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Does the national social inclusion policy achieve its targets on poverty reduction?

Latvijas Republikas
Valsts kontrole

Dear Reader,

For many years, poverty reduction and income inequality have been one of the challenges for the United Nations, the European Union, and Latvia.

Latvia has already confirmed its commitment to tackling poverty and social exclusion in 2002 in preparation for joining the European Union.

Although Latvia has prepared many different documents since 2002 by prioritising the reduction of poverty and income inequality both in the top hierarchical documents of the country and in substantiating almost every activity that we are going to implement and that requires additional funding, there is no reason to consider that one tackles those social problems effectively.

Compared to the other EU Member States, the poverty level in Latvia is still high. Local and international experts also point out that to Latvia by emphasising that the implemented activities and reforms are still insufficient and do not achieve their goal in many instances. Besides, the number of people at risk of poverty continues to grow in Latvia, as lower incomes remain invariably low while average incomes increase.

Therefore, this audit was aiming at a systemic assessment of the social support system to find out the actions actually taken by the government and local and regional governments in providing support to people at risk of poverty, starting with defining objectives and identifying groups at risk of poverty up to the original provision of support.

The State Audit Office has paid special attention to local and regional governments and the social support they provide because when assessing the measures implemented in the country, one often does not take that support into account and analyse it by justifying that the available support is different in each municipality and depends on the needs of the municipal community and regional specifics.

This audit is a continuation of the previous audits that the State Audit Office had carried out in the area of social affairs when one assessed certain types of support such as social assistance provided by local and regional governments (2014), assistant service for the disabled people (2015/2016), pension system (2017), the process of deinstitutionalisation or the introduction of community-based social services (2017/2018), as well as out-of-family care, and the operation of social services when providing the necessary support to families with children (2018).

One will also use the audit results to prepare a coordinated audit report on poverty reduction in five EU Member States (Hungary, Bulgaria, Croatia, and the Slovak Republic), in which the State Audit Office takes part together with the supreme audit institutions of those countries.

We would like to thank our key audited entities, the Ministry of Welfare, the Cross-Sectoral Coordination Centre, and the Ministry of Economics, as well as local and regional governments and their social services, which prepared the necessary information for the auditors, met with the auditors in person or participated in the survey for their cooperation. We also thank the other institutions that provided the necessary support to the auditors, including the State Social Insurance Agency, the Central Statistical Bureau, the Office of Citizenship and Migration Affairs, and others.

Respectfully yours,
Ms Inga Vārava
Department Director

Summary

Main Conclusions

Social inclusion policy, especially in poverty reduction, is a coordinating policy implemented not only under the state policies under the responsibility of the Ministry of Welfare such as unemployment reduction, state social benefits, social assistance, social insurance, equal opportunities for disabled people but also under taxation, education, health, economics, and other policies.

Therefore, both the top long-term and medium-term national development planning documents such as the Sustainable Development Strategy of Latvia until 2030 (hereinafter referred to as Latvia 2030), Latvia's National Development Plan 2014–2020 (hereinafter referred to as NDP 2020), and the Latvian National Reform Program for the Implementation of the EU 2020 Strategy (hereinafter referred to as the Reform Program EU 2020), under which Latvia has committed to implement the objective set by Europe 2020 Strategy of the European Union (from now on referred to as the EU), and unemployment reduction, social security, equal opportunities for disabled people, child and family rights and tax policies and so on, also include the commitment to implement measures aimed at reducing the risk of poverty.

However, **the audit findings have led us to conclude that social inclusion policy for poverty reduction is not implemented effectively at present** (*id est, the actions taken by the institutions involved in the implementation of this policy are not always aimed at achieving the defined goal*) and efficiently (*that is, one could achieve specific results through fewer resources or achieve better results with the same resources*) **and cooperation among the institutions involved, as the cooperation mechanism put in place to implement a coherent and coordinated policy is currently insufficient and does not contribute to reducing the risk of poverty or social exclusion.**

In a comprehensive assessment of the performance of the institutions involved, the auditors have identified several factors that have a negative impact on reducing the risk of poverty in the country at present.

