

# Anti <sup>MAG</sup>POVERTY

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Tackling the **social  
impact of the crisis**

Is the **IMF rescuing  
Eastern European  
countries?**

The cases of Hungary  
and Latvia

The crisis: Country focus on  
**Spain, Ireland, Finland  
and Germany**



# An EU Summit must discuss the causes and social impact of the crisis

FINTAN FARRELL, DIRECTOR EAPN

The crisis, as well as having devastating impacts on the well being of large sections of our societies, is also a period of opportunities. How well these opportunities will be used determines whether societies will be heading for "social and sustainable development and recovery" or "take a short breath" and then again plunge into the wave of a following crisis.

The key point splitting these two possible futures is whether the opportunity will be seized to spotlight the causes for the crisis. If the major causes for the crisis remain "hidden", the same flaws will continue to inform the list of measures to overcome the crisis. There is urgent need for an EU summit to discuss the underlying causes and social impact of the crisis.

For EAPN, as well as the financial market failure, a major cause of the crisis has been the growing levels of inequalities globally and within EU Member States. The killing impact of inequalities has increasingly been documented in publications such as "The Spirit Level – Why more equal societies almost always do better", by Wilkinson and Pickett. These growing inequalities have been facilitated by deregulation and increasing failures of the systems of redistribution to operate effectively in a more global economy.

This issue of the EAPN magazine looks at the impact of the crisis on people and communities facing poverty and social exclusion. The articles make the case for why addressing poverty and inequalities, far from being marginal to the measures taken to tackle the crisis, should be at the heart of the responses.

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# Tackling the social impact of the crisis

BY SIAN JONES, EAPN POLICY COORDINATOR

## Not just Growth and Jobs

Despite claims of an upturn, the EU's economy continues to falter with 3.5 million jobs expected to go in 2009. The EU has established a new supervisory framework for financial regulation and an economic recovery plan to stimulate growth and maintain employment<sup>1</sup>, but without a full social impact assessment. Little priority is given to those who have seen their job quality slashed, whilst those already without work, are invisible. In the longer term, increasing demands placed on underfinanced basic services – often provided by NGOs –, and cuts to financing social protection systems, represent a fundamental threat to social cohesion in the EU.

## Poor jobs and worsening exclusion

It's clear that large numbers of jobs are being lost, with the most precarious hit first. "Poor jobs" are being seen as better than no jobs, but how sustainable is this? Few countries cover the shortfall through additional benefits and there's little recognition of the long-term effect on in-work poverty levels or quality of work, with over 25% of people in poverty despite having a job, even before the crisis. In Spain, over 90% of jobs lost in the first quarter of 2009 were temporary. Other countries have seen major increases in short-time working or enforced holiday (often without pay)<sup>2</sup>. As the "old poor" are no longer a priority, most countries are increasing **punitive activation policies** despite less jobs to go to.

## Increasing debt and insecurity

Loss of jobs, insecurity and lower income are also compounding problems of **indebtedness**<sup>3</sup>. But action on financial services has not been matched with affordable, sustainable debt support and fair credit. The impact on housing – particularly on lower income home owners – is also felt, with increases in repossessions and signs of pressure on the rented sector<sup>4</sup>.

## Undercutting public services

The major fear, however, is the **longer-term impact on social protection systems and services**. Already in some countries cuts are being introduced or eligibility being tightened<sup>5</sup>, often disproportionately hitting NGO services. Direct cuts in health and social services, have already been implemented in Ire-

land. Meanwhile many new Member States with overstretched budgets have been forced to seek IMF support, whose aid requirements have resulted in reductions in social protection cover and wage levels, despite public commitments to the contrary<sup>6</sup>. The reduction of employers' contributions, also directly threatens the sustainable financing of social protection systems.<sup>7</sup>

## 5 urgent short steps:

**1. Reinforce social protection, guarantee minimum income.** Make sure everybody has an adequate income to cover basic needs, enabling people to participate in the economy and in society. Developing a Framework Directive on Minimum Income, building on the Commission's Active Inclusion Recommendation<sup>8</sup>, would seem the logical next step.

**2. Promote quality jobs and Active Inclusion for those currently excluded.** Quality sustainable employment needs reinforced employment protection. Integrated **Active Inclusion approaches**, must be developed to ensure access for those already excluded – particularly women, young and older people, ethnic minorities and migrants.

**3. Invest in new social / green jobs and social economy.** Public money is being invested mainly in quick-fix temporary jobs. New social and green jobs offer a better investment: promoting a low-carbon economy and new social services. Social economy, particularly Work Integration Social Enterprises (WISE), could play a valuable role, reinvesting profit in local jobs and services.

**4. Guarantee public finance and reduce inequality.** Public money has been poured into saving the banks and the economy. The first cuts in public services are being made to restore public deficits, only increasing poverty and inequality and penalizing the poor. Alternative methods of raising revenue are possible: shifting budget priorities, promoting fairer taxes, outlawing tax evasion and avoidance, regulating the gap on earnings between workers and management, and wage levels to profits.

**5. Investing in civil society and participation.** National NGOs are facing increasing demands on their under-funded and over-

subscribed services. Some face cuts in funding, whilst their membership or voluntary contributions decline. Urgent action is needed to ensure financing for NGO core activities whilst embedding better structured dialogue in policy development processes, like the Social OMC.

## Building a more social and sustainable Future

The exclusive focus on economic growth as the sole objective, rather than as an instrument to deliver other societal goals lies at the roots of our current unsustainable model. Unless a radical rethink is given to the failings of this model, the chances of building a new viable, social and sustainable model for the future won't stand a chance. The current debate on the shape of the post 2010 Lisbon strategy for the EU (2010-2020) offers a key opportunity for this broader debate. EAPN's new survey on the social impact of the crisis and proposals on post 2010 aim to offer a significant contribution to this debate<sup>9</sup>.

### Reference documents:

See: "[An EU we can trust](#)" and other EAPN reports (available from EAPN website: [www.eapn.eu](http://www.eapn.eu)).

1\ EU Economic Recovery Package, including Driving the Economic Recovery (March 2009).

2\ Notably in Malta and Cyprus.

3\ Notably in Finland, Luxembourg, Belgium.

4\ Notably in France.

5\ Notably in Sweden, Austria, Lithuania and Spain.

6\ Notably in Hungary and Latvia.

7\ Finland's public budget will lose 912 million euros in 2009.

8\ Commission Recommendation on Active Inclusion, December 2008.

