



POVERTY AND SOCIAL EXCLUSION IN LITHUANIA 2018

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EAPN LITHUANIA

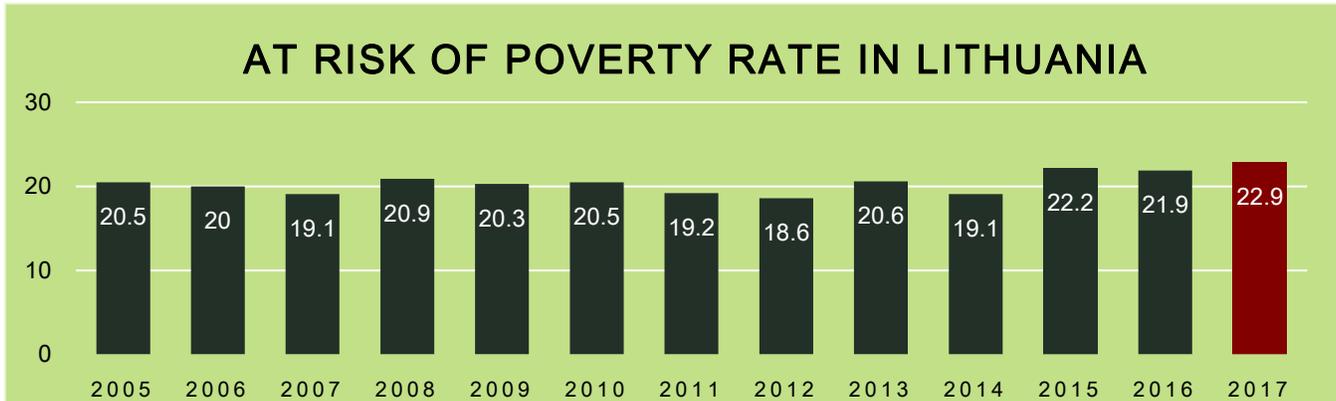
info@stopskurdas.lt
www.stopskurdas.lt

+370 685 41538
Krokuvos g. 8, Vilnius

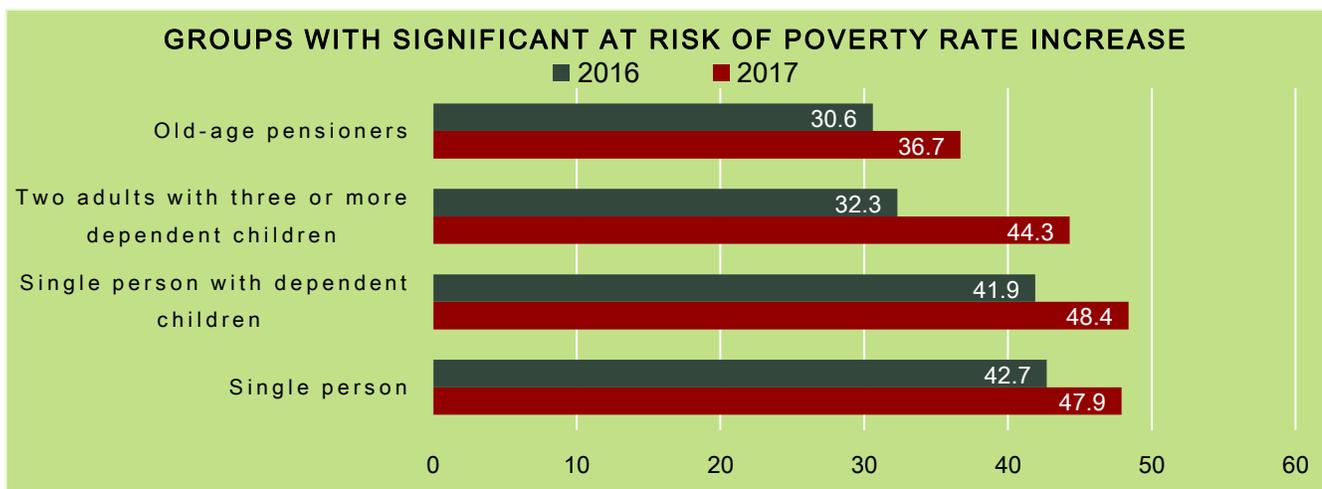


AT RISK OF POVERTY RATE

The data shows that poverty and social exclusion rates in Lithuania are among the highest the EU. Current data show that in 2017, compared with 2016, the risk of poverty rate has increased by 1 percentage point and reached 22.9 %. It is worrying that in 2017 the risk of poverty has risen to an unprecedented height. The level of risk of poverty last year was the highest since joining the EU.



Compared with 2016 at-risk-of-poverty rate has increased significantly among old-age pensioners. As the average wage increased, pensions grew slower. As a result, the risk of poverty among old-age pensioners increased by 6 percentage points. It should be noted that the average amount of old-age pension during the income research period (2016; 255 Eur) did not reach the poverty threshold (307 Eur). The poverty of one adult, raising children and large families also increased significantly. The latter's poverty risk increased by 12 percentage points. The growth of the risk of poverty is also notable for single person. In recent years, this has increased by 5 percentage points.