Although the development planning system provides for the possibility of developing a policy-planning document covering several sectors[1], and the auditors find poverty reduction as one of the areas where such a coordinating planning document would be needed, one has not developed any for poverty reduction. Therefore, there is a lack of a framework to coordinate and harmonise the actions of the involved institutions mutually to achieve the set goals.

The only coordinating policy document that currently covers the actions to be taken for improving the social situation of the population most at risk of poverty is the concept of the minimum income level elaborated by the Ministry of Welfare in 2014 (hereinafter referred to as the MIL Concept), aimed *at defining a methodologically justified minimum income level relevant to the social and economic situation, which would serve as a reference point for granting state and municipal support to the lowest income population within the framework of the social security system*.

However, its implementation plan for 2020-2021[2] (hereinafter referred to as the MIL Plan), whose drafting and approval took almost five years, envisages only an increase in the amount of certain aids, without linking them to the defined minimum income level, that is, *40% of the median income, which constituted 198 euros[3] for the first individual in the household[4] and 139 euros for the other individuals in* *the household in 2020-2021.* Hence, the minimum income level provided for in the MIL Concept is in fact only a theoretically estimated value currently, which does not guarantee an individual a certain level of income - either from income or from the state or municipal support system if the income of that person does not reach it.

Although the Ministry of Welfare justifies the "*lean content*" of the MIL Plan with insufficient budget resources and lack of political support, including local and regional governments, the auditors also point to significant deficiencies in the drafting process of the Plan.

The working group established for the development of the MIL Plan has identified the types of support provided by the state and some local and regional governments. One has also voiced several important proposals during discussions of the working group by offering that specific benefits be limited only to people at risk of poverty and/or social exclusion (e.g., paying universal family state benefit for the first child only to families at social risk) and/or the funding allocated to specific allowance be used for introduction of more targeted benefits/services (for example, to allocate the funding provided for the universal childcare benefit from the age of one and a half to two years to the introduction of support for those parents whose children do not have access to a pre-school educational institution). However, the working group has not initiated real reforms without proposing to reform even benefits that, from the point of view of the working, do not address the needs of the target group at present.

The quality and the expected result of the MIL Plan would be significantly higher if one assessed the social support system provided by local and regional governments during its drafting, which is a crucial tool for improving the social situation of the population most at risk of poverty.

Latvian local and regional governments spend about 249 million euros on social protection annually *(wherefrom 51 million euros for social assistance and other support measures and compensations for the population paid in the form of various social benefits)*, whose more targeted use could also achieve better results in reducing the risks of poverty. In addition, municipal social services already have the possibility to target social benefits to those most at risk of poverty and/or social exclusion, as a system is in place to assess the income and financial standing of the benefit applicant, and social needs when providing social assistance or social services.

However, when elaborating the MIL Plan, one has not identified the majority or 59% of the social benefits granted by local and regional governments at all by substantiating that information on other support provided by local and regional governments is not available and cannot be analysed. Consequently, one has examined the support provided by local and regional governments only in fragments, that is, in terms of three benefits (GMI benefit, housing benefit, and benefit in a crisis situation), which totalled only 21 million euros or 41%[5] of the funding that local and regional governments actually used to pay various social benefits in 2018.

The auditors draw attention to the fact that local and regional governments still have different approaches in determining the types of social benefits, the number of benefits, and the range of beneficiaries. In addition, the benefits granted are not based on the actual needs of the population in all cases because part of the benefits is granted already historically or have been introduced as a political initiative or based on NGO proposals for specific support for a particular target group, such as politically repressed and participants of Chernobyl nuclear disaster elimination and/or holiday allowances for certain groups of the population. Such action would be supported if, when deciding on granting a benefit to a specific target group, one identifies the proportion of individuals at risk of poverty in this target group at the same time. However, the audit has not provided assurance that one has never made such an assessment.