9\ See: *An EU we can trust, EAPN Proposals on post 2010 and EAPN's survey on the crisis.*

# Ireland: from boom to bust

BY MARK BYRNE, INFORMATION & AWARENESS WORKER, EAPN IRELAND

**As the severity of the recession eases in some countries, Ireland remains deeply entrenched in a catastrophic social and economic crisis. In 2008, domestic and international factors combined to usher in a period of unprecedented economic contraction in Ireland. The effects of the global banking crisis and associated credit crunch were exacerbated by the dramatic collapse of a grossly over-inflated domestic property bubble.**

**Unemployment** increased from 4.8% in January 2008 to 12.2% in July 2009. There has been a 142% increase in redundancies and the most recent figures indicate that there are now 423,400 people on the Unemployment Register. Construction was the first sector to be affected by the crisis but job losses and redundancies quickly spread to almost every sector in the state. The credit crisis continues to pose huge difficulties for Irish enterprise, resulting in the failure of hundreds of viable small and medium enterprises.

**The collapse of the property market,** coupled with the jobs crisis, has resulted in a dramatic fall in tax returns for the state. Consequently, the Irish Government was forced to increase borrowing, which has resulted in an exchequer deficit that means Ireland will be spending a third more than it's collecting in tax revenue by the end of the year. Unsustainable levels of borrowing, combined with revelations of unethical bank practices, have contributed to the downgrading of Ireland's credit rating by international markets.

**It is unclear as to whether the Government has the ideas, or the political capital to navigate the country through the economic and social crisis.** Innovative solutions have been remarkable by their absence and it seems that the Government has concluded that tough medicine and aggressive deflationary policies are the only options available. The Government recently published the McCarthy Report, commissioned to identify up to €5 billion in savings from the public purse. The findings are wide-ranging and extremely divisive; proposing dramatic cuts in exchequer spending on social welfare, education, health, the community and voluntary sector and the cessation of the universal child benefit payment.

The Government has been slow to respond to the economic crisis and has barely addressed the associated social effects. Despite a government guarantee on bad loans for banks, nationalisation of Anglo-Irish Bank and major loans to the two largest banks in the state, small and medium enterprises are still strangled by a lack of credit. In an attempt to tackle the banking crisis, the Government has proposed setting up a National Asset Management Agency (NAMA) to take bad loans off the books of the banks. It is generally felt however that the government will pay unrealistically high prices for those loans, a price that will be repaid for decades to come by the Irish tax-payer.

Responses to the employment crisis have been slow and limited. The Minister for Enterprise, Trade and Employment has introduced a €250 million job protection scheme that should provide some assistance to struggling businesses. It is not at all clear that saving and protecting jobs is the Government's main priority.

**As the economic crisis intensifies, the social effects are now becoming apparent.** As well as the deepening jobs crisis, social welfare recipients have already experienced cuts to their income. An extra social welfare payment, to assist with the expense of the Christmas period, has been abolished, while supports for those renting accommodation have been reduced. The McCarthy report proposes cross-cutting reductions of 5% in the overall social welfare budget, a proposal that would have potentially disastrous consequences for thousands of struggling families across the state. Meanwhile, the country is facing the real possibility of a 'lost generation'. One in five young people are unemployed and the jobs prospects for recent graduates and those leaving school are dire.

**The economic context is also being used by Government to justify attacks on the equality, human rights, anti-poverty and anti-racism infrastructure in Ireland.** In the last budget, the Equality Authority suffered a 43% budget cut while funding for the Irish Human Rights Commission was cut by 24%. Meanwhile, the previously independent Combat Poverty Agency has been amalgamated into the Department of Social and Family Affairs. NGOs and civil society groups have also suffered substantial budget cuts.

**EAPN Ireland will continue to campaign and lobby on behalf of those who are most vulnerable** in the face of continued attacks on social welfare rates. We have lobbied for tax increases for those on higher incomes in order to protect key social services, we will work with the Community Platform (a social partner) to present our own pre-budget submission based on fairness and national recovery, and we will participate in a major street protest in September against proposed cuts to social welfare. We have also embarked on a proactive communications strategy and a number of letters and articles from EAPN Ireland have appeared in the national and local media. Engaging the experiences of people experiencing poverty is the central tenet of that strategy. Last month, EAPN Ireland as part of the NGO Employment Working Group, produced a detailed analysis of Ireland's Social and Economic Crisis and recommended a series of policy proposals to advance national recovery without pushing more people below the poverty line.

As other countries begin to emerge from recession, Ireland's crisis seems to be deepening. EAPN Ireland will work with and on behalf of those whose voices are not heard, and for those whose lives will be affected by the Government's short-sighted approach to economic recovery.

KAREN FITZPATRICK, THE IRISH INDEPENDENT, 10 JULY 2009

*I have tried to equip myself for the labour market by completing a BA in Community Studies at night, engaging in voluntary work within the community to gain experience and to give "something back" for the social welfare I have received over the years. I managed to get a job in the depths of the recession, although it was a substitute position which has now ended. My family is yet again supported by social welfare, certainly not by choice. As I sit here with a first year secondary school booklist for my son, I have been told that I cannot apply for a book grant, as his school is not designated as a disadvantaged one (...) The school may not be disadvantaged but I am (...) Just because my kids were born into poverty should not mean their dreams are worth less.*

# Spain: all households are affected

BY ISABEL ALLENDE ROBREDO, EAPN SPAIN DIRECTOR

**Looking back at the past few decades, we find nothing that matches the severity of the present economic situation in terms of reduced production, high unemployment figures and poor prospects.** The significant amount of resources used to set in motion certain fiscal policies and provide assistance for the financial system has resulted in the reappearance of deficits and public indebtedness levels which seemed to have been eliminated from the economic scene. This effort is insufficient to respond to the growth of unemployment and households without income from gainful employment. As a result, social welfare needs are increasing.

**The crisis affects all households,** but poverty resulting from loss of jobs is more prevalent in certain sections of the population such as single-parent households, young people who live alone and large families.

**The social situation in Spain has changed considerably since the onset of the economic crisis.** Due to the fragility and precariousness of employment, and to existing inequalities and the inadequate protection offered by many welfare services, poverty and social exclusion have increased significantly.

The number of people dealt with by primary care services as well as the demand for psychological counselling, have increased considerably over the past two years.

As regards the profile of the people most affected by the crisis, we need to draw a distinction between two different situations, i.e. that of people and social groups who were already socially excluded or at risk of being excluded, and whose situation has now worsened so that they are particularly hard hit by the effects of the current crisis; and, secondly, that of people and families who were not facing any serious problems previously, but who are now asking for assistance as a result of unemployment.

