



# **Poverty Watch Report Latvia 2020 and the 2020 COVID-19 pandemic update**

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## **1. Introduction**

**The association "EAPN-Latvia"** was founded on November 4th 2013. Currently, EAPN-Latvia network consists of 29 member organizations and 8 associate members.

As an anti-poverty organization, EAPN-Latvia monitors poverty processes and develops its recommendations for poverty reduction.

EAPN-Latvia considers as poor those people whose income is lower than the subsistence minimum consumption budget (minimum consumer basket) of the respective population group (for example, employee, pensioner, family with children), which is expressed in terms of the amount of material benefits and services necessary for life that ensures the normal restoration of a person's living and working abilities.

In our report, we want to inform about our activities in ensuring legislative changes related to the size of the GMI (guaranteed minimum income), as well as to describe the priority areas that currently have the greatest impact on poverty processes in Latvia. This material will also serve as a methodological basis for further research into poverty reduction processes.



## 2. Residents' assessment of poverty

Along with statistical indicators of poverty, the residents' subjective and emotional assessment of poverty is also important - it is how the population itself perceives the processes that affect poverty. This assessment would also make it possible to better identify priority directions for poverty reduction in order to help the population.

The COVID-19 pandemic had a negative impact – because of it, poverty problems have only worsened. Although in Latvia the scale of this disease is relatively smaller compared to other countries (as of September 7th 2020, in Latvia 265 thousand people have been tested for COVID-19, 1429 people contracted this disease, 1187 people recovered, 35 people died from it)<sup>1</sup>, its impact on the economy is very negative. For example, one of the main economic indicators - the gross domestic product - in the 2nd quarter of 2020 (compared to the 2nd quarter of 2019) decreased by 8.9%, the unemployment rate in the 2nd quarter of 2020 has increased to 8.6%.<sup>2</sup>

In 2018, 22.9% of Latvian population were at risk of poverty.<sup>3</sup>

Due to the lack of money, a part of the population could not afford to cover certain expenses (% - a proportion of households):

- to pay arrears on mortgage or rent, utility bills or hire purchase instalments - 13.6%;
- to keep their home adequately warm - 15.8%;
- to face unexpected financial expenses - 74.9%;
- to spend one-week annual holiday away from home - 50.9%;
- to have a meal with meat, poultry or fish (or the equivalent vegetarian food) every other day - 22.5%.<sup>4</sup>

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<sup>1</sup> Operational information of Latvian Centre for Disease Prevention and Control (SPKC).

<sup>2</sup> [https://www.delfi.lv/bizness/biznesa\\_vidē/astonas-infografikas-ka-sobrid-izskatas-latvijas-un-baltijas-ekonomika.d?id=52438393](https://www.delfi.lv/bizness/biznesa_vidē/astonas-infografikas-ka-sobrid-izskatas-latvijas-un-baltijas-ekonomika.d?id=52438393)

<sup>3</sup> Risk of poverty and social exclusion in Latvia. Results of the 2019 EU - SILC survey. The Central Statistical Bureau.

<sup>4</sup>

[https://data.csb.gov.lv/pxweb/lv/sociala/sociala\\_nabadz\\_nevienl\\_matnenodr/MNG010.px](https://data.csb.gov.lv/pxweb/lv/sociala/sociala_nabadz_nevienl_matnenodr/MNG010.px)



Some problems were also detected in the respondents' answers about the impact of the COVID-19 pandemic on poverty.

To the question: "Has your income level decreased because of the COVID-19 pandemic?", the answers were:

- "I had no income at all. There was a time when I had no money to buy food.
- "My income level hasn't changed – but I still don't have enough money to cover all my expenses."
- "Yes, my income level has decreased."

To the question: "What do you lack the most?", the answers were:

- "Money, independent place of residence, necessary things."
- "I have difficulty communicating – there's a lack of live conversations."
- "Money. Support from the State."
- "Support and understanding."

To the question: "What would you need to recover from the negative effects of the COVID-19 pandemic?", the answers were:

- "External support."
- "Financial help in the amount of wages lost because of the COVID-19."
- "A job."
- "First, I need to work. Then, also a permanent place of residence."

**EAPN-Latvia's recommendations for assistance:**

- The state and local governments should provide for people in poverty (people living below the at-risk-of-poverty threshold) during the COVID-19 pandemic or in other similar situations a minimum subsistence basket (to offer financial resources for purchasing goods and services or for social services to provide for the poor the necessary goods and food in accordance with the regulations);
- Social services should provide places with access to computers, the Internet, which would allow people experiencing poverty to maintain communication and to address their issues related to work and place of residence.