While assessing the funding allocated for the benefits of the voluntary initiative of local and regional governments in 2018 in detail during the audit, the auditors have estimated that at least 1.747 million euros or 52% out of the total amount of 3.349 million allocated for the support of the voluntary initiative of 21 local and regional governments included in the audit sample were channelled to the types of benefits that are not targeted at people at risk of poverty. Of these, the largest share was 685,408 euros or 39% in the case of childbirth allowance, which is identical to the childbirth allowance paid by the State Social Insurance Agency and is granted from 72 euros to 300 euros or even 1,000 euros if there are three and more children[6] in a family in almost all local and regional governments[7]. In its turn, one granted 458,412 euros or 26% for annual holiday benefits for the politically repressed, members of the national resistance movement, participants of World War 2, the Afghanistan War, etc. in only 21 local and regional governments. However, several types of state-funded support are also provided for those target groups. In addition, local and regional governments also apply various benefits to their residents, such as free lunches for pre-schoolers or students studying in grades 5 to 12, benefits for public transport and real estate tax, whose total amount reached 14,177 million euros in only 21 local and regional governments included in the audit sample in 2018.

Therefore, the auditors emphasise that, when introducing the minimum income level, it was particularly crucial to carry out a comprehensive assessment of existing state and municipal support to assess whether the available support is sufficient and effective and meets the needs of the target group, including potential overlapping. Such an assessment would allow finding at least part of the necessary resources to implement the Plan following the MIL Concept. In addition, although the Cabinet of Ministers approved the MIL Plan only in August 2019, when deciding on the priority measures for the 2020 state budget and its framework for 2020–2022 at the meeting on 17 September 2019, the Cabinet of Ministers decided that one could not implement the already limited Plan in full[8] due to limited funding and allocated only one third or 9.827 million euros from the required 27.546 million euros.

Although the Ministry of Welfare points out[9] that the measures set out in the MIL Concept and Plan *are only part of a comprehensive set of measures aimed at tackling the risks of poverty*, **the audit has not established that, at the level of sectoral policies, i.e., policies related to social inclusion such as reducing unemployment, the state social benefits, social assistance, social insurance, equal opportunities for disabled, as well as children's and family rights and taxes, the policy results included, their performance indicators, and planned measures are interrelated and sufficient to achieve the goals set in the top national documents for poverty reduction.**

Concerning poverty reduction, policy results and indicators in line with the NDP 2020 and the EU 2020 Reform Program are only set for unemployment reduction policies. For other policies, results and indicators are inaccurate and even not accurately measured (equal opportunities policy for disabled) or not defined at all because, for example, the guidelines have expired, and nobody has set new deliverables for poverty reduction at the level of sectoral policies (policy for children's and family rights) or developed a policy planning document for the specific area at all (state social benefits and social assistance policy).

Besides, the measures set out in policy planning documents, which should achieve the policy objectives and results, are not always sufficient.

They cover too broad a population (*for instance, tax incentives provided for in the taxation policy or universal child and family policy benefits for families with children*) or do not cover at all and/or are not targeted at a group at risk of poverty and social exclusion (*for example, social services policy does not envisage any measures for the homeless, but the policy on children's and family rights does not envisage any targeted measures for single-parent families, which is one of the groups most at risk of poverty*). One cannot assess the adequacy of the measures included in three of the assessed policies at all, because one has not drafted any policy-planning document in this area (*state social benefits and social assistance*) or has not collected/ analysed the data within the framework of the policy to assess whether one has achieved the performance indicators defined for the measures *(for instance, they do not collect data on* *the risk of poverty for disabled under equal opportunities policy for disabled, although the policy sets such an indicator*).

According to the auditors, several tax policy measures even run counter to the national goal of reducing poverty. This policy still continues to provide for reduced tax regimes (*micro-enterprise tax regime, self-employed individuals, royalty holders, and patent payers*), which allow for mandatory state social insurance contributions for those employed in those tax regimes be paid in less amount or only in specific cases. Due to the small amounts of mandatory state social insurance contributions, the employed in those tax regimes are and will be exposed to the risk of poverty both in case of incapacity for work and reaching retirement age, thus increasing the total number of people at risk of poverty in the country as well.

Albeit several measures have been taken in recent years by setting a goal of improving the social security of those employed under those tax regimes, the measures are still insufficient. Therefore, one shall find possible solutions in the state social benefit or social assistance policy, thus increasing the funding required for those policies significantly and reducing the available support for those at risk of social exclusion with limited income opportunities (for example, disabled, seniors).

One of the essential preconditions for policy implementation is both clear and up-to-date policy objectives, deliverables, and measures, and an effective policy monitoring model that not only monitors the achievement of objectives but also responds to necessary policy changes promptly by initiating the required changes.

