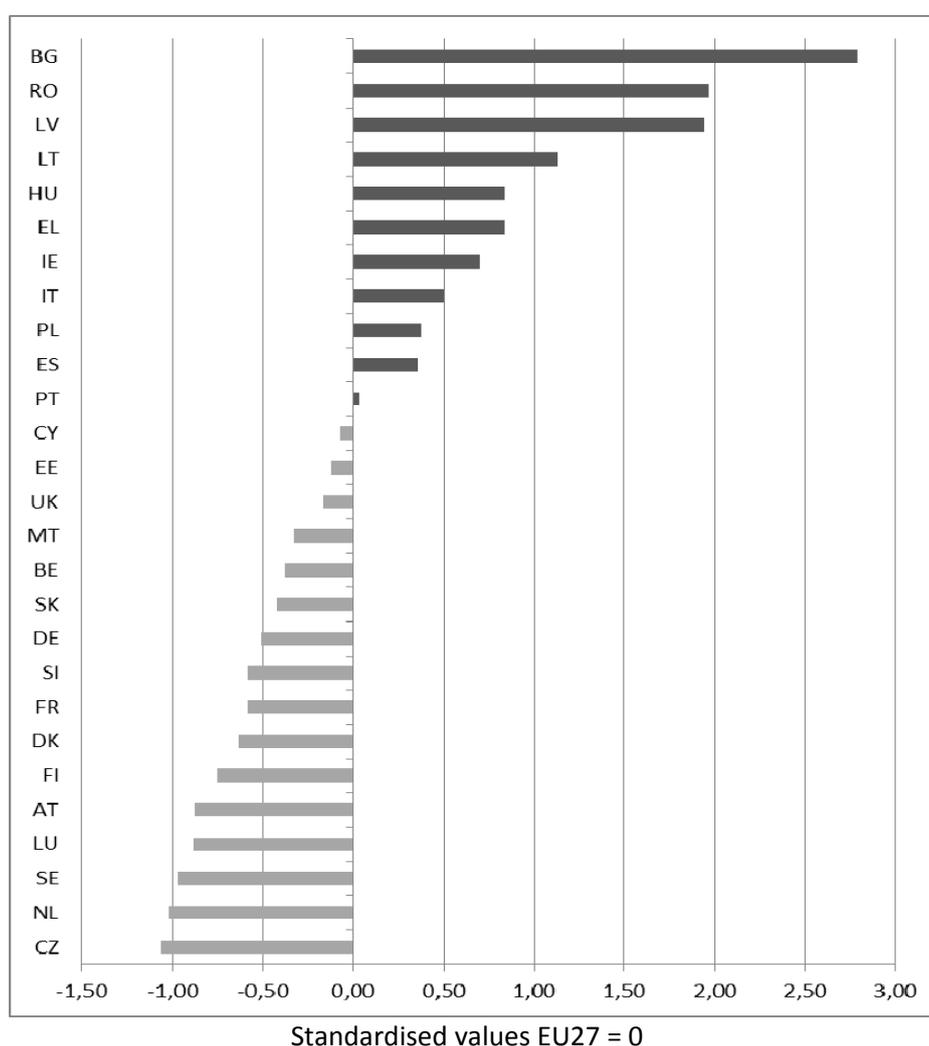


EUROPE 2020 TARGETS: POVERTY AND SOCIAL EXCLUSION ACTIVE INCLUSION STRATEGIES

Poverty and social exclusion are major obstacles to the achievement of the **Europe 2020** objective of **inclusive growth**. Given the multi-faceted nature of poverty, integrated and social investment driven strategies are needed to effectively support those at risk of poverty, so they can fully participate in the economy and society. The 2013 Annual Growth Survey invites Member States to fight unemployment and improve employability, in particular that of youth and the long-term unemployed. It also calls on the Member States to ensure the effectiveness of social protection systems as automatic stabilisers, to promote social inclusion and prevent poverty.

1. Key statistical indicators¹

Figure 1. People at risk of poverty or social exclusion in 2011



Source: Eurostat, *Statistics on Income and Living Conditions (SILC) — t2020_50*

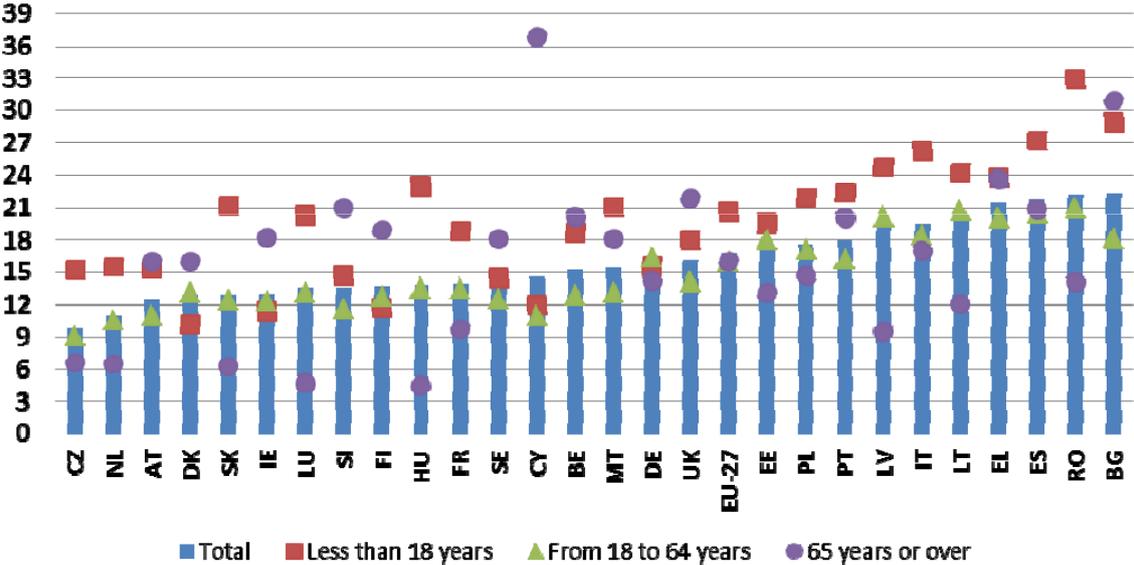
¹ Eurostat 2011 figures. Data on income and employment for 2011 (t) refer to the situation in 2010 (t-1), while only the data on living conditions and material deprivation specifically refer to 2011 (t). All data referring to 2011 for EU27 are Eurostat estimates. Data for Figures 1, 2, 3, 4, 7, 8 and 10 contain EU SILC 2010 data for Ireland.