Unemployment has increased among immigrants given that they are mainly employed in precarious jobs, previously held by Spanish workers. As a result, many immigrants now have an irregular legal status. We also find a significant increase in the number of applications for "voluntary return".

According to the Services for Homeless People, the crisis has not yet resulted in a signifi-

cant increase in homelessness, although some of the people affected by the crisis are beginning to use resources for homeless people.

**The economic crisis has highlighted the inadequacies of the existing social protection system in Spain.** Everything we have said until now points clearly to the limitations of the guaranteed minimum income system, which in Spain has become increasingly unable to provide effective protection for low-income persons and families. Furthermore, the public services are failing to meet basic needs, and the public funding available for this purpose is inadequate.

It is urgently needed to develop a new system which can function not only as a temporary assistance mechanism to cope with the new forms of poverty caused by the crisis, but also as a possible core element around which the existing social protection system can be reorganised.

**Working within the framework of the Social Forum** (strategy for cooperation between different Spanish social platforms) and in view of the current social and economic crisis, **EAPN-ES** argues that the situation requires structural and comprehensive responses aimed at building a new social welfare model which is sustainable, adequate and capable of providing quality services. Thus, as members of the Social Forum, we advocate developing an urgent action plan with preventive as well as palliative measures, and we are putting forward a number of basic proposals:

Together with the efforts aimed at reviving the productive economy at local level, **it is necessary to set up a social fund, managed and implemented by the municipal social services to pursue the above-mentioned welfare aims**<sup>1</sup>. To this end, steps must be taken to strengthen the "Plan Concertado de Prestaciones Básicas" (Coordinated Plan for Basic Social Services), which should receive a 100% increase in funding from the public administrations. Local governments should also create joint networks with local NGOs in order to maximise the benefits of the Plan.

As regards support for unemployed people who are no longer eligible for unemployment benefit, we advocate **extending unemployment benefit** in order to prevent these families from having to rely on the public as-

sistance networks. The Spanish Government has initially approved a benefit of €422 for six months.

**A more effective immigration policy** is also required to promote lawfulness and integration while ensuring that nobody "loses out" in the process, as well as to prevent the native population from developing racist attitudes. Among other proposals, the Law on Foreigners should be adapted to reality in order not to increase the number of people who have an irregular legal status.

Furthermore, **the right to a minimum income must be guaranteed as a constitutional right**, and we therefore propose turning the "Renta Activa de Inserción" (Active Income Placement Programme) into a single benefit system to guarantee a minimum income throughout Spain. The system would be jointly financed by the Central State and the Autonomous Communities and could be complemented by other benefits established by the latter. We advocate a guaranteed minimum national income of €500.

## EAPN Spain highlights the need to:

- Review the "active employment policies" to promote the employment of people in vulnerable situations.
- Support the transition from unemployment to employment through capacity-building and training.
- Identify the employment and training needs of the most disadvantaged social groups with a view to developing pathways for insertion.
- Prevent and combat the parallel economy.
- Promote awareness to achieve social cohesion.

Furthermore, we support and advocate **two measures that the government has already pledged to adopt**: raising the minimum wage to €800 and increasing the lowest pensions to a comparable level. These two measures alone could reduce the poverty rate in Spain by 2%.

<sup>1</sup> We know that for social measures to be effective they must fulfil three criteria: they must be personalised, applied consistently over a period of time and be backed by appropriate resources. These three characteristics can be brought together most easily at the local level.

# Is the IMF rescuing Eastern European countries from the crisis?

## The cases of Hungary and Latvia

BY ELINA ALERE, EAPN LATVIA DIRECTOR AND IZABELLA MARTON, EAPN HUNGARY DIRECTOR

**The global economic crisis has hit Eastern European countries particularly hard**, notably because their economic boom was partly fueled by heavy borrowing from Western banks and easy access to foreign currency denominated loans. As a direct consequence of the crisis, the credit crunch and the dramatic fall in their currencies, the debt burden has become unsustainable.<sup>1</sup> Hungary, Iceland, Latvia, Serbia and Romania have taken out International Monetary Foundation (IMF) loans this past year. Although the IMF says it is concerned about the “social costs” of the crisis<sup>2</sup>, budgetary and structural reforms remain their policy priority, hence budget cuts in social services and public administration, with all the well-known consequences the world over.

**In 2007, the Hungarian economy** had already been facing a significant slowing down of GDP growth (1,2% compared to 4% in 2006) and one of the lowest employment rates in Europe (57,3%). With the crisis, private companies have reduced personnel expenditure, either reducing working time or delaying the payment of wages. Unfortunately, these tendencies have also been observed in the informal sector, which represents an important part of poor families’ income. Housing has become a major issue as well. Many families affected by unemployment and/or with mortgages, face tremendous difficulties in paying energy bills. Hungary resorted to a 1.2 billion euro IMF loan at the end of 2008. Besides the fiscal and monetary issues, cuts in public expenditure have worsened the already harsh living conditions of Hungarians. Beginning with the family allowance<sup>3</sup> amount, which many poor families rely on as their main source of income, all social transfers amounts have been frozen for two years. The “*socpol*”<sup>4</sup> has also been withdrawn.

**The crisis also found the political system** in a fragile situation. The governing socialist and liberal coalition broke up, leaving the socialists with a minority Government since April 2008, notwithstanding the replacement of the prime minister this spring. As to the social climate, emergency signs multiplied, such as growing intolerance and violence against Roma and the weakening of trust in public authorities.

**The Latvian climate** is just as dark. Despite former Prime Minister Godmanis’ statement that “*taxes should not be increased in a period of recession*”<sup>5</sup>, resorting to an IMF loan has led to drastic cuts in salaries, social benefits and pensions, as well as an increase in taxes. Redundancies, closing hospitals and schools, higher public transportation costs and new taxes are Latvians’ daily reality.



**Latvia met the first signs** of economical and social crisis in mid-2008, when the Government announced the freezing of salaries in the public sector. It was followed by Labour Union and Government negotiations, public protests and demonstrations – none of which proving effective. The following event was the private *Parex Bank* bankruptcy, which public authorities decided to save, spending 700 million LVL. In the end, that operation cost each of the 2.4 million inhabitants of Latvia 500 LVL (700 EUR) and left the State Treasury empty. Without any more resources, the Latvian Government then asked the IMF and European Commission for a loan. Negotiations behind closed doors decided on the next policies to meet the overarching IMF objective: reduce the public deficit. VAT was increased from 18% to 21%. The most drastic jump was for medication, books and the print press, with a former 5% tax. The next step consisted in cutting maternity and family benefits as well as pensions and unemployment benefits, both the amount and duration of the allowance. The monthly minimum wage is now 180 LVL (250 EUR), which does not allow one to live a decent life. It is planned to be reduced to 160 LVL. Consequently, there is evidence of increases in undeclared income or so called “*envelope salaries*”, while there had been a significant improvement in eradicating this in previous years.

