporter or reaching the old age, would be to replace the currently defined minimum pension amount by an equal **base or social pension for all** which would be financed from the central budget. Thus, for example, the old-age pension would consist of two parts, i.e. (1) the base or the social pension which is paid from the central budget, and (2) the social insurance pension which is calculated from the social contributions made by the individual and financed from the special budget.

Major conclusions and possible solutions to problems:

- The basic principle of the state social insurance system is self-financing, and the amounts of pensions/ benefits paid to an individual from this system mostly depend of individual social insurance contributions;
- the minimum amounts of old-age pension are relatively low, however, if high minimum amounts of old-age pension are set this can cause a negative impact upon the people's incentive to pay social insurance contributions of all income from work;
- the unemployment insurance system affords less protection to the earners of low wages, therefore it is necessary to evaluate eventual solutions for ensuring higher social protection for this population group;

- in order to improve the financial position of pension recipients and to unburden the social insurance system from additional expenditures, the possibility of setting the base or social pension financed from the central budget shall be evaluated.

2.2. State social benefits (universal benefits)

The state social benefits in Latvia, by supplementing the state social insurance system, provide universal state support in the form of cash payments to the persons belonging to certain population groups in particular situations of life or upon obtaining a particular status (see Table 5 in the Appendix). The state social benefits are financed from the central budget, i.e. from the general taxes and their amount depend on the financial possibilities of the state. The state social benefits are regularly revised. However, most of them are not linked to any socioeconomic indicator. In Latvia, the granting of universal benefits does not depend on the material situation of the family or no income test is applied for granting them.

The results of the WB study attest that the social support system of Latvia is mostly (90%) not tested by income, i.e. the universal support is provided irrespective of the beneficiary's income. 60% of the poor household quintile and 50% of the well-off household quintile receive at least one of the social support transfers. In 2009 total coverage of social support regarding the poorest household quintile was up to 20% and regarding the better-off household quintile is was 27.5%. 30% of the financial resources of the family benefit are paid to better-off household quintile and approximately 20% are paid to the poorest household quintile. Therefore, taking into account the high poverty risks in the country, the WB proposes to make benefits more targeted, by shifting more resources to persons with low or insufficient income.

There are 17 types of state social benefits in Latvia:

- Child birth benefit;
- Child care benefit;
- Care benefit for the child with disability;
- Family state benefit;
- Benefit to a person with disability in need of care;
- Allowance to the family state benefit for a child with disability;
- Support to children suffering from celiac with no set disability;
- Benefit to a guardian for the child's maintenance;
- Reward for the performance of the guardian's duties;
- Reward for the performance of the foster family's duties;
- Reward for the care for a child to be adopted;
- Reward for adoption;
- State social security benefit;
- Allowance to compensate transport expenses of persons with mobility disabilities;
- Funeral benefit;
- Social state benefit to a participant of mitigation of consequences of Chernobyl NPS or his/her family;
- State special benefit to children of persons who died during regaining the independence of Latvia.

As it can be seen, state social benefits are granted mainly to families with children (including foster families and guardians) and to persons with disability. It should be noted that these are population groups which are exposed to comparatively higher poverty and

social exclusion risks, therefore, targeting of the benefit based on the assessment of income, this could cause certain resistance being aware that families with children and persons with disability are among the priority target groups for whom every type of support is important, also taking into account the demographic challenges.

The **state social security benefit**⁵⁶ is state defined benefit and its amount impacts several services and their amounts⁵⁷, therefore any changes related to the amount of this benefit should be assessed within the context of its impact on the amounts of the linked benefits. The amount of the state social security benefit is 45 lats per month and it is not linked to any socioeconomic indicator. Besides, its amount has not been changed since 2006 (except as regards persons with disability since childhood for whom the amount of the state social security benefit was set higher than generally and equals to LVL 75 per month as from 01.01.2009). The state social security benefit is granted to a person who is not entitled to receive the state pension (except the pension in case of loss of supporter for a person with disability) or insurance compensation because of an accident at work or an occupational disease if the person:

- is not employed and has exceeded the retirement age by five years;
- is declared disabled and is older than 18 years;
- has not reached the full age, has lost one or both supporters and is not married.

At the outset of crisis, **the family state benefit**⁵⁸ and **the child birth benefit**⁵⁹ were reduced, i.e. both the amounts and the group of persons entitled to it reduced. It should be noted that there has been an on-going discussion about the family state benefit since 2008 and its total expenditure in the central budget and the potential gain for the family budget is being evaluated. The child birth benefit is a single cash payment the amount of which is based on the monetary value of the set of items for a new-born defined by the State Statistical Bureau in January 2003 according to the actual prices. In the budget based for 2014 the estimated number of the beneficiaries of the child birth benefit is 1734 persons per month and the allocated financing is 6 mill. lats per year. The child birth benefit as a state universal benefit is aimed at providing the possibility to buy all the items and goods for all the families with new-borns and this set is equal for all children because it ensures the right of a new-born to equal treatment.

The amount of the **family state benefit** defined in Latvia (LVL 8 or 11.4 euro per months) is lowest among the Baltic countries (see Figure 6) and among the lowest amounts in the EU/ EEA⁶⁰ countries, except few countries when the amount of the benefit is lower for certain age categories, for example, in Romania the amount of the benefit for children aged 2-18 years is 9.4 euro per month. Irrespective of the implemented changes in the area of state benefits, including the family state benefit, in 2009-2010, the international lenders, i.e. the

⁵⁶ Section 13 of the Law on State Social Benefits.

⁵⁷ The state social security benefit is taken into account for setting the minimum amounts of the old-age, disability pensions, the pension for the loss of the supporter and the service pension, the insurance compensations for an accident at work or the diagnosed occupational disease, the compensation of damage, the state special benefit to the children of the persons who died during the process of the regaining of the independence of Latvia, the funeral benefit in case of the death of an unemployed person and in case of the death of the family member of a person who was a dependent of a socially insured person.

⁵⁸ During 01.07.2009 to 31.12.2014 the state family benefit is LVL 8 per child per month. Until 30.06.2009 the state family benefit was LVL 8 per month for the first child (since 01.01.2007) and the benefit was 1.2 higher for the second child (9.60 LVL per month) and 1.6 times higher for the third child (LVL 12.80 per month), and 1.8 times higher for the fourth and each next child (LVL 14.40 per month).

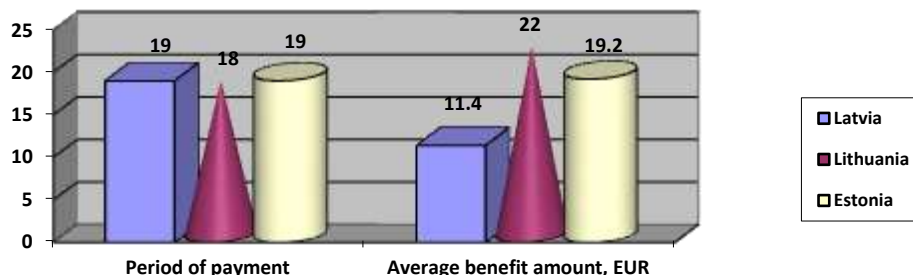
⁵⁹ The payment of the supplement to the child birth benefit was discontinued from 05.04.2010. The amount of the child birth benefit is 296 lats for each new-born. Until 04.04.2010 the supplement for the birth of the first child was 100 lats, for the birth of the second child it was 150 lats and for the birth of the third and each next child it was 200 lats.

⁶⁰ The European Union and the European Economic Area (EEA) Member States. EEA Member States are all the EU Member States and Iceland, Lichtenstein and Norway.

International Monetary Fund and the WB has stated that, taking into account the financial possibilities, in order to ensure efficient operation of the state family benefit system, this benefit should be more accurately targeted in future by reducing the scope of the benefit beneficiaries. 15.4% of the population received the state family support in 2012.

Figure 6.

Periods of payment and the amounts of the family state benefit in the Baltic countries⁶¹



Source: MISSOC comparative tables.

In the conclusions of the European Social Rights Committee regarding the situation in Latvia in 2011⁶² it is stated that the family and the child benefits cannot generally be regarded as an adequate income supplement as they only amount to 2.47% of the average equivalent income in 2009. At the same time, taking into account the low level of the family and other benefits, the European Social Rights Committee concludes that the situation in Latvia does not comply with Section 16 of the European Social Charter⁶³.

At the meeting of the Cabinet of Ministers on 10 July 2012 the informative report prepared by the Ministry of Welfare "Regarding the evaluation of the implementation of the legal provisions of social protection area due to be put in operation in 2013- 2015" where, taking into account the necessity to provide comprehensive support to families with children by granting special support to large families, as well as taking into account the experts' recommendations regarding the necessity to make the support provided by the state more targeted, the Ministry of Welfare supported the solution providing for further maintenance of the payment of the state family support in its current amount by combining it with other targeted forms of the state support and to restore the differentiation of the family state benefit from 1 January 2015. In compliance with the Law on State Social Benefits⁶⁴, the differentiation of the state family support depending on the number of children in a family is provided for as from 1 January 2015, i.e. the state family support for the second child is set in the double amount of the benefit for the first child and for the third and further children it is set in the triple amount of the benefit for the first child.

There is a trend of the introduction of the income test conditions and amount restrictions also in relation to family benefits in various EU/EEA countries during the last years. During the last 10 years, the proportional share of the EU/EEA countries where the family benefit is universal by nature has decreased from 80% to 52%, and some countries (Lithuania, Czech Republic, Germany) just recently, since 2009/2010 started the application of the income test conditions regarding certain categories of the recipients of benefits.

⁶¹ In Estonia the average amount is only stated for the first and the second child in a family. In Lithuania the state benefit is paid until the child's age of 18 years only to large families and it's amount varies depending on the child's age and the family income (the average amount being 22 euro per month).

⁶² Conclusions of the European Social Rights Committee (2012). Available at http://www.coe.int/t/dghl/monitoring/socialcharter/conclusions/State/LatviaXIX4_en.pdf

⁶³ Article 16 of the European Social Charter "The right of the family to social, legal and economic protection" With a view to ensuring the necessary conditions for the full development of the family, which is a fundamental unit of society, the Contracting Parties undertake to promote the economic, legal and social protection of family life by such means as social and family benefits, fiscal arrangements, provision of family housing, benefits for the newly married, and other appropriate means.

⁶⁴ Parts Two and Three of Section 15 and Paragraph 16 of the Transitional Provisions.

According to the WB estimations, 35.3% poor persons (55.6% of all the persons below the poverty risk threshold) and 64.7% of the others (43.8% of the others above the poverty risk threshold) received the state family benefit and its supplement for a child with disability in 2010. In compliance with the estimations made within the WB study, the state family benefit and its supplement for a child with disability⁶⁵ only accounts for 9.3% of the total income within the budget of a poor family and for 1.8% for the other families⁶⁶.

Taking into account that payment of the state family benefit requires considerable expenditure from the central budget (LVL 30,050.3 ths. in 2013; see Table 6 in the Appendix), however, the impact of the state family benefit upon the family budget is essential in households with low income because the impact of the benefit is comparatively little in relatively better-off families with children, there is a justification for revising the support system for families with children by using the envisaged financial resources of the state family benefit. Taking into account that the supplement to the state family benefit for a child with disability has an essential social and financial function, it needs to be transformed and defined as an independent benefit.

The implementation of restructuring the expenditure of the state family benefit is possible earliest within two years, i.e. starting 2016, thus complying with the principle of legal certainty and providing the time for people for understanding the basic goal of the reform and to get acquainted with the support for families with children implemented in other systems. The optimum solution needs to be found for restructuring the expenditure of the state family benefit, within the framework of which the support to be provided for families with children in the form of social protection measures would be more efficient from the point of view of both the target audience of beneficiaries and clear attainable results, including the provision of more support to the groups characterised by an increased social risk (single parent or large families with low income) preventing the poverty risk for socially more vulnerable families with children.

The WB study emphasises that the **child birth benefit** is particularly regressive because more than a half of these benefits are directed to better-off quintiles and just 16% to the poorest or the 1st quintile, therefore a possibility of saving on expenditure is seen here in favour of the income test support. The WB concludes⁶⁷ that the total amount of cash benefits to families, most probably, has an essential impact on the birth rate, however, this approach necessitates considerable costs because birth benefits are usually provided to all families irrespective of their income level. Several successful examples demonstrate that the support in the form of services (for example, accessible free child care) has much more impact on the birth rate than just cash benefits. The results of the research carried out in 18 OSCE⁶⁸ countries regarding the change in the birth rate over the period from 1982 to 2007 attested that the efficient system of benefits for children from the age of one year and the accessibility of paid child care services for children aged up to three years provide more intense encouragement for the increase of the birth rate than the granting of various leaves and benefits, including subsidised child care services by replacing the child care at an early age by parents and promoting the continuity of the employment of women have a more essential impact upon the birth rate⁶⁹. Also several studies and the OECD data regarding the development of the birth rate and the employment of women allow concluding that the

⁶⁵ Part Three Section 6 of the Law on State Social Benefits. The amount of the benefit is 75 lats per month

⁶⁶ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 65.

⁶⁷ Ibid pp. 26, 30

⁶⁸ Organization for Security and Co-operation in Europe is the largest regional intergovernmental organisation in the field of security comprising 57 Member States in the world. More information available at <http://www.osce.org/>.

⁶⁹ The impact of family policy packages on fertility trends in developed countries, Angela Luci, Institut National d'Etudes Démographiques, http://www.ined.fr/fichier/t_publication/1572/publi_pdf1_174.pdf

improvement of the systems of benefits for families with children without the provision of the means for balancing the working and the family life of parents, including the accessibility of preschools and subsidised child care services, cannot efficiently promote the employment and the birth rate, and the revision of the amounts of benefits and the conditions of granting them for families with children should be done by simultaneously ensuring the child care services. Taking into account that the service coverage for families with children in Latvia is among the lowest among the EU/ EEA countries, including that the services of municipal preschools are not available to children starting from the age of one year and the state and the municipalities do not offer subsidised alternative child care services, it is necessary to develop alternative child care services and the system of subsidies for families with children at an early age. From 1 September 2013 the state support is provided for the receipt of the child care service or the service of private preschools, and its target audience and scope should be gradually increased. When a child goes to a preschool or school, families with children need more support for compensating the losses incurred during the education process- financing for free meals, for purchase of school study materials⁷⁰ etc.