INCOME INEQUALITY



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In the recent decades, income inequality has grown significantly in many parts of the world. Research shows that inequality of income is hampering the development of society and the state. Income inequality causes not only poverty, but also poorer health, higher mortality, psychological stress, crime rates, and emigration.

Lithuania has made remarkable progress during the independence period in approaching Western standards and living standards. It is one of the fastest growing economies in Europe, but the income inequality in the country is currently one of the largest in the European Union. In 2012 the income of 20% the richest and 20% of the poorest people in Lithuania varied 5 times. In 2016 this difference increased to 7 times.

According to European Commission this is a result of limited progressivity of the tax system, high employment gaps between low-skilled and high-skilled workers and an inadequate benefit system.¹

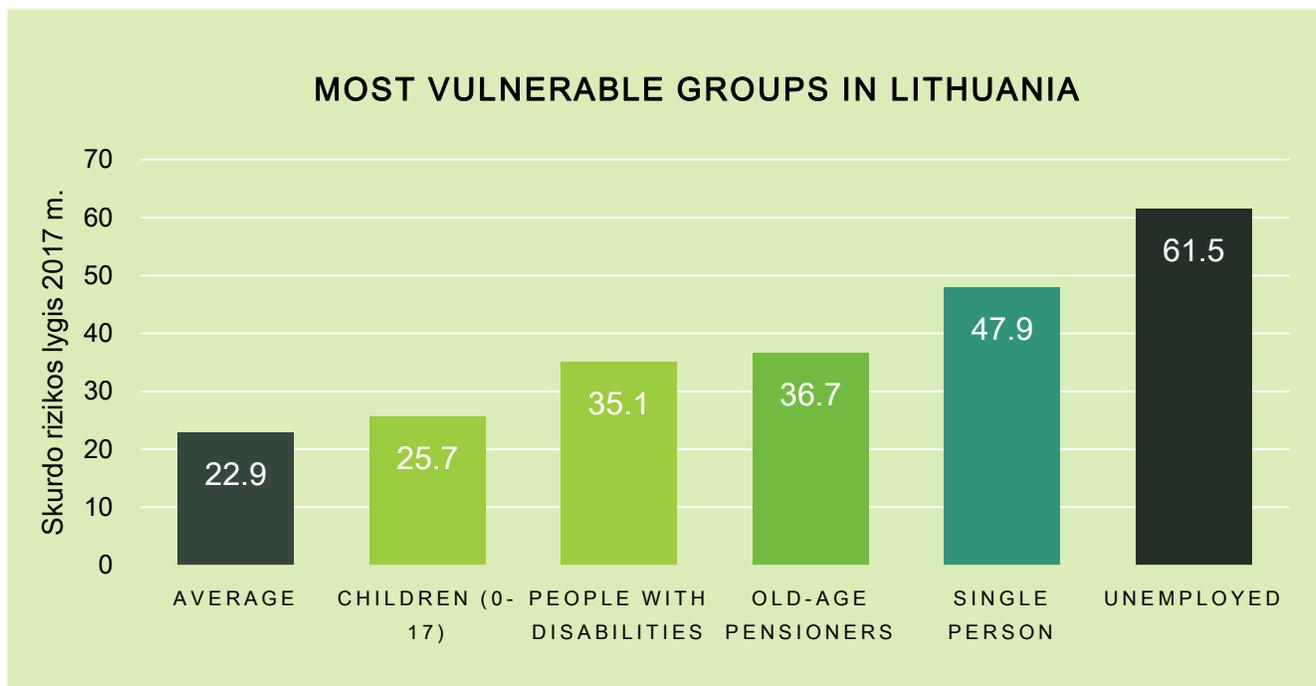
¹ Europos Komisija (2018). Šalies ataskaita. Lietuva 2018. <https://goo.gl/Et5LCS>