### **3. EAPN-Latvia's cooperation with state institutions in poverty reduction issues**

During the period considered, a positive step has been taken in addressing poverty issues - the Constitutional Court of the Republic of Latvia acknowledged that the current practice of determining the value of GMI in Latvia does not comply with the Satversme and a new methodology needs to be developed.

The work contributed by EAPN-Latvia has also led to this success, and our activities have also ensured the changes in legislation related to the value of GMI in Latvia.

Guaranteed Minimum Income (GMI) is an indicator that serves as an effective tool for preventing and reducing poverty of certain groups of the population.

A GMI benefit - it is a cash and material benefit or just cash or material benefit granted by the municipality to the families or persons living separately who, due to the objective circumstances, do not earn a sufficient income and who have been identified as people experiencing poverty. This benefit ensures the guaranteed income level for each family member, which from 2020 is 64 euros per month in Latvia.

EAPN-Latvia for a long time has regularly pointed out the shortcomings in the determination of the GMI value and the application of it:

- ❖ No methodology has been developed yet to calculate the GMI value. EAPN-Latvia believes that the minimum amount of consumption resources needed to meet the human needs can best be described by the subsistence minimum consumption budget (minimum consumer basket), which is expressed as the amount of material goods and services necessary for life that ensures the restoration of human working capacity.
- ❖ The basis for setting this budget is the regulatory method (which is the basic economic method) and it covers the regulatory framework for material goods and services. These norms are scientifically justified and reflect the objectively required amount of resources to meet the human needs. These norms need to be inventoried regularly, as both –



- ❖ the human needs and the forms and resources for meeting those needs tend to change. Without knowing the minimum subsistence level, an effective social policy cannot be developed.
- ❖ The existing GMI value in Latvia (from 2020 - 64 euros) is several times smaller than the actual required value (determined by other studies).
- ❖ The GMI value has not been regularly reviewed in order to be adjusted to the increasing prices.
- ❖ In fact, ensuring the GMI value is unilaterally the responsibility of the relevant municipalities, without any analysis of their financial capacity.
- ❖ The statistical data on household incomes and consumption habits are evaluated with the 2-3-year delay. This creates the risk that the conclusions made and the measures adopted may not correspond to the real situation.

In search of a solution, the EAPN-Latvia has repeatedly informed the relevant state institutions about its position regarding this issue. However, no effective actions were taken to address the identified shortcomings, explaining this by the lack of resources in the budget.

The Ombudsman has assessed the EAPN-Latvia's contribution for several years, taking an important step in resolving the issue of insufficient GMI value by submitting (within its mandate) an application to the Constitutional Court of Latvia on October 1st 2019, specifically on the non-compliance of the Regulations of the Cabinet of Ministers of 2012 on the guaranteed minimum income level with the clauses of the Satversme (Constitution) of the Republic of Latvia, on the grounds that the GMI level set by the government does not ensure a decent standard of living.

At the request of the Constitutional Court of the Republic of Latvia, on February 10th 2020 the EAPN-Latvia working group headed by Andris Burtnieks, Doctor of Economics, provided a written opinion on the abovementioned Ombudsman's application.

This EAPN-Latvia's opinion was also sent to the European Commission in Brussels, the Representation of the European Commission in Latvia, the State Audit Office and the Ministry of Welfare.



On May 19th - 26th 2020 the Constitutional Court of the Republic of Latvia invited experts from the Saeima (Parliament), the Ministry of Welfare, Latvian Union of Municipalities, the Bank of Latvia, the University of Latvia and the scientific community to hear this case, as well as listened to the opinion of the EAPN-Latvia expert Andris Burtnieks, Doctor of Economics.

The decision of the Constitutional Court of the Republic of Latvia made on June 25th 2020 was favourable to the Ombudsman and fully complied with the interests of EAPN-Latvia. The Constitutional Court acknowledged that the current Latvian practice of determining the GMI value does not comply with the Satversme (Constitution) and that a new methodology for determining the GMI value must be developed. The Court also emphasized that the GMI value should be sufficient to meet basic human needs so that every person experiencing poverty can lead a life of dignity.