According to the MISSOC⁷¹ data, the child birth benefit is regulated in most of the EU/EEA countries, i.e. in 20 countries, and in 11 countries (Iceland, Sweden, Germany, Switzerland, Malta, Greece, Romania, Hungary, the Netherlands, Austria, Portugal) there is no such a benefit. Mostly (in 16 countries) the benefit is paid within the framework of the general system financed by taxes as the state social benefit. In several countries (Bulgaria, Czech Republic, Lichtenstein, Poland, France) there are various supplements to the child birth benefit, for example, in Czech Republic (268 euro) and in Lichtenstein (2276 euro) a supplement is paid in the case of the birth of twins or more children. The comparative analysis shows that also within the EU/EEA 80% of the countries do not apply income test conditions regarding child birth benefits and only in two countries (Greece and Spain) the child birth benefit is differentiated depending on the sequence of children in a family, i.e. the amount is higher for the second child and further children.

In compliance with the provisions of the Law on State Social Benefits⁷², **the child care benefit** is granted to the person who takes care of the child:

- aged up to one year if this person was not employed on the date of granting of the benefit (cannot be deemed to be an employed person or self-employed in compliance with the Law "On the State Social Insurance");
- from one to two years.

The child care benefit is not granted for a child if the maternity benefit for his/ her birth or care or the parents' benefit was granted for the same time period. If the child care benefit has been granted for twins or more children born in the same delivery, the supplement in the amount set by the Cabinet of Ministers is granted for each next child on top of the benefit. In practice, the recipients of the child care benefit who take care of a child aged up to one year are persons who are not employed, including unemployed persons, students etc.

The results of the WB study confirm that short-term benefits (including the child care benefit which is only granted to the persons who are not employed for the care of a child aged up to one year), in comparison to, for example, the state family benefit, are much more targeted to poor households, i.e. there is the 70% coverage in the 1st and the 2nd quintile. Taking into account the above and the fact that 25% of the total number of the recipients of

⁷⁰ In 2013 and in further years support should be provided for the purchase of study materials during the academic year (6.26 lats for 230,191 schoolchildren in 2013). Starting from 1 January 2013, support for provision of free meals also for students of grade 2 (0.80 lats per day). The possibility of providing free meals also to children in grades 3 and 4 increasing the financing up to 1 lat per day should be reviewed for year 2014.

⁷¹ EU Mutual Information System on Social Protection (MISSOC). Available at <http://ec.europa.eu/social/main.jsp?catId=815&langId=en>

⁷² Section 7 of the Law on State Social Benefits.

the child care benefit are not employed (the data of the State Social Insurance Agency of 2013), i.e. parents with children aged up to one year, the application of the income test conditions for this benefit would not be useful with the currently valid granting conditions.

Regarding families with children where income is obtained from paid work, the support should be primarily provided **in the form of tax allowances**. It is foreseen that in the result of the policy initiatives implemented in 2012-2013 the available income to an average family with two children should increase, however, this could have a minimum impact upon the households exposed to the poverty risk whose financial situation is not considerably influenced by the reduction of the personal income tax (PIT) rate. The earners of the minimum wage with one or two dependants are not released from the payment of taxes, but by applying the untaxed minimum income for the purpose of the PIT and tax allowances for dependants, a person with two or more dependants does not have to pay the personal income tax (see Table 7 in the Appendix).

In compliance with the draft central budget law for 2014, it is planned to increase the minimum wage from 200 to 255 lats, to increase the untaxed minimum income from 45 to 53 lats, as well as to increase the PIT allowance for dependent persons from 80 lats to 116 lats per month in 2014. The increase of the allowance for a dependent person would reduce the burden of labour taxes, in particular for families with children. However, large families whose income does not exceed the minimum wage defined in the country will benefit least from the above referred measures (just 12.5%) in comparison to, for example, families with one child (the gain of 19.6%). Taking into account that in Latvia the minimum wage is among lowest in the EU Member States (see Figures 7 and 8 in the Appendix), additional compensation measures for large families with low income would be necessary.

Major conclusions and possible solutions to problems:

- the current state social benefits are granted to particular population groups without assessing their income. Taking into account the high poverty risk of the population, in particular children, it is necessary to review the possibilities of targeting the state social benefits;
- the amounts of the state social benefits are not linked to any social economic indicator, therefore it is necessary to define medium term goals for restructuring of the expenditure of other state social benefits or the revision of their amounts (for example, the state social security benefit) by linking them with a particular social economic indicator;
- it is necessary to restructure the expenditure of the state family benefit to ensure that more support is provided to socially more vulnerable families with children (single parent families, large families, families with children and low income).

2.3. Social assistance

Social assistance is the support and assistance system provided from the public financing (municipal resources) which protects the poorest people in the country by providing support to them to satisfy their basic needs, as well as encourages the participation of individuals by active involvement in the improvement of their situation. It should be admitted that the financial support for covering the basic needs, as well as the activation measures which is traditionally a precondition for receiving the social assistance are intended for motivating a person to solve his/her own situation.

The Law on Social Services and Social Assistance provides for the following basic principles of the provision of social assistance:

- the assessment of the client's material resources, i.e. income and properties;
- provision of the basic needs – *food, clothing, housing, health care, mandatory education*;
- the participation of the persons capable of working in the improvement of their own situation.

The following social assistance benefits are provided for in Latvia⁷³:

- 1) the benefit for ensuring the guaranteed minimum income level (hereinafter GMI benefit);
- 2) housing benefit;
- 3) a single benefit in an emergency situation - an exception from the point of view of the basic principles of social assistance because the municipality may grant it without the assessment of income if a person is in emergency situation due to unpredictable circumstances and cannot provide for the basic needs of himself/ herself and his/ her family members;
- 4) other benefits for satisfaction of the basic needs after the assessment of material situation.

When the demand for the GMI benefit and the housing benefit by the residents of the municipality has been satisfied, the municipality, after the evaluation of the family (person's) income, is authorised to pay also other benefits from the municipal budget (for the payment for health care services, mandatory education, etc.) to satisfy the basic needs of a family or a single person household. The procedure of calculation of the GMI benefit is regulated by the Cabinet Regulation, and the amount, the conditions of allocation, including the income levels for the entitlement to benefits regarding the housing benefit and other benefits are defined by the municipality in its binding regulations.

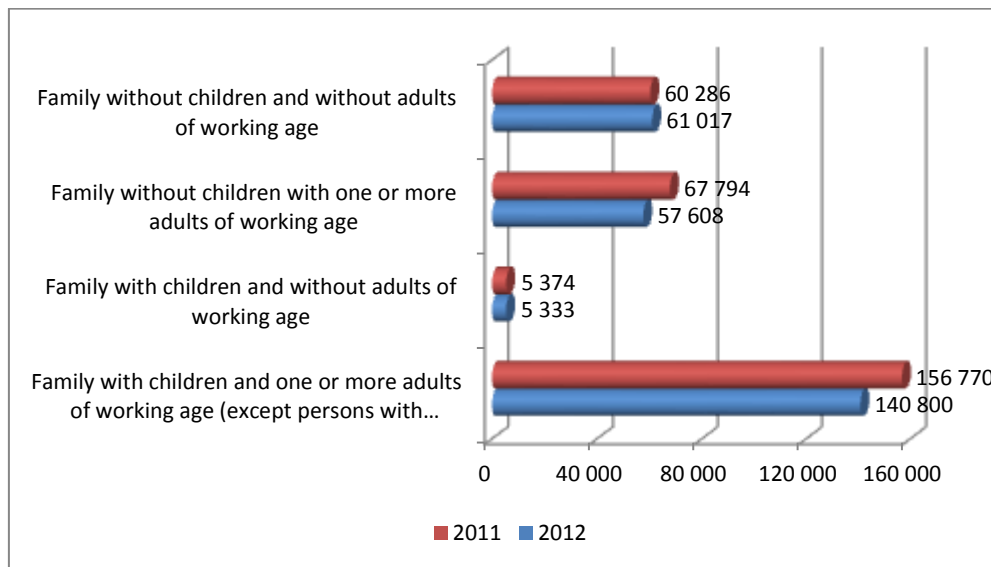
The most essential social assistance support is provided to the population by the **GMI benefit** and the **housing benefit**. Municipalities also provide considerable support to their residents by providing support for paying for health care services. Means tested municipal social assistance benefits in 2011 were received by 14% of the population or 290,224 persons; in 2012 they were received by 13% of the population or 264,758 persons. The status of a needy person was granted to 12.8% of the population (265,311 persons) in 2011, to 10.3% of the population or 210,616 persons in 2012, and the GMI benefit was received only by 5.9% of the population (121,833 persons) in 2011 and 4.6% or 94,528 persons in 2012. The average GMI benefit amount per beneficiary was 26.3 lats per month in 2011 and 24.9 lats per month in 2012 (see Table 8 in the Appendix).

Among the beneficiaries of the municipal social assistance most of them are in households with children and one or two adults capable of working (see Figure 7).

⁷³ Section 35 of the Law on Social Services and Social Assistance.

Figure 7.

The number of needy and low-income persons who have received means tested municipal social assistance benefits per type of household in 2011 and 2012



Source: Data of the state statistical reports.

In the WB study it is admitted⁷⁴ that **the GMI program in Latvia generally complies with the models existing in the EU countries**, however, some of its elements differ from the models prevailing across the EU. In the EU Member States the GMI program is defined in a centralised manner and also in Latvia it is provided for by the Cabinet Regulation⁷⁵, however, it is implemented by local municipalities. The entitlement to the GMI benefit is granted on the basis of the declaration of the means of subsistence. The net income of a household, where applicable, is subtracted from the maximum amount of the benefit to which this particular household would be entitled on the basis of the household size. At the same time, the WB points out few features of the GMI program of Latvia which are different from the approach in other countries. In the WB study it is admitted that **the GMI program is very well targeted** to the poorest persons. The GMI benefit was received by 91.3% in the 1st quintile and by 7.1% in the 2nd quintile. In comparison to the universal (state social) benefits, the GMI benefit is a considerably more efficient tool for the provision of support to the poorest persons, therefore it can be concluded that the aim of the benefit and the principles of granting it are compliant⁷⁶. At the same time, the low proportional share of the beneficiaries of the GMI benefit in the population, including among the needy persons, is specified as a deficiency, as the GMI benefit was received by 4.6% of the total number of the population and 53.7% of needy persons in 2012, which indicates the **coverage problems** in relation to the GMI benefit. On average 19.4% of the population were exposed to the poverty risk in 2011.

⁷⁴ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Review of key design parameters and legislation for social assistance programs in Latvia, Latvia GMI Program: main design characteristics and comparison with minimum income schemes in other EU Member States, pp. 5, 6.

⁷⁵ Regulations of the CoM No. 913 of 18 December 2012 "Regulations regarding the guaranteed minimum income level"; Regulations of the CoM No. 299 of 30 March 2010 "Regulations regarding the declaring a family or a single person living alone as needy", Regulations of the CoM No. 550 of 17 June 2009 "Procedure for the calculation, granting and payment of the benefit for the provision of the minimum income level and signing an agreement of participation".

⁷⁶ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, pp. 7, 14.

In most EU Member States such **programs are financed** from the central budget or are co-financed from the central and local or regional budgets (see Table 9 in the Appendix). In Latvia, the social assistance benefits are financed from the resources of the municipality budgets, therefore it is not correct to compare the financing schemes of the social assistance of the countries if the redistribution of taxes between the central and municipal budgets is not analysed at the same time. The amount of the financial revenue of the municipalities plays the decisive role in the provision of the municipal functions, however, the priorities set by the municipality also have an essential role.

From 2009 to 2012 in Latvia the state co-financing was provided to all the municipalities for the provision of the social assistance, however, it should be admitted that the rich municipalities who were able to finance the social assistance without the state support benefited most from this situation. As a result, municipalities with higher income and the additional state support for the financing of the social assistance could provide more generous support to their residents, and the municipalities with low income could comply with the minimum requirements of the social assistance (see Table 4). For example, 53% of 34 municipalities with the highest territorial development index used more than 40% of the resources for the social assistance for GMI benefit in 2012. However, the same proportional share of this expenditure for the GMI benefit was in 93% of 46 municipalities with the lowest territorial development index. Moreover, in the last - the poorest group of municipalities – the range of the proportional share of expenditure for the GMI benefit is up to 97% of the total expenditure for the social assistance (97.3% in Riebiņi district, 96.8% in Aglona district, 93.3% in Rēzekne district and 91.15% in Vaiņode district). This caused a disproportional split of social assistance among municipalities and thus regionally unequal treatment to people. As seen in Table 4, in the group of 34 municipalities with the highest territorial development index 24% of these municipalities could spend 40% to 70% of the total expenditure for the social assistance (the GMI benefit, the housing benefit, and other means tested benefits for the provision of basic needs) for other social assistance benefits. And within the group of the 46 poorest municipalities just one municipality (2%) used 49% of the total expenditure for other benefits (Alsunga district). Other resources were used for the mandatory GMI and housing benefit.

Table 4.

The priorities of the expenditure of the social assistance in relation to the social economic development level of the municipal territory in 2011⁷⁷

A number of municipalities per territory development index in 2011 in comparison to the average indicators in 2011	A number of municipalities (proportional share, %) which used more than 40% of the total expenditure for social assistance for the payment of GMI benefit in 2011	<u>The range of the</u> proportional share used for the GMI benefit above 40%	The number of municipalities (proportional share, %) which used more than 40% of the total expenditure for the social assistance for the payment of other benefits in 2011	<u>The range of the</u> proportional share used for the other benefits above 40%
34 ⁷⁸	18 (53%)	41-75%	8 (24%)	40-70%
39 ⁷⁹	33 (85%)	40-81%	3 (8%)	40-47%
46 ⁸⁰	43 (93%)	41-97%	1 (2%)	49%

Source: Ministry of Welfare

⁷⁷ Regulations of the CoM No. 482 of 25 May 2010 "Regulations on the procedure of the calculation of the territorial development indicator and its values".

⁷⁸ Territorial development level index from 2.308 to 0.168.

⁷⁹ Territory development level index from 0.152 to -0.312.

⁸⁰ Territory development level index from -0.322 to -1.931.