THE MOST VULNERABLE GROUPS



Typically, certain social groups are more sensitive to socio-economic challenges and risks and have less resources to cope with successfully. Statistics show that the most vulnerable persons are children, disabled people, old-age pensioners, single people and the unemployed.

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THE MAIN CHALLENGES OF PEOPLE EXPERIENCING POVERTY

This section discusses key areas that are currently most problematic for the people experiencing poverty from EAPN Lithuania point of view.

INADEQUATE AMOUNT OF THE MINIMUM INCOME AND THE LACK OF ENABLING

In 2017 the average amount of the minimum income was 65.5 euros per person. Such amount can hardly satisfy even the basic needs, not to mention the human dignity, the maintenance of social relationships, psychological state and broken self-esteem. In this way, people are pushed into deeper poverty and social exclusion.

"You can't really survive from the support alone. Of course it is not enough."

"102 euros. Is it possible to survive from such money? Are you joking? It's impossible ..."

"If my family wouldn't have helped me, it would have been an end for me a long time ago."

"I would be on the street, if it wasn't for my close relatives. With an outstretched arm."

[Former] recipients of the social assistance

In addition, people in need of social support often face a lot of bureaucratic barriers which greatly complicates the receipt of the assistance. It is also important to mention widespread stereotypes and stigmatization of beneficiaries. For this reason, part of the people experiencing poverty refuses to apply for the minimum income. In 2017 about 2.7 percent of the country's population received minimum income and this number is constantly decreasing.

Finally, the social assistance system in Lithuania lacks of enabling. Because of rigorous means-testing people face the poverty traps, i.e. a situation where a person does not tend to look for a job because the expected salary is very low and may worsen one's financial situation. People often stuck in the support system as there is a lack of social services that would actively contribute to their integration to the labour market and a full-fledged social life. Instead, beneficiaries often have to involve to the "socially useful activities" which are mostly work as public cleaning, garbage collection, etc. These works do not meet their needs and competencies and often undermines their dignity.

DEBS WHICH ARE LEAD TO THE POVERTY TRAP

According to the Ministry of Justice in October of 2017 there were 292 612 people who had debts passed to the bailiffs. This means that almost 10% of the total population of Lithuania are over indebted.

For a long time, it was allowed to deduct up to 50 percent of a person's minimum wage, and 70 percent of the amount exceeding the minimum wage. This is a strong disincentive for people experiencing poverty to seek legal employment. Furthermore, it precludes a real possibility of repayment.

"It's hard to get out. I worked in a one workplace but the salary was very small. Now I've gone to another, so I hope I can pay the debt soon. But I cannot have my own place... I cannot pay for the rent or services as bailiffs deduct half of my salary. So what is left for me? How can should I survive?"