Although one supervises the social inclusion policy for poverty reduction at the level of both hierarchically top-level development planning documents and the policies of the Ministry of Welfare and other sectoral policies, the audit suggests that the supervision is currently insufficient.

While supervising the achievement of the objectives set in the Reform Program EU 2020 and the NDP 2020, the Ministry of Economics and the Cross-Sectoral Coordination Centre collect statistical information regarding poverty reduction from the Central Statistical Bureau and information provided by the responsible ministries on the measures taken in corresponding period mainly, they do not assess the impact of the measures taken. Although one points to the necessary changes, no action is being taken to improve the directions and measures included in the NDP 2020 and the Reform Program EU 2020, as well as sectoral policies.

The Ministry of Welfare delegated to coordinate this policy, supervises it only at the level of the areas under its responsibility largely.

The Social Inclusion Policy Coordination Committee chaired by the Ministry of Welfare is the only cross-sectoral cooperation instrument currently implemented. However, the issues discussed in the Committee are mainly for information only, as one has not entrusted the mandate to the Committee for assigning binding tasks to the institutions involved in the implementation of the policy. Consequently, it is not a sufficient tool to coordinate social inclusion as a separate policy in a cross-sectoral framework.

The auditors draw attention to the fact that when coordinating social inclusion policy, drafting and monitoring sectoral policies related to social inclusion policy, the institutions in charge also need correct and complete data on people at risk of poverty, as well as on the measures implemented in the country to address their problems.

However, one has defined a part of the population groups at risk of poverty and/or social exclusion only theoretically, as no data are available on their risk of poverty and/or social exclusion even though they have been defined in Latvia. In addition, one has not estimated some of those groups (*large families, single-parent families, the homeless, etc.*) at all, which means that one does not know even the number of people that is attributable to them.

In its turn, when analysing the information available to the involved institutions for policymaking and supervision, the auditors conclude that there is a lack of complete and correct information on the social support provided by local and regional governments and the funding spent on it because official statistical reports and budget data drafted by local and regional governments cannot be used to get an idea on the actual social support provided by local and regional governments.

When comparing only the budget data of 21 local and regional governments included in the audit sample and the spending on voluntary initiative benefits reported by local and regional governments in the official statistical reports, the auditors have established that the local and regional governments have indicated the expenditures of voluntary initiative benefits by 4.303 million euros or 96% more than in the budget data[10] in their annual official statistical reports in 2018. For example, voluntary initiative benefits in Talsi Region included expenses for transportation and disposal of swine fever pigs, cash prizes in culture and education, unemployment scholarships, etc. and several social services[11], grants for employers for summer employment of students and associations in Ventspils Municipality. Besides, local and regional governments still do not have a sufficient understanding of how to classify the social assistance they provide in the reports correctly, because they mispresent benefits, which actually are voluntary initiative benefits of a local or regional government, as social assistance in both accounting and annual official statistical reports. In contrast, benefits for social assistance benefits are misrepresented as voluntary initiative benefits.

Having summarised the findings of the audit, the auditors conclude that all those deficiencies indicate the need to improve the established cooperation mechanism for the unified and coordinated supervision of social inclusion policy.

At present, each of the institutions involved performs only the tasks it is accountable for. Still, none of them assesses those tasks in context, for example, whether the tasks have an impact on the poverty reduction target because the country does not have a single document setting out an action plan to achieve the goal for poverty reduction set in the top planning documents at the UN, EU, and national level that would cover all areas and institutions, including local and regional governments, which have a crucial role to play in poverty reduction.

This is also one of the reasons why one has even failed to approve the MIL Plan due to the lack of budgetary resources for more than five years. At the same time, **one found an opportunity to introduce several support measures from 2017, whose impact on addressing the needs of the population most at risk of poverty has not been proven**. For instance, the increase of the family state benefit for the second child introduced from 2018, as well as the extension of the family benefit payment until the child reaches the age of 20 required an additional 13.942 million euros per year. In its turn, the financing of the benefit introduced from 2019 for the spouse of the deceased pension recipient required 7.430 million euros in 2020.