In the WB study it is stated that⁸¹ the state co-financing for the GMI program should be viewed as a “key tool” for the provision of adequate and fair support to poor persons in all the municipalities. The experience has shown that upon encountering a serious economic crisis the local financing can cause considerable inequality in the treatment of poor persons in both the poorest and the richest municipalities. The financing of the GMI benefit is more difficult in the poor municipalities. Richer municipalities can afford to increase the GMI level above the centrally set minimum standard from the financial point of view, which legally can be done by all the municipalities. Taking into account the social security system established in Latvia, the autonomous functions provided for the municipalities in the legislation⁸² and the principles of redistribution of taxes, **it is planned to continue the financing of the social assistance in a decentralised manner.** In order to enable the municipalities to ensure the implementation of their continuous functions, a subsidy from the central budget is granted to municipalities with the lowest evaluated income per resident and in 2013 this subsidy was received by 89 district municipalities and 4 national cities (Daugavpils, Rēzekne, Jēkabpils, Liepāja). In this case the WB recommends to grant earmarked resources (they are not earmarked now) to the **financial equalization fund of municipalities**⁸³ for ensuring that all the municipalities comply with the mandatory GMI financing standards because the GMI benefit is actually the only program targeted to the reduction of poverty in the country.

In the WB study⁸⁴ it is stated that the majority of the European countries, including Latvia, use a large proportion of resources in programs which are not directly targeted to support of poor population. The Nordic countries, Iceland and several other EU countries, including Latvia, use more than 90 per cent of social protection⁸⁵ resources for such programs. Only Portugal and the Netherlands use most of the social protection expenditure for means tested programs, followed by France and Spain who use approximately two thirds of social protection budget for the programs targeted for the reduction of poverty. In Latvia and several other new EU Member States the total impact of public resources upon the reduction of poverty is very low and very little resources are allocated to the programs whose benefits are targeted to the poor population. In the WB study⁸⁶ it is also stated that the total expenditure of Latvia for social protection is still relatively low in comparison to other EU Member States irrespective of the essential increase of income during the period from 2007 to 2009 by almost 30 per cent. The proportional share of expenditure for social protection measures in Latvia in 2009 was approximately 13 per cent of the GDP which is different from 21 per cent on average in EU27 Member States. The proportional share of expenditure for social protection in Latvia is similar to the countries like Bulgaria and Romania.

Moreover, in the WB study⁸⁷ it is concluded that, irrespective of the fact that the expenditure of Latvia for the GMI program for poor people has more than tripled since 2008 in relation with the anti-crisis measures, it was still among the lowest on the EU27 scale, i.e.,

⁸¹ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 10.

⁸² Section 15 of the Law "On Municipalities"

⁸³ Law "On finance balancing of municipalities"

⁸⁴ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 17.

⁸⁵ The social protection, in compliance with the WB methodology, includes the GMI benefit, a single benefit in an emergency situation, the housing benefit, the state social provision benefit, the family and child benefits, the state social benefits for disabled persons, funeral benefits, other municipal income tested benefits.

⁸⁶ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Expenditure and performance benchmarking country level, Expenditure and performance of welfare benefits and employment programs in Latvia, p. 5.

⁸⁷ *ibid.* p. 17

0.05 per cent of the GDP (0.01 % in 2008). Even the expenditure for the GMI program in 2011 in Latvia was still very low and amounted to just 0.16 per cent of the GDP not reaching the level spent for these programs in most EU Member States in 2009. In quite a few EU Member States, in addition to the basic support programs (the GMI and the housing benefit) there are income tested unemployment assistance systems which provide cash income upon losing a job when there is no entitlement to the unemployment benefit.

The practice of setting the amount of the minimum income support differs in each Member State⁸⁸. Generally, it can be split into the following main groups – (1) the minimum subsistence standard which serves as the benchmark for setting the minimum income threshold is set in the country and is regularly updated, (2) the minimum income threshold in Member States is set by the government resolution without linking it to any socioeconomic indicator, (3) the minimum income threshold is linked to the at-risk-of-poverty rate, (4) the minimum income threshold is linked to any other level to be provided, for example, the minimum pension, the average amount of the unemployment benefit, the minimum wage, etc. (see Table 10 in the Appendix). The level, depending on its type, is either regularly revised or it indexed along with the increase of consumer prices. According to the statement in the WB study, there is no common or universal minimum provision model that would serve as the best practice example for the comparative evaluation of the social assistance systems. Accordingly, each country selects the procedure of the organisation of the minimum provision model which is most suitable to its abilities and most effective for its population.

Different minimum provision levels are applied in the EU and OECD countries. The analysis of the systems of 24 EU Member States⁸⁹ leads to the conclusion that just in two Member States (Romania and Denmark) the support is provided above the at-risk-poverty threshold. Almost one third of these countries (Spain, Ireland, Luxemburg, Belgium, Malta, Austria, Slovenia) provide support up to 40% - 60% of the poverty risk threshold, and the Netherlands, Cyprus and Lithuania up to 30-40%. In the highest share, i.e., 50% of these countries, the social provision level is below 30% of the poverty risk threshold (see Table 11 in the Appendix). Latvia with the GMI level of 40 lats per month in 2012 is ranked within the lowest minimum provision group, i.e. 16.5% of the poverty risk threshold or of the median equivalent income per person. In the EU and OECD countries the minimum income programs usually provide at least 30% of the mean or the median equivalent income per person which would amount to approximately 75 lats per month per household member⁹⁰. However, it is equally important to achieve the situation when the amount of the support of the minimum provision scheme is such that it does not promote the dependence on benefits and encourage the person's integration in the labour market.

In Latvia not applying the **equivalence scales**⁹¹ when granting the GMI support is referred to as a deficiency of the system in the result of which disproportionately lower support is provided to a single person households or households with fewer persons than to households with more persons. The GMI benefit per person is considerably lower both in absolute numbers and according to the international comparison. In comparison to other EU

⁸⁸ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Review of key design parameters and legislation for social assistance programs in Latvia, Latvia GMI Program: main design characteristics and comparison with minimum income schemes in other EU Member States, Table 2 in the Appendix.

⁸⁹ Austria, United Kingdom, Belgium, Bulgaria, Czech Republic, Denmark, France, Estonia, Italy, Ireland, Cyprus, Latvia, Lithuania, the Netherlands, Poland, Portugal, Romania, Finland, Slovakia, Slovenia, Spain, Hungary, Germany, Sweden.

⁹⁰ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Analysis of the incentive structure created by the tax and benefit system, Financial incentives of the tax and benefit system in Latvia, p.45.

⁹¹ The equivalence ranges are applied for the purpose of assigning a different weight to each adult and child living in the household. For example, the modified OECD range - the weight of 1.0 is assigned to the first adult, the weight of 0.4 is assigned to each next household member aged 14 and above and the weight of 0.3 is assigned to each child below 14 years.

Member States, in Latvia the GMI benefit per person is the fourth lowest indicator⁹². As no equivalence scales are applied, for the purpose of granting the GMI benefit it is not taken into account that several persons living in the same household use available resources together and this possibility of shared use, in comparison to a single person household, defines the necessity of less resources for buying various goods and services and the expenses for their use.

Different from many EU Member States, the regulatory enactments of Latvia provide for **careful accounting of all the income** gained by a household, each earned or received lat of a household is accounted and the GMI benefit is reduced by this amount. This does not encourage a person to leave the social assistance scheme and move to employment. In Latvia, social benefits which are related to disability are not taken into account in the total income, but the income from child benefits is taken into account⁹³ and this restricts the access to the minimum provision program for families with children despite the high child poverty. There is a different practice in different EU Member States regarding what set of income and properties is not taken into account in the calculation of the minimum provision benefit. In several countries the compensation for the loss of supporter, the child's means of subsistence, the family benefits up to a certain level are not taken into account (for example, in Denmark, Poland, Austria, Belgium, United Kingdom). In other countries the minimum provision benefit is not reduced by the amount of the scholarship of a student and an unemployed person and the amount of the transportation compensation of an unemployed person, as well as the wage earned by schoolchildren (for example, Estonia, Lithuania, Slovakia). Similar to Latvia and other EU Member States the movable property and the real estate of a household is accounted for. In Lithuania the income from the agriculture land if the total area does not exceed 1 ha is not taken into account. In Sweden, in turn, a car has to be sold in most cases, except when it is required for maintaining the link with the labour market. These decisions regarding the car depend on each individual situation.

Practically in all the EU Member States, similarly to Latvia, the beneficiaries of social assistance have to be involved in **participation measures**. For example, persons who receive social assistance benefit and are at the working age, but are not employed, have to prove that they actively search for a job. If conditions of the participation are not complied with, in most Member States a decision is made regarding the restrictions for the payment of the social assistance benefit. However, the participation measures of a social service client are not always primarily related with employment because the basic task of the social worker is to help to solve the *contradiction* between the person's needs in the life and their satisfaction possibilities within the particular social system. A contradiction that has not been solved over a long term is manifested, for example, in the lack of the family stability, alcohol addiction, drug addiction, prostitution, suicide attempts, poverty, violence, etc.

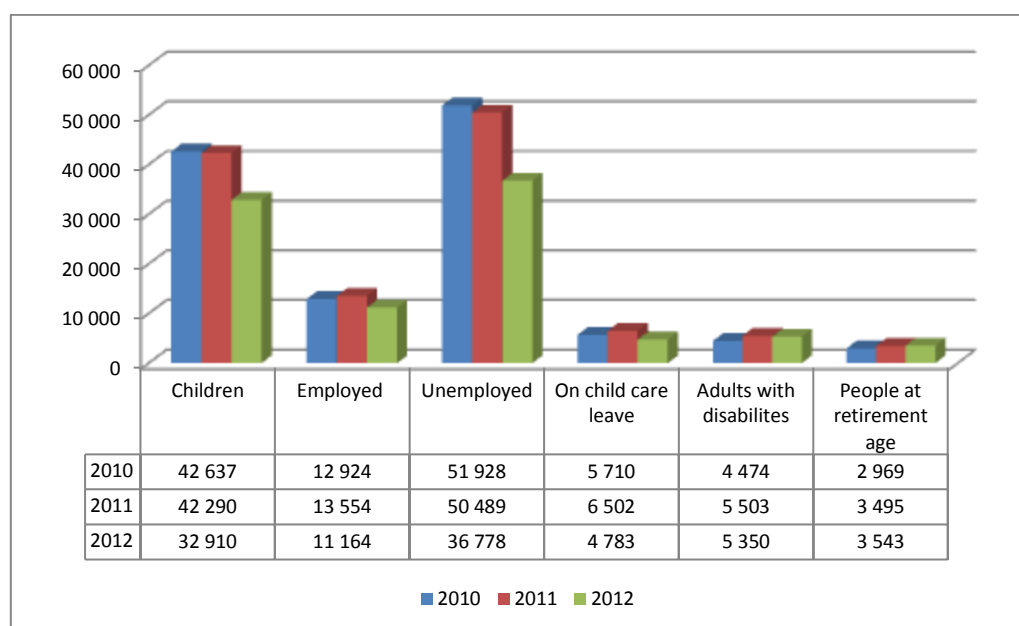
In Latvia the unemployed persons account for the biggest proportional share of the beneficiaries of the GMI benefit (39% in 2012). It should be noted that among the beneficiaries of the GMI benefit there are approximately 11% or 11.2 ths. - 13.6 ths. employed persons (see Figure 8). However, the statistical information regarding the causes behind the low income or the lack of income of the beneficiaries of social assistance is not available.

⁹² The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Analysis of the incentive structure created by the tax and benefit system, Financial incentives of the tax and benefit system in Latvia, p.11.

⁹³ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Review of key design parameters and legislation for social assistance programs in Latvia, Latvia GMI Program: main design characteristics and comparison with minimum income schemes in other EU Member States, pp. 16, 17.

Figure 8.

Structure of the GMI benefit recipients in 2010 - 2012 (persons)



Source: Data from national statistical reports.

The low wage or part-time employment when a person cannot provide for himself/herself or the family even being employed in a paid job is one of the possible causes. Therefore social assistance also needs to be provided to people who are employed both full-time and part-time if their income does not reach the minimum income level to be provided. In this case the client's social situation needs to be analysed and an agreement has to be made on the most appropriate solution to the problem which should be related to the possibilities of finding a better job and the access to education service.

Currently in Latvia there is a requirement that the beneficiaries of social assistance should cooperate with the State Employment Agency (hereinafter SEA), to register with it, to actively search for a job and to participate in the measures promoting the employment, i.e. perform the obligations of the unemployed person. Exceptions are provided for by the legislation⁹⁴ when the client does not have to register with the SEA, for example, the recipients of the state old-age and disability pensions, women during the pregnancy, the maternity leave and the child care period, one of the parents of a disabled child, schoolchildren, students, etc. Problems arise in the cases when a person loses the status of the unemployed person due to objective or subjective reasons and therefore this person and his/her dependants lose the entitlement to social assistance. The review of clients' applications and complaints to the Ministry of Welfare referring to particular family situations leads to the conclusion that the measures offered by SEA are not always compliant with the family situation and provide appropriate support for the person's involvement in the labour market or the rehabilitation measures offered by SEA. It is not always clear what share of responsibility should be assumed by SEA and municipal social service in each case and which institution should provide qualified experts for the implementation of appropriate motivation programs.

In order to minimise the risk for persons at the working age of becoming long-term unemployed persons, or losing the skills useful for the labour market, the Ministry of Welfare has prepared proposals regarding strengthening of the requirements that refer to the acceptance of a suitable job offer, thus encouraging the return of unemployed persons to the labour market. The quality of the offer will be higher and the possibilities of choice will be

⁹⁴ Part One of Section 37 of the Law on Social Services and Social Assistance.

broader during the first three months of the unemployment, but also a lower qualification job with a lower wage will have to be accepted at a later stage. It is planned to introduce an updated criterion of the reachability of the workplace - maximum one hour needs to be spent for going to work one direction from the declared place of residence (1.5 hours when a job is not found during the period of 3 months), the distance to the public transportation stop shall not exceed 2 km and the expenses of commuting shall not exceed 20% of the foreseen gross wage. It is also proposed to set a clear remuneration of a suitable job - during the first three months of the unemployment a person should accept a job where the social insurance contributions equal to 100% of the previously made contributions, while during the next three months a job where these contributions are equal to 80% would also need to be accepted. Following the unemployment of six months at least the minimum monthly wage would be considered an appropriate remuneration.