Person who has debts

This practice deepened the "poverty trap", because indebted persons are discouraged from working when they are unable to retain a sufficient amount of income to live on.

As the study by EAPN Lithuania has shown, people who are in debt often fall into the social assistance system, work illegally or seek for help from their relatives. People who are unable to pay the necessary expenses continue to increase the debts. People cannot pay for the housing maintenance, choose quick loans to meet their basic needs or cover their existing debt.

When the debts reach the bailiffs, the amount of arrears are increasing and people lose hope and motivation to return them. Unemployed people who are in debt are reluctant to recruit because debt is difficult to administer for the employees and bookkeeping is burdened with additional work.

EDUCATION

As research shows, education is important in two aspects: on the one hand, individuals with better education are less likely to enter the poverty. On the other hand, the academic achievements of children living in poor families are significantly lower than those living a more affluent life. Hence, education is a critical element in poverty reduction. We need to reduce the educational gap between deprived children and children growing in more affluent families and to develop an education system that provides quality education for all children.

Unfortunately, various studies and analyses show that the gap between learning outcomes and achievements varies greatly between different schools and municipalities. The achievements of the pupils living in the smaller rural schools are much lower than in urban areas. The report of the National Audit Office states² that the results of the pupils in smaller schools (usually in rural areas) are lower not only in Lithuania, but also in the context of the EU. 30% of the audited schools had joint classes.

ENERGY POVERTY

There is no official definition of energy poverty in the European Union. Instead, these concepts are left to the will of each country, but in Lithuania the concept of energy poverty is neither precisely defined in the law nor widely known or used.

“Sometimes I don’t know whether I should choose paying bills or getting something to eat”

A man experiencing poverty

However, 29% Lithuanian residents face difficulties paying their heating bills. In 2016 18% 17% reported to live in housing affected by dampness, draughts and leaks. These are among the worst indicators across the EU. This shows that there is a huge spread of energy poverty in Lithuania.

² Valstybinio audito ataskaita “Ar gali gerėti Lietuvos mokinių pasiekimai” (2017). <https://goo.gl/YoisLg>

IN-WORK POVERTY

It is not a mistake to say that employment actually reduces the risk of poverty, but for many people the wage improves the financial situation only marginally and sometimes even worsens. The in-work poverty rate in Lithuania varies every year and is similar to the EU average. 2017 8.5% of persons were at risk of poverty. However, it is important to note that this indicator may be low partly due to the fact that the average income of the employed relatively low. In 2017 the average wage and salary in Lithuania was on average about 17.4% of employed people worked for minimum wage or less.³

“It is very easy to find a job and work for a minimum wage. But how can I survive?”

A man experiencing poverty

³ Gyventojų darbo pajamų apžvalga (2017). <https://goo.gl/ndCw5X>

WHAT MEASURES HAVE BEEN TAKEN TO REDUCE THE POVERTY?

In the beginning of 2018 the amendments of Law on Cash Social Assistance for Poor Residents came into force. With these amendments the new forms of social assistance was introduced (targeted, periodic and conditional). These amendments enable municipalities to better meet the needs of the most deprived people. Another important step was taken in order to stimulate the motivation of people who receive cash social assistance to ensure that the increase of the wages does not result in a sudden decrease of the amount of social assistance. In order to reduce “poverty trap” a tolerable level of income (disregard income) depending on the composition of the family (from 15 to 35 percent) and the number of children has been set. The law also obliges municipalities to allocate savings from social assistance support funds exclusively for social needs.

New amendments of the Law on Child Benefits also came into force. These introduced a universal child benefit is paid to all children. On the other hand, at the same time the additional tax exemption for families raising children was abolished. Thus, many families haven't felt the income growth. Nevertheless, universal child benefit will significantly improve the situation of families who have not been able to use the tax exemption due to their low wages. In addition, the universal benefit reduces the stigmatization of poor families, reduces bureaucratic burdens, increases payment coverage and employment incentives. Universal payment reduces the likelihood of “poverty trap” as deprived people are certain that in case of employment their disposable income will not decrease. In addition, since this year benefits have also been increased for deprived and large families.