How could people still believe in the meaning of paying more taxes when it results in cuts in all aspects of public expenditure?

**The Government’s vision** regarding reforms is seen as unclear, if not unreasoned and chaotic. People ignored the intended measures of the Government to meet IMF and EC requirements until the June 2009 local elections, after which Prime Minister Dombrovskis declared that the state budget had to be cut by more than 600 million LVL. The social budget was the most severely cut: pensions, social benefits and social and medical care systems. The accessibility to minimum services dramatically declined. Thousands of people employed in public sectors lost their jobs. The unemployment rate reached 12,1%, the highest in 12 years. The situation and social climate are such that sociologists predict a new wave of emigration<sup>6</sup>.

The way public authorities deal with the crisis has consequences for generations to come. Maybe it is time for the EU as a whole to rethink its strategy and build an EU people can trust.

1) Since last summer, the Polish zloty has lost 48% against Europe’s common currency the euro, the Hungarian forint 30% and the Czech Krona 23%. That makes euro-denominated debt, which has risen dramatically anyway in the past few years, much harder to pay back. In Poland, foreign currency debt held by households has tripled in three years to 12% of the GDP last year, with some 70% of mortgages taken in foreign currencies. In Hungary, foreign currency loans make up 62% of all household debt, up from 33% three years ago. Home owners across the region now face massive debts that they simply will be unable to pay back.

2) [www.imf.org/external/np/sec/pr/2009/pr09295.htm](http://www.imf.org/external/np/sec/pr/2009/pr09295.htm).

3) Universal benefit related to the number of children in a family. Single-parent families or families taking care of an ill child get higher amounts.

4) Fixed-amount social benefit entitled to families with children, to buy their first house or flat.

5) Latvian daily newspaper *Independent*, 8 Sept. 2008.

6) The first emigration wave occurred in the mid 90s, when dozens of thousands of Latvians left the country for a better life in other European countries, mostly Ireland, UK and Spain. It has recently been observed that emigration has started rising again.

# The overall German picture is far from rosy

TERESIA MEYER AND MANDFRED MOHR, EAPN GERMANY

**As Germany is a great export nation, the global crisis has caused major drops in orders and cutback of production, and insolvencies of companies and thus has led to a considerable increase in unemployment.**

The German government has taken various measures to soften the repercussions of the crisis on the economic and labour market. In November 2008 and January 2009, it adopted two economic stimulus packages<sup>1</sup>, providing approximately 100 billion euros for their implementation. These packages are designed to balance the export collapse by enforcing domestic demand and to enable companies to keep their employees as long as possible.

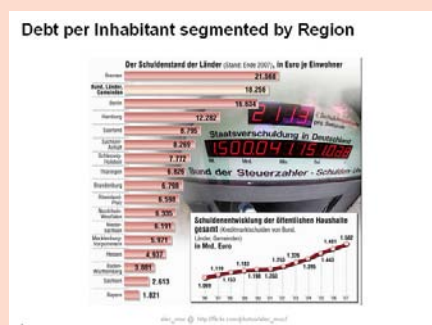
In detail, the government has adopted several taxes and duty relieves. Among them, the green car incentives considerably stimulated the domestic demand for automobiles. Besides this, the government encouraged public capital investments, especially in the local infrastructure. It further enhanced and improved the arrangements for short-time employment. This concept, which was very well received by public authorities outside of Germany as an effective action, significantly contributed to avoiding suspensions of companies' employees for the awaited upcoming economic revival. It already existed before the crisis, but has recovered its proper designation since then. The number of employees working short-time has risen from 51,000 in May 2008 to 1.4 million in May 2009.

Due to these measures, especially the short-time employment, a dramatic increase (7.5% or 3.16 million people in June 2008 to 8.1% or 3.41 million people in June 2009) in the number of unemployed could be avoided thus far. However, relatively stable prices as well as the scheduled pension allowance increase in July 2009<sup>2</sup> and the reduction of the commuter tax allowance also positively affected the present situation on the consumption and the labour market. Moreover, the labour market benefits from a decrease of manpower as a result of the demographic change in Germany.

Nonetheless, all these aspects are of temporary nature and therefore will soon not suffice anymore to repel **an enormous increase of un-**

**employment and thereby of poverty**, which is expected to continue, despite some current signs of a certain recovery. It remains to be seen if this development will make a turnaround in the aftermath of the upcoming elections in Germany with a new government in place or if the situation will keep on deteriorating.

**More and more people work in precarious employment.** The short-time work arrangements put great burden especially on families, not being able to meet their financial charges anymore. Especially the most vulnerable people, and among them families, migrants, single parents, children and older people, are going to suffer the most.



Inevitably, with an increase of unemployed people, social security contributions will decrease and at the same time the need for social security benefits will increase by the end of this year. To add to the negative situation, despite high savings in the past, the measures taken by the government (including a huge bank guarantee programme) have led to a **record state debt (1.641 billion euros at the end of 2008!)** which – together with the high losses in social security contributions – **will probably have an enormous negative impact on the stability and security of the social system in the future.** The public becomes more and more aware of the fact that “somebody will have to pay the price” – i.e. normal tax payers.

**While the government puts more emphasis on the recovery of the economic and labour market, social and civil society actors have to shoulder a great responsibility in helping and supporting those who are already poor and those predominantly affected by the crisis.** Welfare and voluntary organisa-

tions must put pressure on the Government to meet Germany's claim to being (and remaining) a Welfare State on key issues, i.e. to:

- Measure the effects of the crisis and of recovery efforts against the principles of social justice and equity and help people who rely on the social assistance system, particularly the most vulnerable;
- Acknowledge the vital role of civil society, of welfare organisations and of social economy as well as of voluntary work;
- Monitor and guarantee that sufficient public investment is spent on social structure domains.

Against this background, EAPN Germany (*The Nationale Armutskonferenz – NAK*) is intensifying its efforts to prepare the EY 2010 aiming at sensitising the public to “poverty” and at claiming a shared responsibility in the fight against poverty and social exclusion. In such a vein, EAPN Germany has participated in discussing and shaping the National Strategic Programme, where it has become clear that the overall German picture is far from rosy. This is not only due to effects of the current economic crisis but also linked to a certain resistance within political circles to really take effective anti-poverty and anti-exclusion measures.