The WB study points out problems in the form of organisation of the social assistance system in Latvia which prevent a person from accepting a low paid job. In such cases other countries implement the measures „**to make work pay**”⁹⁵, which means that when a person accepts a low paid job the possibilities to receive social assistance benefits are maintained and higher tax allowances or lower rates are applied to the income obtained in this way. In many EU Member States the attempts to get involved in the labour market by discontinuing the use of social security network are appreciated by, for example, using supplements (*in-work benefits*) and a broader range of income which does not reduce the amount of social assistance benefits. The WB study states⁹⁶ that the general goal of the government is to use public resources more efficiently and for this purpose an integrated program of the municipal social assistance benefits and the state social benefits needs to be established. In Latvia an obstacle for this solution is the lack of a common information system of the municipal social assistance benefits and the state social benefits that would enable the defining of common goals and monitoring of their implementation.

According to the evaluation of the GMI program performed in the WB study reports, in Latvia **the benefit dependency does not exist** due to the low amount of the benefit and on average the short term of receiving the benefit. The data analysis regarding the period from January 2006 to July 2012 confirms that 40% of the benefit beneficiaries have received the GMI benefit just once and for a short period of time: these benefits operate as crisis assistance and do not form a permanent source of income. It proves that the benefit dependency (where applicable) is only characteristic for a small group of population. Two thirds of the GMI beneficiaries were receiving it for less than 20% of the analysed time period and approximately one third of the GMI beneficiaries received this benefit for just 5% of the analysed time period.

The GMI benefit or the minimum provision benefit has the same objective in practically all EU Member States, i.e. to provide the minimum income level for ensuring that a person and his/ her family members can cover expenses for satisfaction of their basic needs. In some Member States the mandatory minimum standard includes also **expenses for housing**, however, in these Member States there are also exceptions when a person can apply for a separate rent benefit. 6 out of 24 analysed countries provide a heating benefit, in some countries there is a gas benefit, a cold water benefit, a rent benefit, etc. In all the countries where there is a housing benefit, there are certain restrictions applicable to the actual expenses for the housing and in most cases they are related to the size of the household and its material situation. In 2012 there was no housing benefit only in Portugal. In Latvia there is a provision that the municipality from its budget resources has to pay the **housing benefit**

⁹⁵ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Analysis of the incentive structure created by the tax and benefit system, Financial incentives of the tax and benefit system in Latvia, p.50.

⁹⁶ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, Review of key design parameters and legislation for social assistance programs in Latvia, Latvia GMI Program: main design characteristics and comparison with minimum income schemes in other EU Member States, pp. 28.

to poor and low-income families or single persons, however, the amount of the benefit and the criteria for receiving the housing benefit are set by each municipality. In the result, there are municipalities who pay a certain amount per household during the heating season and this amount does not even cover the heating expenses for one month. In other municipalities the housing benefit is calculated according to formula where the regulated expenses for housing are taken into account (the housing area, a certain amount of the consumed natural gas, electricity, cold and hot water is paid for, etc.) or a certain amount of fossil fuel is provided (firewood, coal, pellets). According to the Law “On Municipalities” the housing benefit can also be paid to certain social groups of people which do not comply with the basic principles behind the provision of social assistance. The existing legal regulation creates an unequal situation for the population in the poor and richer municipalities.

Major conclusions and major problems to be solved:

- The GMI program of Latvia is well targeted to the poorest population and it is accurately defined, however, with a very low coverage, which means that there is a big gap between people and families with insufficient resources who are not entitled to apply for the GMI benefit. At the inadequately low GMI level, the GMI benefit affords support to a very small part of the poor population;
- The WB study points out that the expenditure of the municipalities for social assistance from the basic budget is very low both in comparison to other EU Member States and in comparison to the expenditure of Latvia for the state social benefits the payment of which is not related with means testing;
- The GMI level is not linked to any socioeconomic indicator. The equivalence scales which are directly or indirectly applied by most EU countries are not applied for the calculation of the GMI benefit;
- The payment of the GMI benefit is suspended as soon as a person starts to gain any income except the income provided for by the law, at the same time applying the tax rates defined in the legislation, which do not motivate persons to accept a low paid job;
- The involvement of the GMI benefit recipients in active employment programs should be evaluated positively, however, the measures offered by SEA are not always compliant with the family situation because it is not always clear who should assume what share of responsibility in the solution of the family's social problems, and appropriate motivation programs and qualified experts for their implementation are missing;
- the decentralised financing of the municipal social assistance benefits and the radically different financial possibilities of municipalities, the authority of the municipalities to set a different GMI level, the lack of the common legal regulation regarding the housing benefit at the national level are the reasons why social assistance provided by municipalities and its coverage differ among municipalities, resulting in an unfair treatment of the applicants for benefits;
- The systems of the municipal social assistance and the state social benefit system are not sufficiently well *integrated within a common system with a common goal*, the development and the introduction of the uniform *information system* for the monitoring and the evaluation of the program is not completed.

2.4. Active labour market measures

Situation in the labour market has been gradually improving since 2011, however, the unemployment level, in particular long-term unemployment level remains high (see Table 12 in the Appendix). Both the economic activity and employment rate of population has increased, which means that the positive trend of the employment and unemployment indicators is not related to the fact that people no longer search for a job. The number of unemployed persons (including the long-term unemployed persons) has also decreased. Quite a fast reduction of the youth unemployment rate has also been seen since 2012 and, in the result, the youth unemployment rate in Latvia in the 1st quarter of 2013 was below the average unemployment rate in the EU during the relevant period (24.1%).

The WB study points out the following tasks to be solved in relation with the labour market:

- 1) more accurate definition of the target groups who need support for returning to the labour market;
- 2) improvement of the motivation of people outside the labour market to get them involved in the employment;
- 3) improvement of implementation of the active employment measures so that offered services would reduce the number of unemployed persons at the same time increasing the employment indicators.

The WB researchers have evaluated the social situation of persons who have experienced difficulties in the labour market over a long term (2007-2010) and have grouped these persons in nine groups⁹⁷ (see Figure 9), taking into account the long-term labour market experience of the persons and evaluating the risk factors based on various characteristics (for example, age, gender, number of children, education and work experience). Family conditions are viewed as a very important aspect for the purpose of this grouping. The WB researchers point out that a person's individual and family features are important, in particular during a period following heavy recession.

Along with the traditional groups of population who are related to social inclusion risks, within the framework of the WB study specific groups were identified which are not usually related with the labour market problems and upon whom the employment policy is not focused. Three of the specific groups (groups 1,7,9) consist of elderly persons with chronic diseases. A high risk of unemployment is also characteristic for elderly persons (50+ years) having no health problems preventing them to work (Group 3). High risk of unemployment and unstable work was confirmed within the groups of the persons aged 20-29 years and 30-39 years with a very low education level (groups 2 and 5). Not characteristic group which was identified within the study are women with a high education level who have children, in particular younger than 6 years, in their family (groups 4 and 8). The risk is quite high among self-employed elderly men (group 6), however, it is considered that the inclusion of this part of the population in the risk groups is to a great extent determined by informal employment. Most of the individuals belonging to the defined risk groups (7 out of 9 groups) have been employed for more than 10 years and have not been continuously unemployed or non-active, which attests that the main unemployment cause of these individuals is not the lack of motivation or incapacity to work. Regarding 6 out of 9 specific groups as an essential impact for a high unemployment risk a low or very low education level is indicated.

⁹⁷The WB study „Latvia: Who is Unemployed, Inactive or Needy?“, Profiling of people with no or limited labour-market attachment and of low income, Figure 4, p.12.

Figure 9.

Groups of persons with continuous problems to involve on the labour market

Group 1	Group 2	Group 3
Single, elderly unemployed persons/ persons with disability	Single, young men with low level of education	Elderly unemployed persons with a good health status
22%	11%	14%
46-61 years Single 10+ years working experience <u>Low level of education</u> Many disabled persons/ unemployed persons Chronic diseases	Men, 20-29 years Not married <u>Very low level of education</u> Unemployed persons Without children Rural residents	50+ years Married 10+ years working experience <u>Low level of education</u> Unemployed persons/ low income/ irregular work
Group 4	Group 5	Group 6
Not employed mothers with a little child	Low educated men in rural districts, breadwinners	Self-employed elderly men
11%	11%	9%
Women, 25-39 years Married, with a partner <u>Higher education</u> Children up to the age of 6. Rural residents The partner is employed	Men, 30-39 years Married, with a partner 10+ years working experience <u>Very low level of education</u> A child up to the age of 6. Rural residents The partner not employed	Men, 40-54 years Married 10+ years working experience <u>Self-employed persons</u> No children in the household Employed without registration
Group 7	Group 8	Group 9
Elderly women with disability and with an employed partner	Highly educated mothers who are not employed	Elderly women with disability and with not employed partner
6%	6%	4%
Women, 50+ years Married 10+ years working experience <u>Low level of education</u> Often with disability, not active Chronic diseases The partner is employed	Women, 30-39 years Married 10+ years working experience <u>Higher education (in most cases)</u> Children Residents of cities The partner is employed	Women, 50+ years Married 10+ years working experience <u>Low level of education</u> Not capable of working, not active Many have retired early Chronic diseases The partner not employed

Source: The WB study

The WB researchers indicate⁹⁸ that specific goals should be identified as to on which groups the labour market policy will be focused. If the goal is to focus the activation policy attempts to the persons for whom finding a job is most difficult to some extent (groups 1, 3, 7 and 9 - elderly people with chronic diseases), the policy should focus on persons with a high risk of involving in the labour market and, taking into account the specifics of the groups, the employment measures should be linked with the health care services. If the goal is to involve persons with comparatively low risk in the labour market (group 6 - self-employed persons), it should be taken into account that these persons are better prepared for

⁹⁸The WB study „Latvia: Who is Unemployed, Inactive or Needy?“, Profiling of people with no or limited labour-market attachment and of low income, p. 18.

the labour market and their activation will most probably be more successful. At the same time, several of these “low risk” persons may succeed at overcoming the labour market difficulties without the support by active employment policy. The approach does not exclude the focus on both different groups and their needs. The WB researchers point out that in practice when decisions are made regarding development of the policy and the target audience, it is useful to consider a broad range of information. A different view upon the features of the groups and the employment obstacles also indicate the necessity to combine the benefit and the activation policies. The low coverage for the groups who experience permanent labour market difficulties creates doubts not only from the point of view of the equality and reduction of poverty, but also from the point of view of effective activation strategy because when no benefits are applicable to a person it is much more difficult for the employment service to find suitable services.

As regards the motivation of poor, inactive and unemployed persons to get involved in the employment, the WB researchers recommend the implementation of the activation strategy aimed at reaching the identified groups and creating appropriate services, as well as to continue the use of the link between benefits and the activation policies as a tool for attracting unemployed persons to employment services. The most popular support tools in the EU Member States are the gradual reduction of social benefits until the employed person starts to earn a certain amount of remuneration, for example, benefits to employed persons as well as lower labour taxes. Taking into account the complicated character of such system, the links with the tax system and the potential impact upon the motivation to get involved on a job and to earn, the Ministry of Welfare, within the directions of action in the draft *Strategy for Employment and Inclusive Growth for 2014-2020* proposes to develop a concept for the improvement of the tax and benefit system in 2014 in cooperation with the Ministry of Finance by using the results of the WB study and aimed at the promotion of the reduction of the labour tax burden upon the earners of low wages and the financial motivation upon starting a job. Initially the possibilities for starting a pilot project should be assessed by providing that the earned one minimum wage during the first months (time restricted) is not taken into account in the provision of support to a poor household (a single household member) during 4 months.

In the view of municipal social services, SEA is a successful cooperation partner in solving clients' problems⁹⁹, however, being aware of the current and the potential shortage of labour in Latvia and the groups of persons who have permanent problems to participate in the labour market, it is important to eliminate the existing obstacles for the inter-institutional cooperation by creating an optimum cooperation model, in order to solve the problem situations of common clients more efficiently.

From 17 July to 15 August 2013 a survey of employees from SEA and municipal social service offices was carried out regarding the cooperation of both institutions in solving a client's situation. In total 468 answers were received from both institutions, i.e. 168 answers from the SEA and 318 answers from social service offices. As it was referred to above, generally the cooperation between both institutions was assessed as good, still particular drawbacks were identified regarding more successful solution of the clients' situations by providing proposals for eliminating them:

- organise regular joint inter-institutional meetings regarding (1) a particular client's case, (2) the SEA offers and projects and information available to social workers about the client's situation;

⁹⁹ On 20 February 2012 the State Chancellery, within the framework of the project administered by it "Support for the implementation of structural reforms in the state administration", signed an agreement with SIA "SAFAGE Baltija" (procurement identification number MK VK 2011/27 ESF) regarding the performance of the research „Evaluation of the initial impact (Ex-ante) regarding the envisaged structural reforms in the field of the professional social work policy”, p. 125.

- revise the provision where it is stated that a person at the working age who wishes to receive the social assistance benefit, except a single benefit in an emergency, and is not employed has to register with the SEA as an unemployed person¹⁰⁰;
- improve information available at the data bases of the institutions by promoting its timeliness and the level of details;
- develop a common methodology for implementation of cooperation processes.

SEA has developed a pilot project for cooperation with municipal social service offices providing the common work with 2300 long-term unemployed persons, in particular, meetings with the representatives of municipal social service offices and provision of information regarding the cooperation with municipal social service offices on integration in the labour market the current SEA clients - long-term unemployed persons who are registered in the social service offices. It is planned to present the first results of the project in the 4th quarter and these will serve as the basis for identification of further work development possibilities.

As the unemployment rate remains high, it is essential to improve the evaluation of the efficiency of the existing labour market measures and to develop appropriate programs and approaches that would be based on individual risks faced by the unemployed persons¹⁰¹. Generally, the results of the WB study confirm that the active labour market measures (ALMM), all types of vocational and non-formal training programs for the unemployed persons demonstrate positive labour market outcome over both short and medium term as regards both the employment (the number of repeated unemployment periods is decreasing) and income. Also the studies by the OECD and other countries confirm the overall positive impact by the education level upon the outcome of the labour market. However, it should be taken into account that the outcome impact by the training programs for unemployed persons depend on the employment possibilities to a large extent. Latvia has the lowest number of vacancies among the countries included in the study¹⁰². Moreover, the training carried out within the ALMM cannot replace and solve the contribution by or the problems of the education system. In the WB study the **application of the waiting list principle** without singling out the priority target groups of unemployed persons, like it is done in other countries, is referred to as a drawback of the training system for unemployed persons¹⁰³. In order to evaluate the above referred drawbacks in the training system for unemployed persons, on 26th February 2013 the priority groups for life-long learning measures were defined as follows: the age group 45+ while within the age group 24-44 years the support is received by persons with disability, persons who have minimum 2 minor children and needy persons. In the course of development and implementation of the **profiling system** this approach will be further developed.