Local and regional governments also claim that they do not have the resources to increase even the GMI benefit. Still, several municipalities finance various political initiatives and holiday benefits not aiming at the solution of social problems from social protection expenditures, as well as benefits for former chairpersons of local and regional governments and councils or their deputies. The amount of the benefit equals to twofold national minimum monthly wage. The said benefit was introduced following the proposal of the Latvian Association of Local and Regional Governments in 2007. An individual is entitled to receive it by law given that the individual has been a chairperson and/or deputy chairperson of a city council, elected district council, regional council or rural district council for two terms in one local or regional government or during the term of operation of a local or regional government council which has been formed by the relevant local or regional government merging with another local or regional government after 4 May 1990. The 15 local and regional governments paid such a benefit in 2018 by allocating 307,740 euros therefor out of the 21 local and regional governments included in the audit sample. According to the auditors' estimates, this money would be enough to finance the GMI benefit in at least 69 Latvian municipalities[12] in 2018.

This reaffirms the need for the assessment of state and local or regional government social support already provided for in the MIL Concept when drafting the state policy for the next period to assess what one has already provided, what one has actually spent, and whether one has targeted it primarily at the most vulnerable groups at risk of poverty, thus also finding the resources to increase the support needed to address the needs of those most at risk of poverty.

Based on this assessment and identifying the number of funds actually spent, one should establish the minimum support basket that the state and local and regional governments must provide to the population groups at risk of poverty and social exclusion. For poverty reduction not to remain just one of the declarative slogans in the top hierarchical documents of the government, it must also be a priority at the level of sectoral policies and local and regional governments by envisaging concrete actions to achieve the set goals.

The State Audit Office is also of the opinion that deciding whether to maintain the universal support system will be the future challenge for the state by recognising that the lack of financial resources restricts increasing existing support and/or introducing new support significantly or introducing the benefits system based and tested on income and/or some social issues and needs targeted at those most in need gradually. Although experts outline that a targeted support system is expensive because it requires significant resources to administer it, the auditors emphasise that an income-tested and personal needs-based support system is already in place in municipal social services in Latvia. Already now, social services assess the income, financial standing, and/or social needs of the applicant when granting social assistance or social services. One spends at least 37.697 million euros[13] annually to maintain this system.

According to the auditors, one cannot expect vast improvements without comprehensive measures to address the needs of people at risk of poverty or social exclusion.

Major Recommendations

Based on the conclusions made during the audit, there are 12 recommendations provided to the Ministry of Welfare, as the institution tasked with coordinating a standard social inclusion policy, for improving the policy thus contributing to the achievement of poverty reduction goals set in UN, EU and national top planning documents.

The State Audit Office expects that the implementation of the provided recommendations will result in:

- ✓ Social inclusion policy be designed, implemented, and coordinated based on complete and up-to-date information on the people at risk of poverty and/or social exclusion and their risk of poverty;
- ✓ State and municipal social support for people at risk of poverty and/or social exclusion be improved by ensuring that people with equal income and financial standing have the right to receive equal social support in certain life situations;

There are 12 recommendations provided to the Ministry of Welfare.

- ✓ The productive use of state and municipal funding be facilitated by targeting those at risk of poverty and/or social exclusion.

As one can eliminate the deficiencies identified during the audit only by significant improvement of the established cooperation mechanism among all institutions involved in the implementation of social inclusion policy, which are beyond the area of responsibility of the Ministry of Welfare, the State Audit Office also issues four proposals to the Cabinet of Ministers.

There are four recommendations issued to the Cabinet of Ministers.

The State Audit Office calls on the Cabinet of Ministers to improve the established cooperation mechanism for the design, implementation, and coordination of a unified social inclusion policy by assessing the options for:

- ✓ Elaborating and approving a single medium-term development planning document, which sets out an action plan for achieving the goal of poverty reduction set out in the UN, EU, and national top-level planning documents;
- ✓ Examine the possibility of establishing a single mechanism for the implementation of the goal for poverty reduction set in the UN, EU, and national top-level planning documents under sectoral policies.

For facilitating the effective and efficient use of the funding for social support measures, the State Audit Office invites the Cabinet of Ministers to examine the opportunity of developing social policy based on income test and/or specific social problems and needs by abandoning the universal support system. In this way, finding resources for the introduction of new types of support and reduction of the risk of poverty in the country would be possible by supporting those who need it most purposefully.