Within the national focus week now under preparation, which forms part of the national programme, the NAK and other civil society actors will put a lot of emphasis on reaching out to groups which are relatively unaware of topic of poverty, or which have to be more convinced of the need to counter this “phenomenon”, the occurrence of which is being a particular shame for a rich country like Germany.

1) “Safeguarding employment by consolidating growth” and “Pact for stability and growth in Germany”.

2) The Government had announced, before the crisis, that the pension allowance would be increased by July 2009 and did not change its timetable in this respect afterwards.

# Finland has not been untouched by the crisis

BY ARI SAARTO, EAPN FINLAND

**In the National Strategy Report on Social Protection and Social Inclusion 2008–2011<sup>1</sup> submitted by Finland in 2008, the social situation was considered to be relatively good.** According to the report, social security benefits, social, health and other public services had contributed to the fact that poverty and social exclusion were relatively uncommon and that gender equality had been rather well-achieved. Compared to the other EU Member States, Finland still ranked high concerning its employment situation and living conditions. The poverty rate was low, with child poverty the lowest in the EU, although it had been increasing shortly before the report was written<sup>2</sup>.

**Since the National Strategy Report was issued, the overall situation has weakened,** notably because of the global economic and financial crisis. There is not yet an overall review made of the social consequences of the crisis, but the damage is clear. The unemployment rate had begun to increase by the end of 2008, from 6,4% in August 2008 to 8,7% in July 2009. Growing unemployment amongst young people has become a particular area of concern. Household income has deteriorated, notably for families with children, and expenditure on social assistance and housing allowances has been rising. The group in which poverty has most increased is single-parent families. The gap between different income levels has also grown significantly. Closely linked with this societal process, people's attitude towards migrants and mobile (poor) EU citizens, and especially towards Roma street beggars, has become more negative and sometimes even quite hostile.

**In Finland, municipalities are in charge of providing basic services, which they either produce themselves or subcontract from the private sector, including NGOs<sup>3</sup>.** As a consequence of the economic crisis, funds raised through the income tax have declined and that has been reflected in the provision of social, health and school services. It is feared that this trend may continue for some years. Cuts in services made by different municipalities are likely to aggravate local and regional differences and inequalities in the national welfare service provision.

**The Labour Institute for Economic Research has estimated that maintaining sufficient welfare services and social security requires higher taxation, a better employment rate and higher birth rate<sup>4</sup>.** In order to reach this, Finland needs at least a 75% employment rate, and the total taxation rate should be about 45% of the total income. In addition to this, the retirement age should be older than it is today (63-68 years), but also because, in practice, people usually retire at the age of 59. The National Audit Office of Finland has estimated that if the social exclusion of one young citizen lasts the whole expected working period (40 years), his/her lost input into the labour market will cost the State about 1,1 million euros.



In its EU policy, Finland has stressed the importance of a comprehensive and strategic approach. *"The concept of welfare must be understood broadly and defined to encompass the entire population. The welfare State should be able to renew itself to respond to national, EU-level and global challenges"*<sup>5</sup>.

**Still, EAPN Finland is strongly concerned that the Government may repeat the mistakes made during the former economic and financial crisis faced in the 90s,** when many social benefits and services were cut, pushing many into hardship they are still suffering today. In many cases, the levels of benefits still lag behind the overall income development.

Nonetheless, some good practices adopted during the former crisis did have good results, like the counselling services for overindebted people, launched by NGOs in February 1993 and adopted in national legislation in 2002. On the other hand, the widely advertised private quick-loans have increased the need for and demand on these welfare services.

**The 2010 European Year for Combating Poverty and Social Exclusion is coming up and our main national objectives are social inclusion and cohesion.** This also means inclusion *in something*. Inclusion is recognised by our national legislation, but not always implemented in local policy practices.<sup>6</sup>

Finnish authorities and NGOs share the view that promoting people's well-being and health also enhances inclusion, security and legal protection. President of the Republic Tarja Halonen has stressed that *"sustainable development requires global justice and more responsibility towards people and the environment in relation to markets"*<sup>7</sup>. Funds used for social and health services should be seen as an investment rather than an expenditure. *"Prevention, early intervention and collaboration of public authorities are the main means to combat vulnerability, discrimination, insecurity and violence in society"*<sup>8</sup>.

- 1) *The National Report on Strategies for Social Protection and Inclusion 2008-2011. Reports of the Ministry of Social Affairs and Health, 2008:38.*
- 2) Iivonen, Esa: Child Poverty in Finland. Presentation in the Conference *Practical ways to improve children's health and life changes in European cities* in Helsinki, Finland 24 April 2009.
- 3) Service provision by NGOs and partnerships between the public sector and NGOs already constitute a long tradition. Church communities also significantly contribute to social work.
- 4) 43,1% in 2008, 41,8% in 2009 and 41% is foreseen for 2010.
- 5) *The National Report on Strategies for Social Protection and Inclusion 2008-2011. Reports of the Ministry of Social Affairs and Health, 2008:38.*
- 6) EAPN Finland is closely involved in the preparation and implementation processes of the Year, as a member of the National Implementation Body (NIB). In the practical implementation phase, EAPN Finland is one of the main partners in the consortium chosen by the NIB to coordinate the 2010 activities. The coordinator of our consortium is the National Institute for Health and Welfare (THL), a research and development institute under the Finnish Ministry of Social Affairs and Health.
- 7) Halonen, Tarja: Opening speech in the seminar *Sosiaali- ja terveydenhuollon päivät Rovaniemellä* in Rovaniemi, Finland 12 August 2009.
- 8) *The National Report on Strategies for Social Protection and Inclusion 2008-2011. Reports of the Ministry of Social Affairs and Health, 2008:38.*



# The impact of the crisis on families and children is only beginning to emerge

JANA HAINSWORTH, SECRETARY GENERAL OF EUROCHILD

**The picture of how this economic crisis – the deepest since World War II - is affecting the lives of families and children across the EU is only now beginning to emerge. Job losses are the tip of the iceberg, but the impact on the lives of family dependents is less well documented.** Still more worrying is the situation of those who were worst off *before* the crisis hit. With a shift in focus and resources to those who have lost jobs due to the crisis, the most vulnerable in society risk being forgotten.

Eurochild members are primarily organisations which deliver services to families and children and/or advocating on behalf of children's rights. Their jobs are becoming more difficult. **NGOs themselves are having to reign in resources, despite an increasing demand for their work. Governments are renegeing on promises to invest in efforts to reduce child poverty and promote children's rights.** There is little or no scrutiny how budgetary cuts are impacting on social rights – and this in the wake of billion Euro bail outs of the banking sector.