From 2019 basic social indicators will be linked with the amount of minimum consumption needs (in 2018 the calculated amount is EUR 245). The percentage was set according to the former level of social indicators. It has been determined that the State supported income can not be less than 50 percent of the amount of minimum consumption needs. On one hand, this is a huge step forward. This means that from now on certain benefits will be indexed, updated annually and no longer dependent on the political will. On the other hand, the same law stipulates that State supported will be only 50 percent of the amount of the minimum

consumption needs. Thus, despite of the amendment such support does not leave beneficiaries the opportunity to ensure the life in dignity and at some point freezes the regulation when the most deprived persons will never ensure their minimum needs.

Amendments regulating the debt collection will also come into force. From December 2018 deductions from the minimum wage will be decreased to 30 percent (instead of 50) and 50 percent (instead of 70) from a part that exceeds the minimum wage. Although quite modest, these changes are undoubtedly a step forward.

In 2018 the Parliament adopted the so-called "tax reform". Following the adoption of the reform, 20% and 27% of the personal income tax (GPM) tariffs were introduced, the tax exemption (NPD) increased, the scope of its application was expanded and the taxes paid by the employee and employer were combined. Such changes will slightly increase the income of low and middle-income earners, but will still reduce revenue absorption and redistribution. Although public sector must ensure the protection of the most vulnerable groups by providing health, education and social services, the funding of public sector is likely to decrease. In addition, the "ceilings" of social insurance contributions was introduced along with the reform, however, there is no counterbalance to the insurance budget reduction.

EAPN LITHUANIA PROPOSALS IN ORDER TO REDUCE POVERTY

POVERTY REDUCTION STRATEGY

In 2000 a Strategy for Reducing Poverty in Lithuania was prepared but it has never been implemented. Since then, the realities in Lithuania have clearly changed and the new poverty reduction strategy has not been created. Separate governments include poverty reduction measures into their programs but there is no clear long-term strategy for tackling poverty. Therefore, we propose the development of a plausible, realistic poverty reduction strategy that includes an overview of poverty indicators, identifies key policies that are inseparable from poverty reduction and identify ambitious goals, objectives and measures to achieve them.

While implementing social policy, providing social policies, by coordinating the allocation of social welfare assistance, by organizing employment promotion programs, municipalities must aim at reducing poverty and social exclusion.

COLLECTION OF TAX REVENUES AND REDISTRIBUTION

European Commission states that despite the steps taken to strengthen social protection, income inequality and poverty in Lithuania remain among the highest in the EU while the tax and social benefits system is one of the weakest in terms of corrective power⁴. Therefore, Lithuania is recommended to continue to improve its tax and social benefits system in order to better address these challenges. We should take into account the OECD and EC recommendations and think not so much about the progressive employers taxing but about the progressive taxation of all incomes or property, while thinking of a tax design that does not jeopardize economic growth. In this way, income inequality would be reduced and more money would be collected in the state budget. These funds could be used for social purposes.

⁴ Europos Komisija (2018). TARYBOS REKOMENDACIJA dėl 2018 m. Lietuvos nacionalinės reformų programos su Tarybos nuomone dėl 2018 m. Lietuvos stabilumo programos <https://goo.gl/QJTW4F>

PINIGINIO SKURDO MAŽIMAS

It is necessary to increase the income for large groups of the poor, i.e. pensioners, single parents and large families, people with disabilities. Increasing benefits to these groups would allow at least part of them to pass the poverty line.