The identified drawbacks and the required actions are included in the above referred draft *Strategy for Employment and Inclusive Growth for 2014-2020* where the questions referred to in the present report are analysed in more depth by outlining the main problem areas and the required directions of action in this document.

Major conclusions and major problems to be solved:

- although the employment and unemployment indicators have been gradually improving, still the unemployment rate, in particular the long-term unemployment rate, still remains high;

¹⁰⁰ Paragraph 1 of Section 37 of the Law on Social Services and Social Assistance.

¹⁰¹ The WB study „Latvia: Who is Unemployed, Inactive or Needy?”, An evaluation of active labour market programs (ALMPS) and related social benefit programs, Latvia: best practices and constraints in provision of training services and employment incentives, p. 52.

¹⁰² *ibid.* p. 10

¹⁰³ *ibid.*, p. 15.

- it is necessary to establish an optimum cooperation model between SEA branch offices and municipal social service offices for identification of common clients and offering the most effective services to involve the clients in the labour market, taking into account the identified risks in the WB study regarding persons with permanent difficulties of involving in the labour market;
- the profiling system needs to be introduced in order to offer the most appropriate active labour market measures to unemployed persons;
- in order to ensure that the active labour market services are correctly targeted, it is necessary to evaluate the efficiency of the proposed services, at the same time defining the approaches that would comply with the individual risks encountered by the unemployed persons.

2.5. Social work and social services

Social services and social assistance should be viewed as social work resources. The profession of the social work promotes social changes, the solution of problems in relations with people, as well as an opportunity and freedom for people by improving their welfare. According to theories of human behaviour and social systems, the social work interferes with the aspects where there is an interaction between people and their environment. Social work is based on the human rights` and social justice principles¹⁰⁴.

Along with the accumulation of professional know-how and during economic crisis the public understanding of what is professional social work gradually changes. Until now a major part of the society considered that the main task of social worker was to provide material assistance, though the concepts “social work” and “social assistance” are different. The provided social assistance to people is directed towards the consequences of problems (*insufficient financial resources*), and not the causes behind these problems.

It is the duty of municipality to provide a possibility for persons who have declared their place of residence within the relevant municipality to receive relevant social services and social assistance. For the performance of these duties the social service office is established in each municipality.

The role of the social service offices in the course of evaluating and providing support services for ensuring the access to education or training (*for example, child care*), to the labour market (*for example, ensuring that a parent/ -s could work and take care of a dependent child or father/ mother needing care*), health (*for example, rehabilitation, treatment*) etc., depends not only on the work quality of social workers in offering the necessary service in the particular situation, but also on the availability of these services and the efficiency in implementing these services.

Provisions of the *Law on Social Services and Social Assistance* currently in force stipulate that, in order for the social service to be able to perform its tasks, there has to be minimum one social work expert¹⁰⁵ per 1000 people. According to information provided by the municipal social service offices, in 2012 in the municipal social service offices of cities and districts 1162 social work experts were employed, i.e. one social work expert per 1742 people on average. It is evident that the number of social workers is not sufficient, i.e., in total 58% of the provision are ensured.

As there is high long-term unemployment level in the country and a long period of unemployment and poverty just deepens psychological and social problems, the necessity for

¹⁰⁴ Global social work education and practice standards. More details available at:

<http://ifsw.org/policies/definition-of-social-work/>

¹⁰⁵ Social work expert - a social worker, a care social worker, a care giver, a social rehabilitation expert, a social assistance organiser.

social work has considerably increased in the society. Special focus shall be on the work with families with children. It is necessary to improve *social work methods* applied in social service offices with certain target groups, including improving the application of social case management method in the social work practice.

Social services is one of the most essential tools for ensuring equal rights to live within the society with full inclusion and participation in the society life for persons with functional disorders and persons subjected to social exclusion risks. Social services solve the problems which are socially important not only for an individual, but also to the society as a whole (violence, addiction problems, etc.) and allow the ensuring of the social stability and security.

For the purpose of the *Law on Social Services and Social Assistance*, social services comprise social care, social rehabilitation, vocational rehabilitation services and provision of technical aids. In compliance with the law, services needed for a person shall be first provided at the place of residence or as close as possible to it. Only if the scope of the services to be provided at the place of residence is not sufficient, social care and social rehabilitation is provided at a long-term care and social rehabilitation institution (institutional care).

The analysis on provision of social services reveals problems like prevalence of institutional care forms and essential differences between regions as regards provision of services. In compliance with summaries of national statistical data and information collected by MoW, as on 1st January 2013 there were 13,040 persons in the institutional care and 9739 persons received home care in 2012. In the waiting list for institutional care paid by the state for persons with severe mental disorders, as on 18th December 2012 there were 334 persons, in the waiting list for the institutional care financed by municipalities there were 80 persons (the data as on 1st January 2013) and there were only 2 persons on the waiting list for home care.

A range of social services to be provided at each living territory is not defined in any regulatory enactment or planning document. The range of social services available to a person in the particular municipality depends on financial possibilities of the municipality, the available infrastructure, skills for implementation of investment projects and, to a great extent, on the priorities defined by municipal policy makers which are not always justified on the basis of objective needs of people.

Insufficient range of community-based services, services which are only provided in isolated environment, as well as insufficient focus on individual needs of each service beneficiary are considered to be the main obstacles for persons with functional disorders and other groups of persons subjected to social exclusion risk to fully enjoy their rights to be equal with other members of society. This situation influences not only persons in need of social services, but also their family members, who are often forced to leave the labour market and thus lose their qualification, often unable to return to the labour market after a lengthy involuntary absence to ensure family care to these persons.

Current demographic challenges - ageing of society, decrease of proportional share of population at the working age and the birth rate, migration - high poverty and social exclusion indicators and limited state and municipal financial resources determine the necessity to have a system of social services that would be aimed at the maximum restoration of an individual's social and/ or economic potential and integration in the society or in the labour market. With this in mind it is very important to use the potential contribution by each person in not only improving one's own welfare, but also for general development of the country, and Latvia has to use all the available human resources taking into account the above listed challenges. Persons with disability is a group of people who still encounter several obstacles for integration in the education system and in the labour market which is a precondition for an individual's further future perspective.

In order to improve the policy in the area of social work and social services, the Ministry of Welfare has developed three medium term policy planning documents (see also Section 3.6).

- Strategy for Professional Social Work Development (2014-2020);
- Strategy for Development of Social Services (2014-2020);
- Strategy for implementation of the UN Convention on the Rights of Persons with disabilities (2014-2020).

3. FURTHER ACTION

This Section summarises the tasks to be carried out in each social security system area for solving the situation related to the high poverty indicators, including effective reduction of child poverty. It is planned to implement improvements in the organisation of social assistance system, to improve the adequacy of benefits for ensuring that they apply to a broader range of people, as well as by improving the motivation and activation measures of the benefit recipients.

3.1. Minimum provision level

In order to ensure a common approach to setting of the minimum income (minimum provision) level in the country the amount of which is formed by all the income that a person can receive from the systems described in the report, on the basis of international and EU practice in poverty measurement, the following measures need to be implemented by choosing one of the proposed versions:

Version 1

- Set a common (one) minimum income (minimum provision) level equal to **30%, 40%, 50% or 60%** of the median income by applying the OECD equivalence scale¹⁰⁶;
- Suspend the calculation of minimum subsistence consumer basket of goods and services defined in 1991.

Version 2

- Set differentiated (more than one) minimum income (minimum provision) levels equal to **30%, 40%, 50% or 60%** of the median income by applying the OECD equivalence scale;
- Suspend the calculation of minimum subsistence consumer basket of goods and services defined in 1991.

Version 3

- Suspend the calculation of minimum subsistence consumer basket of goods and services defined in 1991 and develop a new minimum subsistence consumer basket of goods and services or several baskets for different population groups;
- Set a minimum income (minimum provision) level equal to the minimum subsistence level or as a percentage of it.

The deadline for development of the draft concept paper “Regarding the setting of the minimum income (minimum provision) level” and its submission to the Cabinet of Ministers – 30th April, 2014.

3.2. Social insurance

Although social insurance system is based on individual social insurance contributions, still the minimum amounts of the social insurance services need to be defined at the level that ensures their balancing with the minimum income level (minimum provision) defined in the country by preventing the future poverty risk for these persons. Thus, on the basis of separate identified problems, the following measures need to be implemented:

¹⁰⁶ For example, at 60% 156 lats for an adult person (the data of 2011) or 222 euro; 328 lats or 467 euro for 2 adult persons and 2 children.

1. Taking into account that upon the introduction of the minimum income (minimum provision) level persons who have made social insurance contributions from low income will eventually receive the pension which is below the minimum income (minimum provision) level, the possibility of **setting the social pension base** that is paid to all the beneficiaries of pensions (old-age, disability, the loss of supporter) from the central budget, thus replacing the currently set minimum pension amounts, should be evaluated. Upon the introduction of the base pension the beneficiaries of pensions would receive the base pension and the social insurance pension which is calculated upon the individual social insurance contributions, thus increasing the income of pension recipients.

The deadline for development of the draft concept paper and its submission to the Cabinet of Ministers is 31st December 2015.

2. Assess the possibility to introduce the **minimum level for unemployment benefit** to increase social protection of low wage earners, thus preventing their poverty risk.

The deadline for development of the draft concept paper and its submission to the Cabinet of Ministers is 31st December 2015.

3.3. State social benefits (universal benefits)

Taking into account the statement in the WB study that the state social benefits are not sufficiently targeted and therefore do not provide sufficient impact on the reduction of poverty, it is proposed to carry out an evaluation and to develop proposals for restructuring of the state social benefits or revise these amounts (for example, the state family benefit, the state social security benefit), by linking them to a certain socioeconomic indicator with the objective to create an integrated program of state social benefits and municipal social assistance; to carry out the monitoring and the evaluation of integrated program by using the state social policy monitoring information system (SPOLIS).

The deadline for development of the draft concept paper and its submission to the Cabinet of Ministers is 31st December 2015.

3.4. Municipal social assistance

The municipal social assistance is provided in cases when a person does not gain income from paid work, self-employment, capital or does not receive the pension or benefits from social insurance system or in the form of state social benefits, as well as if the above income is below the certain income threshold and a person cannot provide the minimum living standard for himself/ herself and his/ her family.

The municipal social assistance is provided until the moment while there are objective circumstances and until a person returns to gaining the income which exceeds a certain income threshold.

It should be noted that the amount of social assistance benefits should be evaluated in along with person`s motivation to work and make social insurance contributions not to threaten the existence of this system which should be deemed the basis of the social security system. In the course of revising the municipal social assistance system it is important to evaluate the incentive elements for a person to make social insurance contributions over long term. In the course of revising the municipal social assistance system also the person's

possibility to return to gaining independent income and the aspects related to the labour taxes are evaluated.

Taking into account the above considerations, it is proposed to implement the following improvements in municipal social assistance system.

Measures for improvement of social assistance system:

1. Create *a common system* where a comprehensive evaluation of social situation and targeted support for solution of the client's social problems by professional social worker is provided to each client of the municipal social service office by involving relevant resources in each case (for example, involving experts from other fields to solve social situation of each client, necessary social services, as well as cash support, etc.).
2. The legislation should be improved by defining that each social worker shall encourage the welfare of both individuals and society groups and their adjustment to social environment by means of social work methods.
3. Special attention should be paid to inter-institutional cooperation both at the level of the institution head and during the management process of an individual social case.
4. To solve the material situation of a client of the municipal social service office, a cash support should be provided for and it should be granted to a household by calculating its maximum amount in compliance with the minimum income or minimum provision level defined in the country by applying the OECD equivalence scale. The maximum support amount to a household should be reduced by the total income of the household by providing that the following is not considered as income in this situation:
 - 4.1. income equal to gross minimum wage amount set in the country from paid work or self-employment (including, except the patent for picking berries, mushrooms, collection of herbs, as well as short-term works in agriculture) for 4 months after launch of labour relations. It is provided for that also income from certain seasonal works should not be considered as income in the above referred amount. The provision level for seasonal workers with children depends on whether a person pays taxes, thus is employed, or does not pay taxes;
 - 4.2. income from agriculture land if the total area does not exceed 1 ha;
 - 4.3. the supplement to the state family support for a child with disability, the benefit for the care for a child with disability, a benefit to a person with disability who needs care, a benefit for the use of an assistant, a benefit for compensation of the transportation costs for a person with mobility difficulties, a benefit for a child suffering from celiac, child birth and funeral benefits, as well as municipal social assistance benefits defined in the present law;
 - 4.4. compensation for the loss of supporter, means of subsistence for a child in the amount equal to the gross minimum wage set in the country;
 - 4.5. the amount of scholarships for students and unemployed persons, the transport compensation amount for unemployed persons, as well as the wages earned by schoolchildren;
 - 4.6. social guarantees for an orphan or a child left without parental care following the end of the out-of-family care, as well as cash resources obtained from welfare foundations, the student's loan and the material benefit obtained from social campaigns.
5. Taking into account that tax revenue is used for the provision of municipal social assistance, the common criteria for evaluation of material situation should be set for the assessment of movable property and real estate, by evaluating the possibilities of selling it, however, not exceeding one year.

6. Common key minimum standards for granting the housing benefit should be set in the country - the application of the income evaluation principle and the definition of major expenses related with the use of residential premises for covering of which the housing benefit is granted¹⁰⁷:

- expenses required for mandatory administration activities or the rent fee;
- expenses for providing heating or expenses for provision of heating and hot water when heat energy or natural gas is used;
- expenses for consumed water;
- expenses for the provision of sewage or waste collection;
- expenses for disposal of household waste;
- expenses for electricity.

The entitlement to include also other items which are directly or indirectly related to the housing in the housing benefit should be delegated to municipalities (*for example*, fossil fuel, the payment for the Internet, telephone).

The *minimum standards* of each *expense item* as well the amount of the support depending on the location of the housing and the size of the household should be set. The entitlement to increase the minimum provisions set by the state to a certain threshold and to take into account the expensed that do not exceed the actual expenses under these items is delegated to municipalities.

It is proposed to apply, for example, the following formula for assessment of the monthly housing benefit:

$$P = MNL + K - I, \text{ where}$$

- P - the amount of the housing benefit;
 - MNL - the minimum income or the provision level recalculated in compliance with the OECD equivalence scale for a particular household;
 - K - regulated expenses for rent or administration and utilities;
 - I - total income of the household.
7. If in relation to a household where all the persons capable of working are involved in the labour market the minimum income or the provision level of 60% of the median equivalent income is applied, it is assumed that 20% of this amount should be spent for covering the regulated income of the housing. The remaining regulated housing expenses are paid by means of the housing benefit.