#### EAPN-Latvia's operational background

Significant EAPN-Latvia's support for the Ombudsman was the EAPN-Latvia conference "Consumption budget and reducing inequality: Are we ready?", held in Riga in November 2019 with participation of the Adviser to the President of the Republic of Latvia, representatives from the Central Statistical Bureau, the Ombudsman, the Ministry of Welfare, the Latvian Free Trade Union Confederation, scientific - research institutions and members of the EAPN-Latvia European Social policy working group. Eight foreign experts from the non-governmental organizations listened to the introduction of this conference. Afterwards, the invited representatives from each institution presented their institution's position and work on this issue, however, a unified view could not be established.

Previously, from November 2013 the EAPN-Latvia became involved in the European Minimum Income Network - EMIN, three experts prepared a Report on Minimum Income Schemes, the Network organized meetings and a national conference with participation of representatives from the Ombudsman, the Ministry of Welfare, the University of Latvia, the State Employment Agency, Riga City Council, trade unions and non-governmental organizations, incl. from Lithuania and Denmark. 35 NGOs and 20 municipalities were represented at this conference. In August 2014 EAPN-Latvia submitted its report on the GMI value in Latvia (in 2014 it was 49.80 euros per month) with a request to the government to set it at 320 euros.



In 2017 and 2018 EAPN-Latvia repeatedly participated in EMIN-2 activities, informing the general public in Latvia about the noncompliance of GMI value: it established an EMIN working group and approved the strategy, paying special attention to publicity measures, incl. collecting signatures on the Internet portal for increasing GMI value (currently 4963 persons have signed it, while 10 000 votes are required to submit it to the Saeima).

EAPN-Latvia organized in Riga the discussions between the specialists from the Ministry of Welfare, the Central Statistical Bureau, the University of Latvia and the residents; also organized discussions with the people in the poorest regions of Latvia, attracted the EMIN Honorary messenger from the European Latvian Association; received the European EMIN bus in Riga, Bauska and Ainazi, met with a Member of the European Parliament and a representative of the European Commission Representation in Latvia, as well as collected more than 400 signatures on the Petition, which was later submitted to the European Parliament.

In October 2018 the EMIN International Conference “Strengthening Non-Governmental Organizations for Effective Protection of Social Rights” took place in Riga and was attended by 15 foreign experts and more than 60 representatives from NGOs, educational institutions, state and municipal institutions and companies from Riga and other regions of Latvia.

Considering that the Latvian government has to comply with the decision of the Constitutional Court, EAPN-Latvia considers it necessary to continue collecting the Latvian citizens’ signatures regarding the GMI value, as the current draft decisions envisage increasing the GMI value from 64 euros to just 109 euros per month, which we don’t consider to be the enforcement of the Constitutional Court decision.



**4. National level events organized by EAPN-Latvia  
to support vulnerable people**

<i>No.</i>	<i>Activity</i>	<i>Month</i>	<i>Place</i>	<i>Target group</i>
1	Seminar for families "Where do the legs grow for motivation"	August	Aloja	20 women
2	Seminar on the European Pillar of Social Rights: Article 20 - Access to basic services	September	Riga	20 specialists in housing management
3	Discussion on the International Day for the Eradication of Poverty "Targeted Support Services for the Poor"	October	Riga	20 specialists and low-income residents
4	Seminar "Development of EAPN-Latvia's position on pensions"	November	Riga	10 specialists and EAPN-Latvia Working Group
5	Meeting in the Social and Labor Affairs Committee of the Saeima of the Republic of Latvia "EAPN-Latvia's contribution to the support of the poor"	December	Riga	Members of the Saeima

**5. Directions of EAPN-Latvia's enhanced monitoring in poverty reduction**

EAPN-Latvia believes that the problem of poverty is multifaceted and it requires a complex approach to addressing these issues, and at the same time, we should work more actively in the directions described below.

**5.1. Access to housing**

Having a secure place to live is one of the basic human needs, meeting this need (providing housing) is necessary both for separate individuals and for families living together.

It can be considered that, to a greater or lesser extent, most of the population have a place to live (except for the homeless people), although their houses differ in their quality and other parameters.



In 2019, Latvian residents, while describing their housing conditions, pointed out that:

- Their home has no indoor flushing toilet - 21.8% of the population;
- Their home has no bath or shower - 24.2% of the population;
- Their home is too dark, it isn't getting enough daylight - 9.7% of the population;
- Their home has a leaking roof, damp walls/ceilings/floors or the foundation of the house; or rot in the window frames or floor - 30% of the population.<sup>5</sup>

Providing housing is dynamic: part of the housing supply withdraws, part is rebuilt, there is a movement from one home to another within the housing fund.