Provide adequate social assistance. In order to make one of the main tools for poverty reduction a real investment, the following three pillars of effective income support should be improved: adequacy, accessibility and enabling. The adequacy of support should be developed by increasing the amount of the State supported income. The current level of social assistance does not significantly reduce poverty, as benefits are significantly lower than the risk of poverty threshold. We also propose to allow individuals to reach the amount of the minimum consumption basket on their own. This means not reducing the assistance if the salary and the benefit together does not exceed the amount of the minimum consumption needs basket.

It is also necessary to reduce the barriers that restrain people to get the assistance: reduce bureaucracy and conditionality, abolish so-called socially useful activities. In order to enable beneficiaries to be active in society and return to the labour market, it is necessary to provide adequate social services.

REDUCING THE DEBT TRAPS

In order to reduce the “poverty trap” that people get into because of the debts, it is necessary to reduce deductions from wages. There are some steps taken to the right direction to pull people out of poverty trap, but more decisive action is needed to achieve significant change. Non-governmental organizations are proposing a further reduction of deductions. Deductions should reach not more than 20% from the minimum wage.

We highlight that keeping a higher amount of disposable income and thus ensuring the amount needed for survival significantly reduces the likelihood of new debts. Meanwhile, by applying more stringent debt collection and leaving the lower amount necessary for subsistence, a person lacks the revenues necessary to pay for essential services, including utility charges or

public transport services. Also, a person may be inclined to borrow even more. It is clinging to the deeper debts and the closed circle of poverty. As the debt transferred to bailiffs for enforced recovery is increasing significantly, it is also necessary to reduce the debt recovery costs themselves. It is also useful to note that, in Lithuania the average net monthly income of a bailiff's office is 9,900 euros. This is a significant amount considering that the minimum monthly wage is 400 euros. Currently 118 bailiff offices operate in the country, while it is estimated that many more debt vulture firms operate without a license.

People who are in the high levels of indebtedness need to get appropriate assistance. There is a need to look at ways in which NGOs, municipalities and employment services can work together to develop innovative methods to improve financial and legal literacy for people in poverty and indebtedness.

PREVENTION OF POVERTY

Long-term poverty prevention measures must be geared towards improving the quality and accessibility of education. It is necessary to reduce the inequalities of student outcomes between different municipalities and schools. It is also important to establish financial mechanisms to ensure that young people participate in non-formal education programs, giving priority or allocating funding to programs where activities directly develop the general rather than the specific competences.

ENABLING THROUGH INTEGRATION TO THE LABOUR MARKET AND SOCIAL SERVICES

It should be noted that long-term unemployed lose their professional skills, trust in their own strength and often face stigmatizing attitudes. Therefore, long-term unemployed persons need specialized assistance that includes not only vocational retraining or restoration of professional skills, but also the development of other competences and general skills.

Families, especially those in social exclusion, require complex social services. It is necessary to improve the competence of professionals working with families, enabling them to act in a team, strengthening them as advisers, mediators. It is important to pay attention to the unified definition of functions of social workers who work with families and to optimize the

documentation which often takes more than half of the working time and which can be maximized for work with clients. Social workers working with families in difficulty need to apply complex measures. This includes formal document management, parental education, social skills training, job seeking assistance (eg job search, interviews, etc). Community-based assistance plays a major role in achieving more sustainable results.

More NGOs should be involved to the provision of social services to various groups. The experience of non-governmental organizations should be used in providing specialized and complex services to people experiencing poverty or social exclusion. It should be noted that non-governmental organizations are usually "closer to the people", which creates a relationship of trust that is essential for sustainable change. A study⁵ showed that 90% of NGO services recipients indicated that their self-confidence grew and their willingness to work increased as a result of their services. The study revealed that among the people who got services from NGOs' the indicator of employment was 66.6. We propose that the provision of employment services for hard-to-integrate and long-term unemployed should include non-governmental organizations.

⁵ Mokslinio tyrimo „Sunkiai integruojamų į darbo rinką asmenų užimtumo didinimo galimybių tobulinimas“ ataskaita <https://goo.gl/kuUPXm>