**Children were already more vulnerable to poverty before the crisis struck, with almost one in five children living in poverty. Now those figures are likely to be much higher.** The need to focus policy attention specifically on children – within a global anti-poverty strategy – has always been a major concern of Eurochild. This is because children have too often been ignored as a group, addressing their needs solely within frame of family policy. But children are full EU citizens and deserve to have their own views and experiences taken into account. Furthermore **childhood is a particularly sensitive period of change. Effective and early intervention during this phase of life can have a long-term impact on outcomes and, potentially, break inter-generational patterns of poverty and disadvantage.**

**The experience of this crisis is likely to have long-lasting impacts on the social, emotional, moral and educational development of children.** This will include both direct impacts in more extreme cases – such as, in the case of

Latvia, the news of school closures or the inability of parents to pay for transport costs to school and kindergarten, – and more subtle impacts related to how children manage family stress or make decisions about their future according to perceived prospects and opportunities.



Whilst difficult to relate directly to the crisis, some Eurochild members report an increase in the number of child protection referrals and cases of domestic violence. What is clear - and proven through past research<sup>1</sup> – is the critical importance of parenting in buffering the effects of the crisis on children's well-being. **Children's ability to understand, adjust and cope with the situation depends heavily on the quality of parenting – which in turn is deeply dependent on resources and circumstances.** Economic stress inevitably has an impact on family relations. Parents may not have the time, emotional or physical health to guide and nurture their children in a way that sets clear boundaries, monitors progress and gives positive response to children's development. This is critical for building children's self-esteem and sense of identity.

From the perspective of Eurochild, **child poverty and well-being must be kept at the top of the political agenda as part of a long-term sustainable strategy to eradicate poverty within the EU.** There must be no compromise of commitments. Through the EU's Open Method of Coordination on social inclusion there has been a growing understanding of good practice in tackling child poverty<sup>2</sup>. The parallel development of an EU strategy on the rights of the child<sup>3</sup> provides a clear framework for a rights-based approach to poverty reduction. But **until now, government commitment is voluntary and political will is of course wavering under the**

**pressure of the crisis. But delaying implementation of policy reforms will only create problems in the future.** Investment in children cannot wait. The burden will be inherited by the next generation.

**Eurochild is therefore calling on EU governments to use the opportunity of the 2010 European Year against poverty and social exclusion to adopt concrete quantified targets to reduce poverty, as well as an EU Recommendation on child poverty and social exclusion** to which Member States can be held accountable. The Recommendation should include a commitment to tackle child poverty within a child-rights framework, as well as clear guidance on good practice and appropriate targets in the fields of early years' services, education, health, child protection, employment, social services, family support, housing, sport and leisure.

Finally **the EU needs to apply pressure on Member States to ensure the rights of the most vulnerable children are protected.** Some groups of children are particularly exposed to poverty and social exclusion such as those living in institutions, unaccompanied minors, children with disabilities, children of migrant background, Roma children – among others. Targeted measures are needed to take account of the additional challenges they face, and non-discrimination needs to be applied across all policies.

The effects of the crisis will be felt in society long after the economy has started to recover. By investing wisely in children today we can hopefully mitigate the long-term negative impact and build a more sustainable future for the European Union.

1\ Leinonen, Jenni, *Families in Struggle, Child Mental Health and Family Well-being in Finland – During the Economic Recession of the 1990s: The importance of parenting*, STAKES Research Report 143, 2004.

2\ *Child poverty and well-being in the EU – current status and way forward*, Social Protection Committee, January 2008.

3\ The 2006 Communication – *Towards an EU Strategy on the Rights of the Child* (COM(2006) 367) anticipates the eventual adoption of the EU Strategy on the Rights of the Child following further analysis and public consultation. The recent Stockholm Communication COM(2009) 262 on the future work of DG Justice, Freedom and Security (DG JLS) re-commits the EU to adopting "an ambitious EU strategy on the rights of the child" as a matter of priority (p. 30).

# More in Need and More Needed – Eurodiaconia’s survey on the impact of the financial crisis on social service providers

BY HEARTHER ROY, EURODIACONIA SECRETARY GENERAL

When the reality of the financial crisis became clear towards the end of 2008, Eurodiaconia believed it was important to assess how the crisis, and the clearly evident social crisis, would impact the ability of our members to provide essential social services to those in need. We carried out the research between January and March 2009 and asked our members to consider the impact of the crisis on the organisation, its finances, the demand for services and general impressions.

21 of our 33 members replied and gave us their experience and opinion of the financial crisis and social impact. The conclusions drawn from answers have concerned us and we are taking the results to our institutional partners as well as looking at how we can support our members in delivering services to those in need.

Our first conclusion is that people **are** suffering from the financial crisis and **those suffering most are those that were already suffering from poverty and social exclusion before the financial crisis had even started**. Secondly, member organisations of Eurodiaconia are as service providers offering a number of services to people in need such as food programmes, homeless services or debt counselling. At the same time many of our members are facing difficulties in getting access to resources due to decreased funding from governments. In some countries this situation is not yet at its most serious point as budgets for 2009 were already set before the crisis took hold. But, looking forward, the fear is that **as local governments and others seek to recoup the losses in investments, budgets for services will be cut**.

Thirdly, there seems to be **regional differences across Europe in the impact and future perspectives of the crisis**. Diaconal service providers in Nordic Countries seem to have been less affected by the crisis so far and they are also more optimistic about the future. This might be due to the fact that many of the Nordic Countries have universal health and social care systems and generally good unemployment and social assistance schemes. Eastern European countries, on the contrary, seem to have been hit hardest by the crisis and they are very pessimistic about the future.

**So what needs to happen now?** We need to invest in social services. **Spending must continue on services that are essential and needed to combat the effects of the crisis**. Our members are negotiating with governments to ensure that their services can stay operational and quality is not compromised. We need to **ensure that those living in poverty or unemployed before the crisis are not forgotten**. We must provide support to those newly unemployed but also support those who were unemployed before the crisis. The Commission Communication on Employment issued in June 2009 was somewhat disappointing as it failed to grasp seriously enough the needs of the long term unemployed and those living in poverty. Our members want to see the continued investment

Copies of the full report can be downloaded from [www.eurodiaconia.org](http://www.eurodiaconia.org)

*Eurodiaconia is a federation of organisations, institutions and churches providing social and health services and education on a Christian value base in over 20 European countries.*

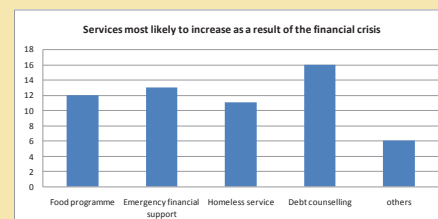
in support for those furthest from the labour market and the implementation of the Active Inclusion recommendation.