The construction of new, suitable residential houses is important for providing housing more effectively.

The problem of the existing housing stock is that it's aging, which according to the regulations requires a capital (sometimes complete) reconstruction. The existing income and the policy of income distribution has not allowed the residents to create an adequate fund or savings necessary for such reconstruction.

The fact that the local governments (the state) do not have a reserve of housing stock affects the mobility of residents (change of place of residence in search of a new job, residents moving due to the complete reconstruction of the building). We also have to deal with the degradation of settlements, when factories, schools and medical institutions in there are closed for various reasons. As a result, residents no longer have a source of income and the existing housing is losing its relevance, while other potential places do not have this reserve housing stock. On the other hand, the commercial housing stock built by private entrepreneurs isn't affordable due to its high price.

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[https://data1.csb.gov.lv/pxweb/lv/sociala/sociala\\_nabadz\\_nevienl\\_matnenodr/MNG050.px/](https://data1.csb.gov.lv/pxweb/lv/sociala/sociala_nabadz_nevienl_matnenodr/MNG050.px/)



Another problem is that people are getting evicted from their homes, practically without any housing supply. The reasons for this are utility payment debts, accumulated debts for housing loans, inadequate debt collection.

**We believe that to resolve these problems the following steps should be taken:**

- it is necessary to accelerate and expand the construction and purchase of new housing by stimulating it with the mortgage loan support (a loan with a low loan interest rate and a relatively long repayment period);
- there should be available mortgage loans, also to support the reconstruction of the housing stock;
- local governments should actively undertake the creation and provision of a reserve housing stock on conditions that are acceptable for the low-income residents;
- local governments should create social houses for the people experiencing poverty;
- residents should be educated (consulted) about their right to housing;
- there should be changes in the legislation on the residents' right to a single home;
- drastic changes in taxes and other payments need to be controlled (for example, a rapid increase in the cadastral value, which will cause an inadequate increase in real estate tax or a drastic increase in utility bills);
- there should be a purposeful use of municipal benefits to support the population in providing housing.

## **5.2. Employment**

Employment plays an important role in people's value system. Upon finding your realization at the workplace, you become aware of your value and the opportunities for self-realization. It satisfies the need for being appreciated by other people and the need for self-assurance.

At the same time, work is also people's main source of income, which determines their consumption habits, standard of living and lifestyle. Unemployment causes poverty and psychological discomfort.



Comparing employment and unemployment from the point of view of economic efficiency, it must be concluded that we should aim at achieving the maximum employment. The employee creates a gross domestic product, supports himself and his family for the wages received, supports others by paying the taxes and by purchasing the products created by others for his own consumption. On the other hand, the unemployed person doesn't create a new gross domestic product, on the contrary, he consumes the gross product created by others by living at the expense of social benefits.

Thus, from the point of view of economic efficiency, for the society (the state) it is more profitable to provide employment than to allow unemployment.

As a result of the COVID-19 pandemic, this year the economic activity was limited and the level of unemployment (%) in Latvia rapidly increased:

- February - 6.3%;
- April - 8.0%;
- July - 8.6%.<sup>6</sup>

Along with the listed unemployed, there is a category such as “the long-term unemployed” – these are the people who, during their fixed-term (8 months) official unemployment period, have not been able to find a job and now are no longer listed as the unemployed or receive unemployment benefits.

When the unemployed people don't find a job (and don't solve their primary problems and needs), they massively emigrate, looking for work and adequate wages in other countries, thus weakening their country's labor resources and the potential of the nation.

To assess the unemployment rate correctly, it would be right if the number of working-age people who emigrated and the “long-term unemployed” without “the unemployed” status and the unemployment benefits were also included in the listed unemployed.

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<sup>6</sup> [https://www.delfi.lv/bizness/biznesa\\_vidē/astonas-infografikas-ka-sobrid-izskatas-latvijas-un-baltijas-ekonomika.d?id=52438393](https://www.delfi.lv/bizness/biznesa_vidē/astonas-infografikas-ka-sobrid-izskatas-latvijas-un-baltijas-ekonomika.d?id=52438393)



Since Latvia regained its independence, it has been characterized by a negative balance of population migration, which is further exacerbated by a negative natural population growth, and as a result, Latvian population is decreasing every year (thus, from 1989 to 2018 Latvian population has decreased by 731 thousand people or by more than a quarter).<sup>7</sup>

#### **Our recommendations:**

- to develop labor force forecasts in relation to the dynamics of GDP (gross domestic product), determining how many and which professions will be needed in the labor force (and specialists of which professions will have to be prepared by the educational institutions);
- to forecast the territorial distribution of labor demand, thus determining labor mobility;
- to justify the amount of the unemployment benefit, its payment period and conditions, thus ensuring the effectiveness of this benefit;
- local governments should get involved in providing jobs (job creation) in accordance with fluctuations in labor demand (for example, in the development of infrastructure, agriculture);
- to evaluate the justification of closing the production and social sphere objects of a specific settlement and its impact on economic efficiency.