3.5. Active labour market measures

In order to solve the identified deficiencies and drawbacks in the area of employment and labour market policy, the Ministry of Welfare is developing a medium term policy planning document *Strategy for Employment and Inclusive Growth (2014-2020)*, where the following directions of action are provided for:

- **High labour market participation rate** – are all persons capable of work active and competent, and are they related with the labour market throughout their lifetime by receiving the needed support in a measurable and from the point of view of costs useful way?
- **Socially inclusive and fair approach** – is the work of a compliant quality, stable and equally accessible for men and women of different ages, does it reflect the diversity

¹⁰⁷ Letter No. 413-1-6707 by the Ministry of Economy on 10 July 2013 (LM 10.07.2013. No. 1747/S).

in the society, is it free from obstacles and transparent, is there a possibility to receive clear information?

- **Effective offer and demand alignment** – is the undisturbed, fast and secure transfer from one job to another possible according to the needs of job seekers or employees, as well the employers' requirements and does it include a high quality life-long learning?
- **Environment encouraging employment** – are sustainable success ensured by promoting the creation of jobs for both employees and companies, and can the labour costs and value be adjusted to the results in order to secure appropriate income and to maintain competitiveness?
- **Mobility possibilities** – can employees succeed safely at work and change jobs without experiencing unjustified obstacles and penalties, and are they supported when adjustments are needed?

The goal of the strategy is to ensure the development of a balanced labour market, developing of the policy encouraging the creation of new jobs in the national economy, minimising the negative consequences caused by unemployment, helping the unemployed persons and job seekers exposed to a less favourable situation to return to the labour market, as well as a comprehensive use of human resources` potential.

3.6. Social work and social services

It is proposed *to develop a common system* where each client of a municipal social service office would be provided a comprehensive assessment of his/her social situation by a professional social worker and targeted support to resolve client's social problems in each case involving appropriate resources.

In order to solve the identified deficiencies and drawbacks **in the social work area** a medium term policy planning document *Strategy for Professional Social Work Development (2014-2020)* has been developed where the following directions of action in the improvement of the social work area are provided for:

- improvement of the social work quality,
- providing the accessibility and improvement of efficiency,
- sustainable development of the social work area.

Social services is a factor that promotes inclusive growth because the resources invested there contribute to the development of human capital, thus providing medium and long term yield both from the economic viewpoint, as well as at the individual and the society level as a whole. Services that are not received in time may impact not only persons in need of social services, but also their family members, who often assume the care of these persons and are often forced to leave labour market and thus lose their qualification, often unable to return to the labour market after a lengthy involuntary absence.

In order to improve the area of social services, the Ministry of Welfare has developed *Strategy for Development of Social Services (2014-2020)*, by both identifying the existing problems in the area of social services (social care, social rehabilitation services, vocational rehabilitation services and technical aids), by outlining further actions for eventual solutions, for measures to be implemented in future by ensuring the attainment of defined goals. The strategy proposes to change the current approach and understanding of social services not just as a form of pure care, but also as a support tool for activation of individuals, their inclusion in the society, in the education system and in the labour market, thus creating a possibility for people to be independent from long term care. Generally, the development of social services in planned along three directions of action: deinstitutionalisation of social

care, society-based social services, successive and compliant with the client's individual needs` social services, effective management of social services.

For the purpose of implementation of the United Nations Convention¹⁰⁸ regarding the rights of the **persons with disability** (hereinafter the Convention), the Ministry of Welfare has developed „*Strategy for implementation of the UN Convention regarding the rights of the persons with disability for 2014-2020*”, which is a medium term policy planning document for seven years. The strategy defines the major goals, basic principles, directions of action and attainable results for the provision of fundamental rights and fundamental freedoms of persons with disability.

The goal of the Convention is to promote, to protect and to ensure that persons with disability can implement all the human rights and fundamental freedoms on equal grounds with the others and to promote the compliance with the relevant dignity. The Convention defines the areas where the Member States of the Convention should implement adjustments to ensure that persons with disability can implement their rights, and also defines the areas where the protection of the rights of the persons with disability should be strengthened. The Convention promotes and protects the rights of the persons with disability in the economic, social, political and cultural life.

The Convention changes the perception of a person with disability, in particular, the Convention provides for the transition from the medical model emphasising the disability of a person and dependence on other people to the human rights model where the focus is on the rights and the independent life and active participation in society processes of a person with disability.

¹⁰⁸ Latvia ratified the Convention on 1 March 2010 (valid as from 31 March 2010). The Convention entered into force in the European Union on 21 January 2011.

Conclusions

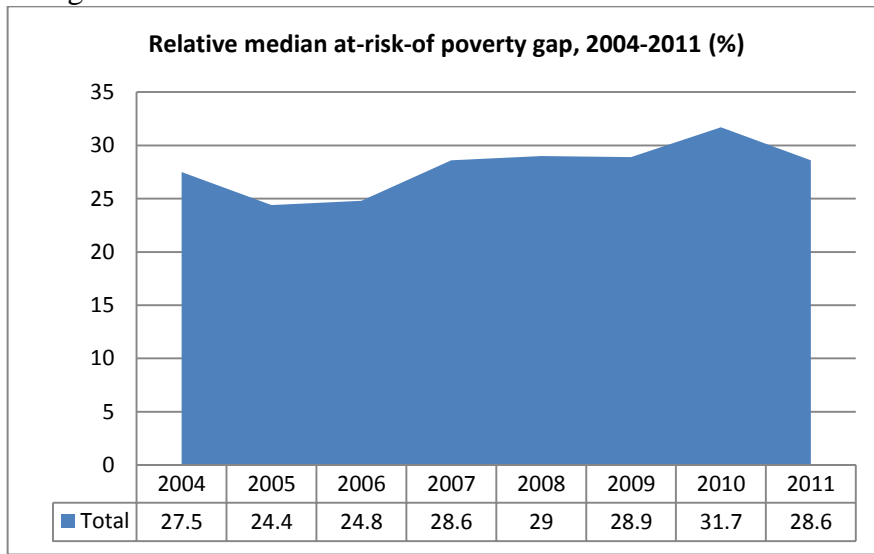
The tasks assigned to the Ministry of Welfare should be defined in the Protocol Decision of the meeting of the Cabinet of Ministers:

- the draft concept paper for setting of the minimum income (minimum provision) level shall be prepared and submitted to the Cabinet of Ministers by 30 April 2014;
- draft regulatory enactments for provision of support to households whose income is below the minimum income (minimum provision) level defined in the country by applying the OECD equivalence scale shall be prepared and submitted to the Cabinet of Ministers within one year after setting the minimum income (minimum provision) level and the development of related regulatory base;
- the draft concept paper regarding the possibility to set the base or social pension shall be prepared and submitted to the Cabinet of Ministers by 31 December 2015;
- the draft concept paper regarding the possibility to set the minimum level for unemployment benefit amount shall be prepared and submitted to the Cabinet of Ministers by 31 December 2015;
- the draft concept paper regarding the possibility to restructure the state social benefits, including the expenditure of the state family support, or to revise their amounts by linking them to a certain socioeconomic indicator shall be prepared and submitted to the Cabinet of Ministers by 31 December 2015.

In compliance with the government resolution regarding the necessity to implement the defined measures for elimination of the identified deficiencies related to the minimum income thresholds, state social insurance, state social benefits and social assistance, the Ministry of Welfare will develop relevant policy planning documents and carry out the assessment of the impact upon the state and municipal budgets.

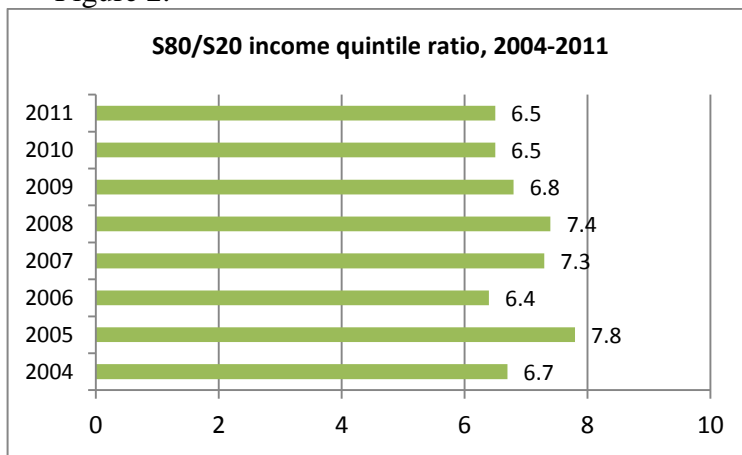
Appendix of Figures

Figure 1.



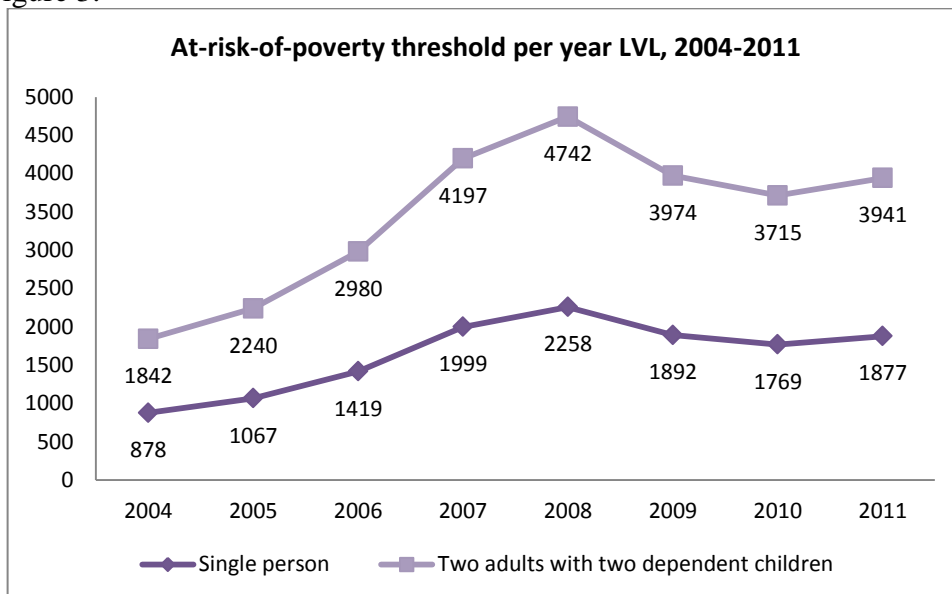
Source: Data of the Central Statistical Bureau.

Figure 2.



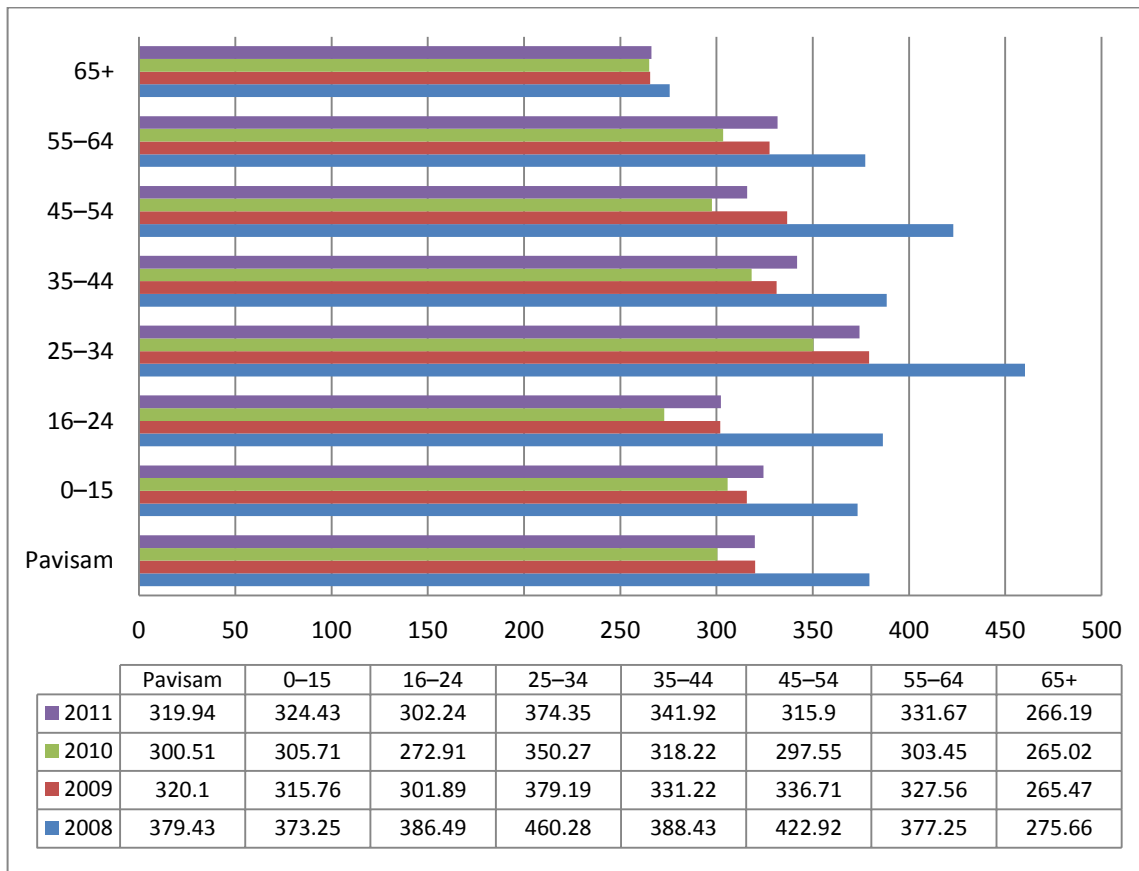
Source: Data of the Central Statistical Bureau.

Figure 3.