**We also recognise the complexity of poverty** at this time of crisis and the real situation of the growing number of people facing multiple difficulties. Therefore multiple and integrated services need to be provided that answer such complex needs. We are also looking for reform of Structural Funds so that they are easily accessible and support current needs and projects but we also want to see other means of supporting social service providers who are experiencing difficult cash flow situations due to the crisis so that continuity of services and quality is protected.

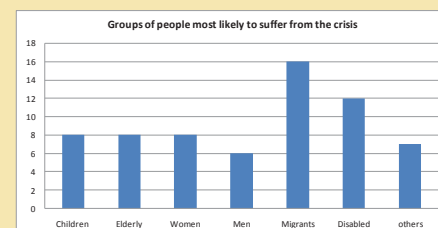
For Eurodiaconia, we believe there must also be **rethinking about values and our concepts of growth and development**. We need to ensure that growth is always sustainable and serve a greater goal of social progress. In this context the post Lisbon Strategy must have greater social cohesion and social

inclusion at the centre of its policies and as the overall goal.

It is clear that the full social scope of the financial crisis and its social impact is yet to be seen therefore there must be continued monitoring of the social impact of the crisis. Eurodiaconia will do this with our members – but governments and the European institutions must also do the same.



Source: *More in Need - More Needed*, Eurodiaconia, May 2009:14.



Source: *More in Need - More Needed*, Eurodiaconia, May 2009:13.

# Triple F crisis in developing countries

BY MARIA-WALTRAUD RABITSCH, SENIOR ADVISOR, RESPONSIBLE FOR POVERTY REDUCTION, RURAL DEVELOPMENT AND DECENTRALIZATION, AUSTRIAN DEVELOPMENT AGENCY

Developing countries are actually challenged by several crises (the so-called "triple F"), which are closely interrelated and mutually reinforcing.

**During the last two years, some of the poorest countries in the world have experienced a massive rise in the price of basic food items**, resulting in serious long-term impacts on hunger, malnutrition and poverty and thus challenging the achievement of the first Millennium Development Goal (MDG). Around 100 million people have additionally fallen back under the respective national poverty line. Figures related to hunger are equally alarming: about one billion or more people are going to bed hungry, get sick due to malnutrition or die because of hunger.

**Closely related to food prices are high fuel prices**, leading to higher costs of production (i.e. fertilizers, seeds, irrigation etc.) as well as processing and transport. At the same time, the new international focus on agro-fuel production means enormous challenges in terms of food security, environmental sustainability and human rights. The pressure on already exposed groups and on natural resources has increased as large-scale acquisitions of farmlands in developing countries have forced smallholder farmers to leave their land and shift to remote and less fertile land. According to a recent study<sup>1</sup> national inventories have documented a total of 2,492.684 ha of allocated land in five African countries over the period 2004 to 2009.

**The third "F" refers to the financial crisis.** Recent forecasts suggest that private capital flows to developing countries have fallen to around \$165 billion in 2009 (less than half the amount provided in 2008). The costs of borrowing are also rising in developing countries, since, as investors withdraw, risk premium and interest rates are going up. One direct impact is a fall in investments in public infrastructure and services, directly affecting poorer groups of the society and leading to a loss of employment, notably in public construction. As people lose their jobs – they can spend less on food, health services and education for their children. Thus, people fall back in the cycle of poverty, possibly for generation(s).

**Furthermore, developing countries are increasingly challenged by the effects of climate change.** Being already poor and/or

indebted, these countries lack the financial resources to cope with the effects of droughts or floods and to invest in mitigation and adaptation measures being necessary in order to protect the livelihood conditions of the majority of the population. Thus, investments for the development of new products, enhanced resilience vis-à-vis diseases and pests as well as for the establishment of adapted systems for sustainable resource management (i.e. land and water) cannot be realised.

All these crises have **severe impacts on developing countries:**

- **Diminishing public and private investments** in all sectors and at all levels have negative impacts on the livelihood situation of the most vulnerable. This is coupled by a severe slow-down of internal as well as foreign private investment.
- **Declining financial support** from the side of donors due to the economic recession (Ireland, Italy). Notwithstanding clear commitments to maintain existing levels (UK), the percentage of GDP will be worth less in real terms.
- **Decreasing remittances** as migrant workers lose their jobs and have to return to their home countries because of rising unemployment and living costs in the North.<sup>2</sup> Poverty increases as migrant workers are no longer able to sustain their relatives.
- **Deteriorating levels of production and exports** due to higher risks, worsening terms of trade and shrinking export markets. As a result of falling demand in global markets, most of the commodity prices, on which many developing countries depend, will go down.

As a result of the multiple crises, levels of poverty and hunger are increasing<sup>3</sup> in a staggering spiral: lower investments have negative effects on jobs and income<sup>4</sup>; increasing costs of production, processing and marketing affect smallholder agricultural production and social and regional disparities are growing. While some experts argue that due to the proximity to markets urban centres have been affected most, it is also obvious that scarce resources are likely to be spent in capitals or more economic profitable regions first. Rural areas will be further disadvantaged with people losing their jobs in urban industries or construction and thus migrating back to rural areas.

## Is there a way out of the crisis?

From the perspective of development cooperation the primary answer is to **maintain official development assistance (ODA)** at an appro-

priate level and to stick to commitments made in Monterrey. Even though the money needed is relatively little compared to the money spent on survival subsidies for the Western banking system or the car manufacturing industry, this might prove difficult due to the tendency of national interest being served first.

Within the existing framework of development cooperation, an important step is to guarantee the efficiency of development efforts and to fulfil the principles of the Paris declaration, especially in terms of **managing for development results**. In this respect, development cooperation has to better target aid for the poor, marginalised and vulnerable groups, by means of:

- addressing sectors and areas which are of highest importance for the poor (such as smallholder agriculture, informal private sector, petty trade etc.),
- ensuring inclusive participation in decision-making processes,
- emphasising social protection of vulnerable groups.

In a broader perspective, global trade systems have to be restructured. Export subsidies of industrialised countries have to be cut and dumping of products to be diminished. Better access to international markets for developing countries and regulation of quality standards has to be ensured. Last but not least, a stricter control of the global financial system, addressing speculation and tax evasion, but also the buying of land in developing countries by foreign investors is required. Development cooperation can only be relevant for combating poverty if the global financial system supports it interests.

1) IIED, FAO, IFAD: *Land grab or development opportunity? Agricultural investment and international land deal in Africa*, 2009.