### **5.3. Changes in the tax system**

Tax incomes ensure the performance of state and local government functions. The functions, which are performed centrally, determine the tax rates.

Changes in the tax system can be justified by the redistribution of functions between the individual, the state and the local governments.

The tax system should stimulate entrepreneurship, as well as the individual's willingness and ability to pay taxes. Both residents and entrepreneurs want clarity and stability in the tax system and tax rates. Frequent tax changes make it difficult to plan your personal expenses and to plan a business.

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<sup>7</sup> Latvia's main statistical indicators in 2019. Central Statistical Bureau.



In addition, if such changes are made, then they must be substantiated and clearly explained.

At the moment, there are several causes for concern related to taxes: the changes in the cadastral value of real estate (mostly, the increase), the corresponding increase in property tax and the introduction of the 5% compulsory health insurance, as well as the planned new tax reform (the previous tax reform was launched in 2018). In contrast, there is no corresponding increase in the income of Latvian population, which will inevitably lead to an increase in poverty and to a decrease in provision of housing.

Changes in micro-enterprise taxes and taxes on the self-employed people (with the abolition of tax incentives) are also being discussed, which will make it more difficult for these people to do business and will increase their need for other benefits.

EAPN-Latvia considers any change in the tax system during the crisis (in this case - during the crisis caused by the COVID-19 pandemic) to be unjustified.

**Our recommendations:**

- to develop a tax system and tax rates for a long-term period (10-15 years), thus ensuring stability in the formation of business and individual balance sheets;
- to ensure the transparency of each tax (purpose and use of the taxes collected);
- tax revenues should be increased based on GDP growth and broadening the tax base (rather than on a questionable increase in the individual tax rates).

#### **5.4. Access to the health care system**

Health care services are among the basic human needs that must be provided to the extent necessary and at the time required.

Ambitious changes have been implemented within Latvian state health care system. The slogan of “efficiency” was used to concentrate the health care



system institutions and to reduce their number, which may have allowed the health care system institutions to work more efficiently, but at the same time, it has created problems for the population, preventing them from the convenient, timely and high-quality use of health care system services.

The baseline indicators of the health care system have been systematically declining. From 1991 to 2017 in Latvia the number of doctors of all specialties decreased from 12 505 to 7 289 (that is, by 40%), the number of medical institutions' employees with secondary medical education decreased from 28 311 to 9 896 (which is almost three times less people). In turn, the number of hospitals in this time period decreased from 188 to 63 and the number of beds in hospitals also decreased from 37 485 to 10 812.

The time it takes for a person to get to a health institution or for the medical staff to get to a person (patient) at their home, has increased. In addition to that, this time must be adjusted, taking into account the unsatisfactory condition of Latvian roads.

Another problem is making an appointment (queuing) at the doctor or medical staff, which is intended as an element of arranging the provision of health care services. As a result, given the shortage of medical staff, making an appointment with a doctor increases the waiting time, which can be critical for many patients, making it too late for them to be cured. This problem mainly concerns the free medical services, which "obviously" are insufficient, and in part this issue also appears relative to the waiting time for receiving some paid health care services.

In Latvia the proposed ratio between paid and free medical services is unsatisfactory for the population; the high prices of medicines further restrict the access to health care services for the poor.

In particular, this issue manifests itself during the COVID-19 pandemic.

#### **Our recommendations:**

- to develop a basket of paid and free medical services, indicating which services are to be received, for how long and how much in value;



- to control the prices of medicines, by comparing them to other countries' price levels;
- to monitor compliance with standards for the provision of medical services (time, volumes, prices);
- to evaluate the impact of the population's medical insurance on the access to medical services for different groups of the population (by forming groups with different incomes: for example, monthly income of 200, 300, 400, 500 euros, etc).

EAPN-Latvia will continue to work within its capabilities on poverty reduction processes and solutions for this issue, with the aim of making them more goal-oriented and effective.

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