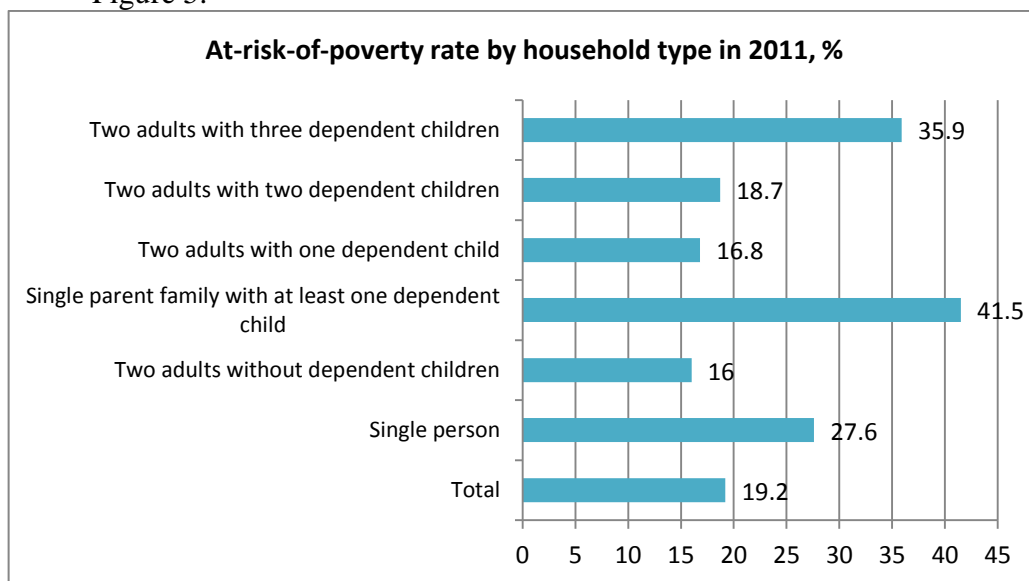
Source: Data of the Central Statistical Bureau.

Figure 4. Disposable income per age in 2008-2011, LVL per month (average per equivalent consumer)



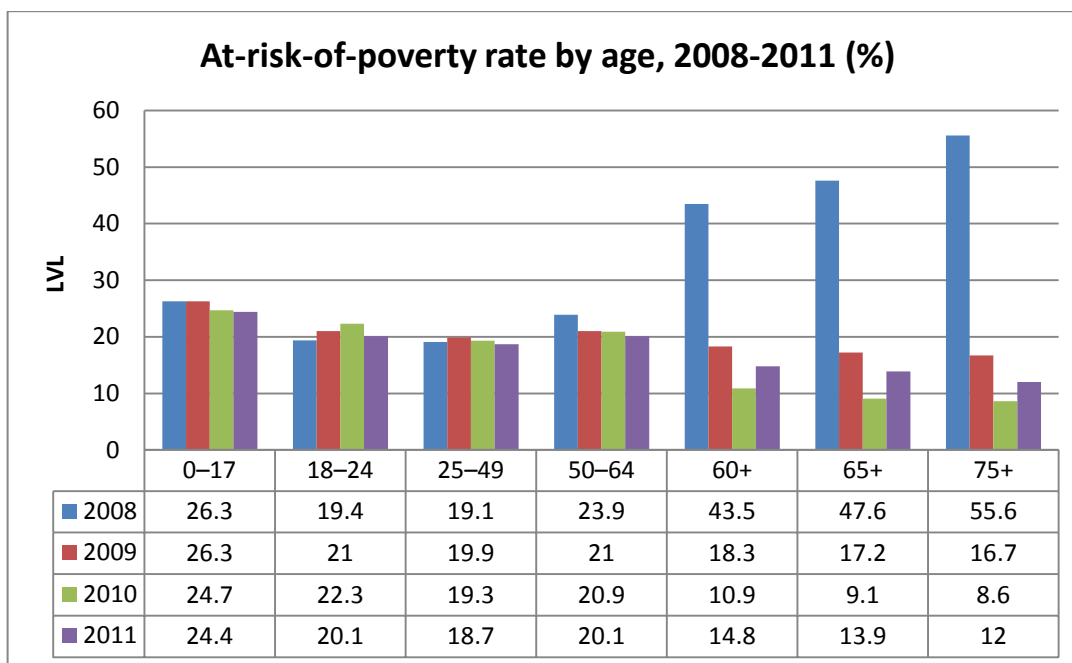
Source: Data of the Central Statistical Bureau.

Figure 5.

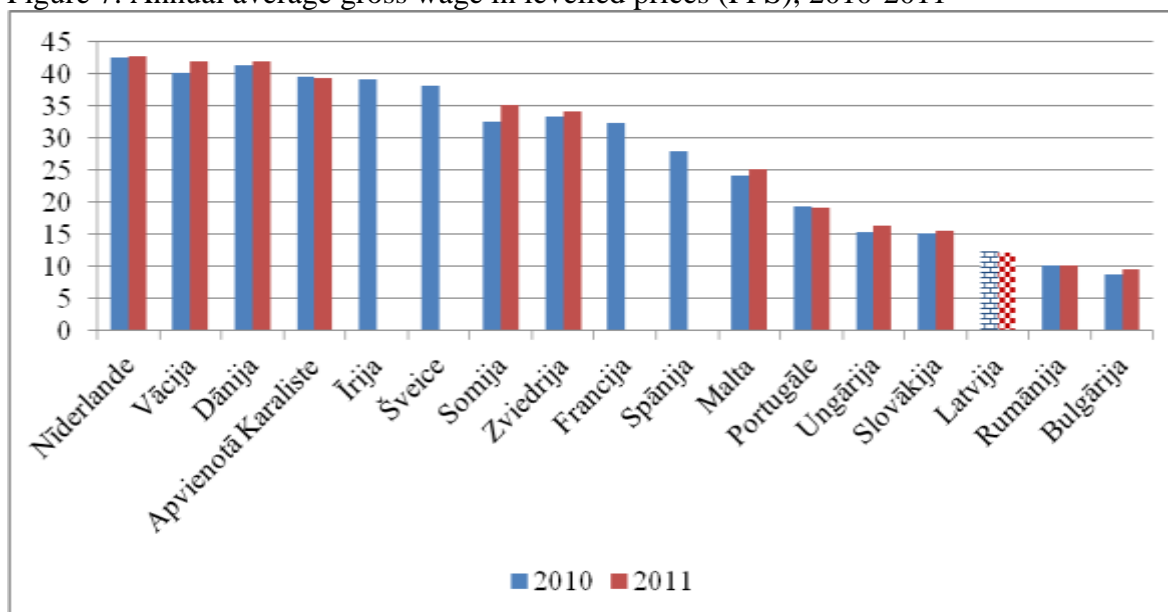


Source: Data of the Central Statistical Bureau.

Figure 6.

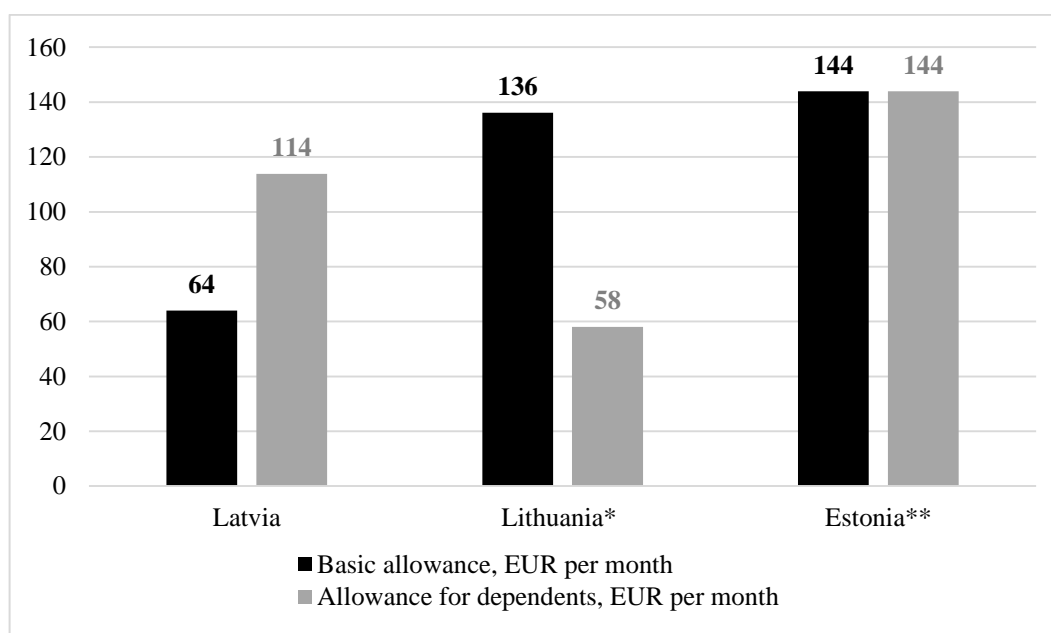


Source: Data of the Central Statistical Bureau.

Figure 7. Annual average gross wage in levelled prices (PPS), 2010-2011¹⁰⁹

Source: Eurostat data.

Figure 8. Amount of the non-taxable minimum and allowance for dependent persons in the Baltic countries in 2013



* In Latvia the allowance for dependent persons was increased to 114 euro per month as from 01.07.2013 (it was 100 euro per month before)

** In Lithuania the non-taxable minimum is applied in proportion to the income level, i.e.:

- ✓ 5640 lits per year or 136 euro per month when an employee's income does not exceed 9600 lits per year or 232 euro per month;
- ✓ if the income is from 9600 to 37,800 lits per year or from 232 to 915 euro per month, it is calculated in compliance with the formula = 5640 lits/ 12-0.2* (if the employee's income is 9600 lits/ 12);
- ✓ it is not applied when an employee's income exceeds 37,800 lits per year or 915 euro per month.

*** In Estonia the allowance for children is applied starting from the second child.

Source: Data of the Ministries of Finance of Latvia, Lithuania and Estonia¹¹⁰.

¹¹⁰ <http://www.mk.gov.lv/lv/mk/tap/?pid=40285926&mode=mk&date=2013-05-28>

Appendix of tables

Table 1. Expenditure for social protection in Latvia based upon ESSPROS* classification.

	2008		2009		2010		2011**	
	<i>mill. LVL</i>	<i>% of GDP</i>	<i>mill. LVL</i>	<i>% of GDP</i>	<i>mill. LVL</i>	<i>% of GDP</i>	<i>mill. LVL</i>	<i>% of GDP</i>
Total expenditure for social protection	2043.08	12.7	2210.27	16.9	2281.29	17.8	2150.46	15.1
1. Sickness/ health care	591.39	3.7	512.59	3.9	467.44	3.7	450.18	3.2
2. Disability	147.3	0.9	169.76	1.3	172.03	1.3	183.81	1.3
3. Age ***	875.7	12.4.	989.4	7.6	1165.55	9.1	1124.16	7.9
4. Loss of supporter	38.92	0.2	40.4	0.3	38.34	0.3	36.68	0.3
5. Family/ children	223.87	1.4	226.76	1.7	191.07	1.5	160.36	1.1
6. Unemployment	82.28	0.5	207.44	1.6	167.54	1.3	101.3	0.7
7. Housing	27.65	0.2	16.66	0.1	18.16	0.1	21.13	0.1
8. Social exclusion	18.19	0.1	18.88	0.1	30.36	0.2	36.32	0.3
Administrative expenditure****	37.08	0.2	28.14	0.2	30.5	0.2	36.14	0.3
Other expenses	0.7	0.004	0.24	0.002	0.3	0.002	0.38	0.003

*In the European statistical system the harmonised data of social protection expenditure in compliance with the methodology developed by the European Union Statistical Office (Eurostat) ESSPROS (European Integrated Social Protection Statistical System) are summarised and published on an annual basis. Social protection benefits are classified in compliance with the basic goal or the function (for example, disability, age, etc.) The summary of data on social protection in compliance with ESSPROS was launched in Latvia in 2004. The data of social protection expenditure are available on the CSB website. The information provided by various state institutions is used for this summary. ESSPROS expenditure is financed from the central and municipal budget, social contributions of employers, etc.

**2011: provisional data.

***In 2010 the increase of the amount in the age function is related to the fulfilment of the judgement of the Constitutional Court because the amount withheld from the recipients of the old-age pension in 2009 was repaid in 2010. According to information provided by the State Social Insurance Agency 68.8 mill. lats were repaid in 2010 to recipients of the old-age pensions and service pensions.

****Administrative expenditure: Administrative expenditure was calculated.

Table 2. The structure of households' disposable income in 2011, % per quintiles (LVL, average amount per household member per month)

	Available income	Income from paid work	Income of self-employed persons	Income from property	Received social transfers	Received private transfers	Other income	Expenses reducing the disposable income
All households	100	65.8	4.5	0.7	28.9	1.5	0.0	-1.4
Quintiles								
1	100	51.6	5.1	0.1	43.7	2.4	0.1	-3.0
2	100	52.8	3.3	0.1	43.1	1.5	0.0	-1.0
3	100	50.9	3.0	0.2	45.4	1.3	0.0	-0.9
4	100	69.0	4.3	0.3	25.6	1.8	0.0	-1.0
5	100	76.5	5.4	1.4	16.9	1.3	0.0	-1.6

Source: Data of the Central Statistical Bureau, EU-SILC 2012, recalculated weights)

Table 3. Comparison of average and minimum amounts of the state pensions

Type of pension	Average amount in May 2013 (LVL)	Minimum amounts of pensions (LVL per month)	Amount of minimum pension, percentage of average pension amount (%)
Old-age pension	190.41	length of service 10 -20 years – 49.50 (for persons with disability since childhood – 82.50)	25.9 (43.3)
		length of service 21-30 years - 58.50 (for persons with disability since childhood – 97.50)	30.7 (51.2)
		length of service 31-40 years - 67.50 (for persons with disability since childhood – 112.50)	35.4 (59.1)
		length of service above 41 years – 76.50 (for persons with disability since childhood – 127.50)	40.2 (67.0)
Disability pension	116.79		
for Group I disability - 151.59		for Group I disability – 72 (for persons with disability since childhood – 120)	47.5 (79.2)
for Group II disability - 142.77		for Group II disability – 63 (for persons with disability since childhood – 105)	44.1 (73.5)
for Group III disability - 77.05		for Group III disability – 45 (for persons with disability since childhood – 75)	58.4 (97.3)

Pension in case of loss of supporter	93.76	45 (minimum 29.25 for each child) for persons with disability since childhood – 75 (minimum 48.75 for each child)	47.9 (80.0)
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Source: Data of State Social Insurance Agency

Table 4. Example of the Ministry of Welfare.