2) The World Bank recently projected a drop in remittances to Africa of 4–8 percent in 2009, which translates to about \$1 billion less for the continent. In: *Center for Global Development, How the economic crises is hurting Africa – and what to do about it*, by Todd Moss, May 2009.

3) According to a World Bank analysis, as many as 53 million more people will be trapped into poverty as a result of the global economic slowdown. Thus, adding to the 135–150 million people driven by the food and fuel crisis over the period 2007–2008.

4) While no official figures are available in respect to the informal economy (i.e. children street vendors), formal unemployment rates will increase. According to ILO warnings global unemployment in 2009 could increase over 2007 levels by a range of 18 to 30 million workers (Thus, the figure could amount up to 50 million, if the situation continues to deteriorate). In: CIDSE, *From collapse to opportunity: Development perspectives on the global financial crisis*, policy paper, April 2009.

# The crisis in figures

The following data come from the Social Protection Committee (SPC)'s synthesis, drawn upon a questionnaire completed by Member States. However, all Member States have different realities and ways to calculate their statistics, and not all of them replied to the questionnaire. It was initiated by the SPC as a tool to measure the social impact of the crisis, but it focuses primarily on the impact of the crisis on employment.

## Employment strongly hit by recession

2006-2008: net job creation - 9 ½ million<sup>1</sup>  
2009-2010: expected job loss - 8 ½ million

## The most vulnerable are the most impacted

The situation of the young and the elderly, migrants and ethnic minorities, the low skilled and those holding temporary contracts has worsened.

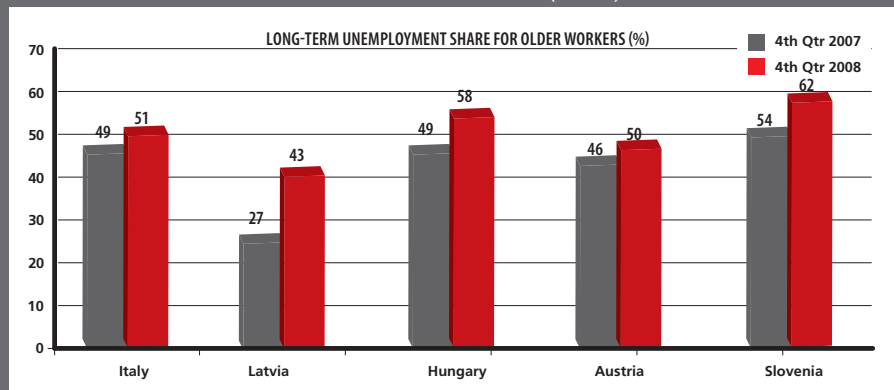
**Young unemployment rate reached 18.3% in the EU 27 in March 2009 against 14.7% at the end of 2007: at least 4.9 millions of people aged 15-24 among on the labour market were unemployed in the first quarter of 2009. With 33,6%, Spain faced the highest young unemployment rate.**

In the fourth quarter of 2008, the unemployment rate of **non-EU workers** grew faster than for other workers and reached 16% against 14% one year before.

The **long-term unemployment share<sup>2</sup> for older workers** is especially high at 51% and it started rising significantly last year in Italy (from 49% in the fourth quarter of 2007 to 53% in the fourth quarter of 2008), Latvia (from 27% to 43%), Hungary (from 49% to

58%), Austria (from 46% to 50%) and Slovenia (from 54% to 62%).

**increased more than general inflation** in Czech Republic, France (+3%), Latvia (+23%), Finland (+4.6%).



## More people relying on social protection

Between March 08 and March 09, the number of unemployment benefits recipients rose by 61,4% in Spain, 65,5% in Slovakia, 164 % in Estonia, 200% in Lithuania. Unemployment benefits recipients rose by 70% in Ireland between December 07 and December 08.

Numbers of social assistance claimants have started increasing in the countries that were first and most hit by the crisis: in 2008, +4.9% in Austria, +4% in Denmark, +29,8 in Ireland, +19.3% in France and +10,8% in Spain, +39% in Lithuania, + 14,8% in Portugal.

## Threats on housing for the most vulnerable

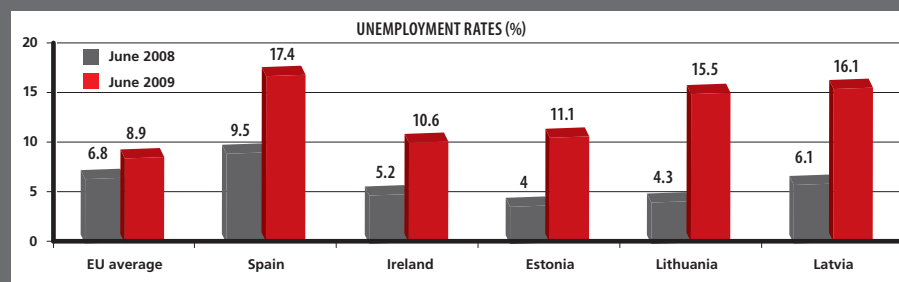
In some countries, the housing market crisis started early in 2008 and **prices have fallen**: -3.1% in Ireland, -4% in Denmark, -6.8% in Spain, -3.3% in Finland, -22.5% in the United Kingdom).

But opposite trends in the rented housing sector have been observed where **rents have**

Significant increases in the number of **non performing housing loans** were recorded in Belgium, Estonia, Greece, Ireland, Malta and Lithuania. The number of **repossessions has also increased in 2008**: +100% in Denmark, +300% in Estonia (and a further 50% increase in the first quarter of 2009), +126% in Spain, +17% in Greece and in Ireland, and +70% in the United Kingdom.

## Drops in job vacancies in 2008

UK: 23%, Sweden: 31%, Estonia: 42%, Greece: 54%, Latvia: 65%



Sources:

- The updated joint assessment by Social Protection Committee and the European Commission of the social impact of the economic crisis and policy responses, published on 29<sup>th</sup> May 200, available on Europa website: [http://ec.europa.eu/employment\\_social/spsi/docs/social\\_protection\\_committee/council\\_10133\\_2009\\_en.pdf](http://ec.europa.eu/employment_social/spsi/docs/social_protection_committee/council_10133_2009_en.pdf).
- Sharp increase in unemployment in the EU, Statistics in Focus, 53/2009, Eurostat, July 2009 (available on Eurostat website: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-SF-09-053/EN/KS-SF-09-053-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-053/EN/KS-SF-09-053-EN.PDF)).

1\ Unfortunately, there is no data available as to the percentage of low-paid and unskilled jobs covered by this number.  
2\ Percentage of people who have been unemployed for more than 12 months.