In its turn, for ensuring equal treatment of all people employed in state and municipal institutions, the State Audit Office also invites the Cabinet of Ministers to assess the need for the benefit stipulated by law[14] for the chairperson or deputy chairperson of a council of the local or regional government taking into account that there are many different types of retraining when an individual stops performing the duties of specific position but one has prioritised poverty reduction both at the national and the international level.

[1] Paragraphs 12 and 15 and Sub-paragraph 13.1 of Cabinet Regulation No 737 "Regulations for the Design and Impact Assessment of Development Planning Documents" of 2 December 2014. Handbook "Policy Making Handbook" developed by the Cross-sectoral Coordination Centre in 2016, pp. 18 and 21.

[2] Plan for the improvement of the minimum income support system for 2020–2021 (approved by the Cabinet of Ministers Order No 408 of 22 August 2019).

[3] 40% of the median household disposable income per equivalent consumer in 2017.

[4] Except for non-working able-bodied people if they do not comply with the provisions of art 1, Section 37 of the Social Services and Social Assistance Law.

[5] According to the information aggregated during the audit from the official statistical reports prepared by local and regional governments, municipal budget spending on social support measures such as social assistance and other support measures, and compensations for the population totalled to 51 million euros in 2018, wherefrom GMI benefit of 5.497 million euros, housing benefit of 14.893 million euros, and the crisis benefit of 678,414 euros amounted only to 21.069 million euros or 41% of social support measures.

[6] The maximum amount of the benefit granted for multiple birth from one pregnancy, for example, in Grobiņa Region, was determined at 1,000 euros per each child if three or more children are born from one pregnancy.

[7] Childbirth benefit was not granted only in Cesvaine Region and Kuldīga Region in 2018. Kuldīga Regional Government congratulates the newborn babies by presenting silver spoons in memory of their place of birth.

[8] Item 27, Paragraph 34, Minutes No 42 of Cabinet of Ministers sitting on 17 September 2019.

[9] The Concept on determining the minimum income level developed by the Ministry of Welfare (approved by the Cabinet of Ministers Order No 619 of 30 October 2014), pp. 4, 5, and 34.

[10] After the audits of the State Audit Office, local and regional governments made corrections by reducing the amount of error, but the annual official statistical reports drafted by local and regional governments still indicated the spending for the implementation of voluntary initiatives of local and regional governments by 2.018 million euros or 45% more than the budget data.

[11] Expenditure on social rehabilitation services for victims of violence and perpetrators of violence of 8,221 euros; expenditure on day-care centre services for children and adolescents of 17,376 euros, expenditure on special social rehabilitation services provided at the place of residence or childcare institution for a child who has suffered from illegal activities of 12,167 euros.

[12] According to the official statistics of the Ministry of Welfare "Reports on social services and social assistance in the local and regional governments in 2018", the total sum used to provide the GMI benefit in 69 local and regional governments constituted 295,296 euros according to code 31301 in 2018 (calculation includes Alsunga, Naukšēni, Vecumnieki, Mālpils, Zilupe, Roja, Durbe, Mērsrags, Ķegums, Pārgauja, Priekuļi, Sēja, Engure, Ikšķile, Tērvete, Sala, Nīca, Dundaga, Mārupe, Ādaži, Salacgrīva, Carnikava, Rugāji, Ķekava, Ropaži, Mazsalaca, Baldone, Krimulda, Pāvilosta, Cesvaine, Vārava, Rundāle, Inčukalns, Vecpiebalga, Brocēni, Jaunpils, Lielvārde, Viesīte, Aknīste, Rauna, Cēsis, Burtnieki, Līgatne, Ozolnieki, Saulkrasti, Valmiera City, Beverīna, Aloja, Ērgļi, Babīte, Lubāna, Skrunda, Varakļāni, Rūjiena, Baltinava, Ape, Smiltene, Iecava, Jelgava, Salaspils, Jaunpiebalga, Ogre, Kocēni, Bauska, Vaiņode, Rucava, Skrīveri, Sigulda, and Amata Region).

[13] According to the official statistics of the Ministry of Welfare "Reports on social services and social assistance in the local and regional governments in 2018", the total expenditure on the administration of social services was 37.698 million euros in 2018.

[14] Section 15.[1] of the Law on the Status of a Councillor of the City Council and Regional Council.