A person born in 1970, started to work since the age of 25			
The retirement age is 65 years			
The wage from which contributions for the pension insurance were made	The amount of the granted pension is expressed in the prices of 2012, LVL		
	1 st level	2 nd level	Total
1) Average insurance contribution wage in the country	210	57	267
2) A wage that has been increasing annually by 1 percentage point (real increase) faster than average insurance contribution wage in the country	246	72	318
3) The minimum wage in the country	88	23	111

Source: Ministry of Welfare

Table 5. State social benefits in 2012

Benefit	Amount	Number	Expenditure, LVL
State social security benefit, total: <i>including</i> <i>- for persons with disability;</i> <i>- for persons five years prior to reaching the retirement age;</i> <i>- for children who have lost one or both parents</i>	45 LVL per month 75 LVL per month to a person with disability since childhood 45 LVL per month A single benefit is granted to children and its amount for 3 and more children cannot be below 50% of the set minimum for each child	16,694 LVL on average per month including <i>15,614 LVL on average per month</i> <i>565 LVL on average per month</i> <i>515 LVL on average per month</i>	13 347 658
Child birth benefit	296 LVL	19,823 per year	5 936 835
Child care benefit (including the supplement for twins and more children)	Up to the child's age of 1 - 50 lats per month From the child's age from 1 to 2 years - 30	25,584 on average per month	10 515 145

	lats per month ¹¹¹		
Family state benefit	8 LVL per month	314,689 LVL on average per month	30 632 061
Allowance to the family state benefit for a child with disability	75 LVL per month	7,300 LVL on average per month	6 567 255
Care benefit for the child with disability	150 LVL per month	1,750 LVL on average per month	3 157 287
Benefit to a person with disability in need of care	100 LVL per month	11,011 LVL on average per month	13 528 482
Allowance to compensate transport expenses of persons with mobility disabilities	56 LVL twice a year per a 6 months period	16,058 LVL on average per month	1 875 238
Support to children suffering from celiac with no set disability	75 LVL per month	1,372 LVL on average per month	1 241 173
Reward for the care for a child to be adopted	35 LVL per month	18 LVL on average per month	11,104
Single reward for the adoption of a child	1,000 LVL	9 LVL on average per month	107,941
Reward for the performance of the guardian's duties	38 LVL per month.	3,906 LVL on average per month	1 786 303
Benefit to a guardian for the child's maintenance	32 LVL per month	2,989 LVL on average per month	904,055
Reward for the performance of the foster family's duties	80 LVL per month	461 LVL on average per month	450,384
Funeral benefit (<i>it is paid to the person who has undertaken to take care of the funeral of recipient of the state social security benefit</i>)	Equal to the double amount of the state social security benefit	341 per year	37,186
State special benefit to children of persons who died during regaining the independence of Latvia	90 LVL per month	2 LVL on average per month	2,160
Social state benefit to a participant of mitigation of consequences of Chernobyl NPS or his/her family	60 LVL per month	3,521 LVL on average per month	2,569,718

Source: Data of the SSIA

Table 6. The number of state family benefit recipients and the resources for payment of the benefit during 2007-2012

Year	Number of state family benefits on average per year, ths.	Expenditure for payment of the state family benefit, ths. LVL
2007	391.7	45,389.2
2008	386.4	44,514.9
2009	377.4	40,178.4
2010	357.7	34,906.5
2011	332.3	31,969.8
2012	314.7	30,462.3
2013	313.1	30,050.3

Data source: SSIA, the indices of the central budget for year 2013

¹¹¹In compliance with the Regulations of the Cabinet of Ministers no. 1609 of December 22, 2009 „Regulations on the amount of child care benefit and additional payment to child care benefit un parental benefit for twins or more children born in the same delivery, the procedure for revision, allocation of additional payments and payment thereof” an amount of the child care benefit (incl. additional payment for twins and more children) in force from 1 January, 2013 for a child aged up to 1,5 year – LVL 100 per month and for a child aged from 1,5 to 2 years – LVL 30 per months.

Table 7. Impact of allowances of labour taxes on the income of households

Number of dependants	Gross wage	Non-taxable minimum	For dependants LVL 80 ¹¹²	Soc. tax %	Income tax 24%	Total amount withheld	Net wage
0	200	45	0	22.00	31.92	53.92	146.08
1	200	45	80	22.00	12.72	34.72	165.28
2	200	45	160	22.00	-6.48	15.52	184.48
3	200	45	240	22.00	-25.68	-3.68	203.68
0	250	45	0	27.50	42.60	70.10	179.90
1	250	45	80	27.50	23.40	50.90	199.10
2	250	45	160	27.50	4.20	31.70	218.30
3	250	45	240	27.50	-15.00	12.50	237.50
0	300	45	0	33.00	53.28	86.28	213.72
1	300	45	80	33.00	34.08	67.08	232.92
2	300	45	160	33.00	14.88	47.88	252.12
3	300	45	240	33.00	-4.32	28.68	271.32

Source: Estimations by the Ministry of Welfare

Table 8. Information regarding social assistance provided by municipalities in 2010, 2011, 2012 and 8 months of 2013*

	2010	2011	2012	2013 (8 months)
Information provided by CSB on the number of population in the beginning of the period**	2,120,504	2,074,605	2,042,391	2,023,800
Number of persons with legal needy person status in 2012	282,107	265,311	210,616	144,190
<i>Ratio of needy persons among number of population, %</i>	13.30	12.79	10.31	7.12
Needy persons who received municipal social assistance in 2012	227,811	212,876	176,042	...
Resources spent for GMI benefits, lats	18,498,797	22,007,110	16,054,869	6,476,082
<i>Ratio of spent resources for GMI benefits of total amount of resources spent for social assistance, %</i>	40.71	41.73	35.62	22.53
A number of persons who received the GMI benefit	120,642	121,833	94,528	59,592
<i>Ratio of persons who received the GMI benefit of population, %</i>	5.69	5.87	4.63	2.94
<i>Ratio of persons who received</i>	52.96	57.23	53.70	

<i>the GMI benefit among needy persons, %</i>				41.33
Average GMI benefit amount per beneficiary per month, lats	25.22	26.29	24.91	...
Resources spent for housing benefits, lats	17,258,562	20,049,558	18,795,429	12,577,913
<i>Ratio of spent resources for housing benefits of total amount of resources spent for social assistance, %</i>	37.98	38.01	41.70	43.76
Number of persons who received the housing benefit	209,239	211,476	185,146	140,230
The number of needy persons who received the housing benefit	157,919	157,648	132,392	...
<i>Ratio of persons who received the housing benefit of population, %</i>	9.87	10.19	9.07	6.93
<i>Ratio of needy persons who received the housing benefit among needy persons in total, %</i>	69.32	74.06	75.20	...
Other social assistance benefits - used amount, lats	9,686,857	10,685,817	10,218,659	9,689,609
Other social assistance benefits - ratio of spent resources of total amount of resources spent for social assistance, %	21.32	20.26	22.67	33.71
Including: health care benefits - used resources, lats	1,671,878	1,612,320	1,698,081	1,468,478
<i>Ratio of spent resources for health care benefits of total amount of resources spent for social assistance, %</i>	3.68	3.06	3.77	5.11
The number of persons who receive other social assistance benefits	128,018	128,455	117,555	109,422
Including: health care benefits - the number of beneficiaries, lats	40,572	37,935	38,150	...
TOTAL amount of resources spent for municipal social assistance benefits, lats	45,444,215	52,742,485	45,068,957	28,743,604
The number of persons who receive benefits ***	315,199	301,170	285,011	215,084

* Data source: national statistical reports submitted by municipalities about the work in 2010, 2011 and 2012 and estimations by Ministry of Welfare

**Data source: data base of the website of Central Statistical Bureau, 04.07.2013. The number of the population was recalculated based on the results of Population Census of 2011, the data of 2012 are provisional

***The number of individuals, i.e. a person was registered just once even if he/she received several benefits in the reporting year

Table 9. The financing of minimum income scheme in certain EU Member States
February 2013

Financing model	Proportional share of countries (of 24 Member States), %	Countries
Municipal budget	16.7 %	Latvia , Austria, Finland, Sweden
Mixed financing model	33.3 %	Belgium Denmark (<i>50 % state/ 50% municipalities</i>) Germany (<i>from the central budget to the persons capable of work</i>) Hungary (<i>80-95% from the central budget, 20-5% from the municipal budget</i>) Italy Lithuania (<i>5 municipalities from the municipal budget</i>) Romania (<i>municipalities partially cover administrative expenditure</i>) Spain
Central budget	50 %	Bulgaria, Cyprus, Czech Republic, Estonia , France, Ireland, the Netherlands, Poland, Portugal, Slovakia, Slovenia, United Kingdom.

Source: The WB study

Table 10. The minimum income scheme base in EU Member States in February 2013

Minimum income base	Proportional share of countries (of 24 Member States), %	Countries
Minimum subsistence level	29.2 %	Austria, Belgium Cyprus, Estonia , Germany, Romania, Slovakia
Differentiated - the minimum subsistence and the living subsistence	4.2 %	Czech Republic
Minimum wage	4.2 %	The Netherlands
80% of the unemployment benefit	4.2 %	Denmark
90% of the minimum old-age pension	4.2 %	Hungary
Indicator of the minimum subsistence level	4.2 %	Spain
Social support indicator (% of the social pension)	4.2 %	Portugal
Minimum income indicator (<i>adjusted in the legislation</i>)	4.2 %	Slovenia
Nominal value, defined by legislation	8.3 %	Bulgaria, Finland

Nominal value, defined by government resolution	25.0 %	France, Ireland, Lithuania , Poland, UK, Latvia
The value is defined by the resolution of the government and local authorities	4.2 %	Sweden
Conditions differ by regions and municipalities	4.2 %	Italy

Source: The WB study

Table 11. The base value for minimum income scheme in certain EU Member States
February 2013

The base value of the minimum provision	Proportional share of countries (of 24 Member States), %	Countries
Above at-risk-of- poverty threshold - > 60% of disposable income median recalculated per equivalent consumer	8.3 %	Romania, Denmark
40 % to 60 % of disposable income median recalculated per equivalent consumer	29.2 %	Spain, Ireland, Luxemburg, Belgium, Malta, Austria, Slovenia
30 % to 40 % of disposable income median recalculated per equivalent consumer	12.5 %	The Netherlands, Cyprus, Lithuania
< 30 % of disposable income median recalculated per equivalent consumer	50 %	France, Portugal, Finland, United Kingdom, Poland, Germany, Czech Republic, Sweden, Estonia , Latvia , Bulgaria, Slovakia

Source: Eurostat, MISSOC.

Table 12. Indicators describing trends in the labour market

Indicators/ year/ quarter	2009	2010	2011	2012	2013 Q1	2013 Q2
Employment level (15-64)	60.9%	59.3%	60.8(b)%	63.0%	64.1%	64.8%
Economic activity level (15-64)	73.9%	73.2%	72.8(b)%	74.4%	74.0%	73.3%
Proportional share of job seekers (25-74)	15.9%	17.7%	14.6%	13.6%	12.0%	10.6%
Proportional share of young job seekers (15-24)	36.2%	37.2%	31.0%	28.5%	22.9%	20.1%
The proportional share of long-term job seekers (% of economically active population)	4.9%	8.9%	8.8%	7.8%	7.0%	5.6%
People living in households with very low work intensity (<60)	6.7%	12.2%	12.6(b)%	11.5%		
Poverty of employed persons - a part-time job	25.6%	22.7%	25.3(b)%	23%		
Poverty of employed persons - a full-time job	9.8%	8.2%	7.9(b)%	7.3%		

<i>Employment level per obtained education level (15-64)</i>						
with low education (elementary education, general secondary education or lower)	29.4%	28.4%	29.0(b)%	31.5%	29.6%	31.8%
with vocational education or vocational secondary education	64.6%	61.5%	62.4(b)%	62.8%	65.1%	64.9%
with higher education	82.3%	80.6%	83.4(b)%	85.3%	83.8%	84.8%

(b) – interruption in the time rows (the results of Population Census of 2011)

Source: Eurostat data.

DEFINITIONS OF USED TERMS

Gini coefficient - describes the income inequality. It varies from 0 to 100. Gini coefficient equals 0 in case of absolute equality of income (i.e. all the people have the same income), and the closer to 100 it is the higher the inequality of income.

Equivalent disposable income - the disposable income of a household calculated per equivalent consumer. It is estimated by dividing the household income by the equivalent size of the household by applying the modified OECD scale - the weight of 1.0 is assigned to the first adult, the weight of 0.5 is assigned to each next household member aged 14 and above and the weight of 0.3 is assigned to each child below 14 years of age.

Quintile - one fifth (20%) of the number of surveyed households in an ascending order based on the disposable income per household member (1st quintile is poorest).

Material deprivation – in the EU-SILC¹¹³ survey is defined as a set of causes which prevent a household from the access to certain material benefits. The material deprivation indicators can be viewed both at the level of households and persons living there. The data are collected to evaluate the poverty and social exclusion in a more comprehensive and broader manner in addition to the monetary and income inequality indicators¹¹⁴.

Median is a statistical indicator describing the centre value (the division middle point) of the observations grouped from the lowest value to the highest value¹¹⁵.

Poverty means the lack of material resources as a result a person cannot provide for the basic needs required for life (food, housing, health, education, culture etc.).

At-risk-of-poverty rate - ratio (percentage) of people below the defined at-risk-of-poverty threshold.

At-risk-of-poverty threshold - 60% disposable income of a household calculated per equivalent consumer.

At-risk-of-poverty or social exclusion risk - persons whose income is below the defined at-risk-of-poverty threshold or who are severely materially deprived or employed in a job with very low work intensity.

Relative median at-risk-of-poverty gap - difference between the median equalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold.

S80/S20 income quintile share ratio - the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile).

¹¹⁴ CSP <http://www.csb.gov.lv/statistikas-temas/metodologija/materiala-nenodrosinatiba-37053.html>. viewed on 14.01.2013.

¹¹⁵ CSP <http://www.csb.gov.lv/statistikas-temas/termini/mediana-39000.html>; viewed on 14.08.2013.

Social exclusion - a broader concept than poverty. A socially excluded person does not have access to services and goods, cannot implement his/her rights and use opportunities because there are obstacles preventing this, for example, the non-accessibility of environment, the society prejudices, emotional and physical violence, etc. Being poor and socially excluded means feeling different and not fit in the society. Social exclusion can be both the cause and the consequence of poverty.

Social transfers - pensions and benefits granted by the state and municipalities, subsistence for children, scholarships, social insurance benefits and compensations, including also from other countries.

Minister of Welfare

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