Poverty and social exclusion occur in a variety of situations throughout the EU. 24,1% of the EU's population (over 119 million people) is considered to be at risk of poverty or social exclusion. This means that they are affected by at least one of the conditions measured by the three indicators defining the EU poverty and exclusion headline target. These indicators are the *at-risk-of-poverty rate*, the *severe material deprivation rate* and the *share of people living in households with very low work intensity*. They reflect the many factors underlying poverty and social exclusion, as well as the diversity of challenges faced by Member States.

While the percentage of the population at risk of poverty or social exclusion² is above 40% in Bulgaria (47.1%), Romania (40.4%) and Latvia (40.1%), it ranges between 25% and 35% for Lithuania, Greece, Ireland³, Italy, Poland and Spain, and it falls below 20% for 10 Member States (Germany, France, Slovenia, Denmark, Luxembourg, Finland, Austria, the Netherlands, Sweden and the Czech Republic). The top performers are the Czech Republic (15.3%), the Netherlands (15.7%) and Sweden (16.1%).

Figure 2 shows that 16.9% of the EU's population is *at risk of poverty*, meaning they live with an income below 60% of the national median income after social transfers (this indicator is primarily a measure of relative income poverty). The highest at-risk-of-poverty rates are observed in Bulgaria (22.3%), Romania (22.2%) and Spain (21.8%), and the lowest in the Czech Republic (9.8%), the Netherlands (11%), Austria (12.6%), Denmark and Slovakia (13%).

Figure 2. At-risk-of-poverty rate after social transfers, 2011 (in %)



Source: Eurostat, SILC — ilc_li02

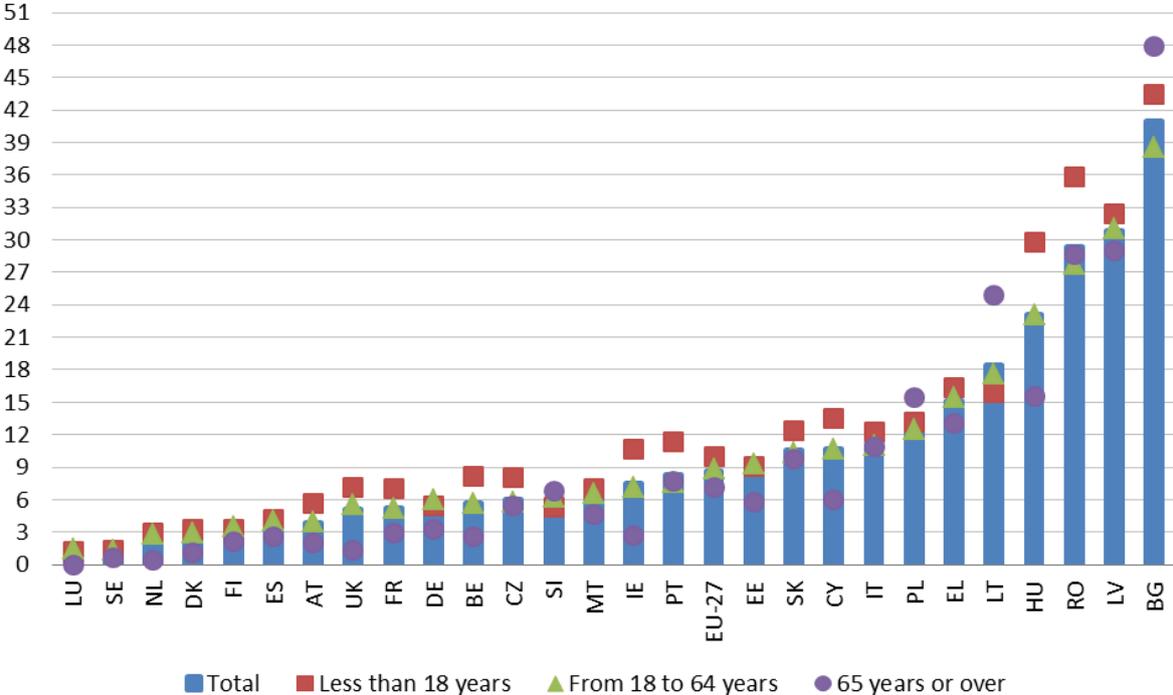
8.7% of EU households (Figure 3) are *severely materially deprived*. This means that they cannot afford at least four of the following: (1) unexpected expenses; (2) one week's annual holiday away from home; (3) to pay for arrears; (4) a meal with meat, chicken, or fish every second day; (5) to adequately heat their home; (6) a washing machine; (7) a colour TV; (8) a telephone; (9) a personal car. The share of the population that is severely materially deprived

² Eurostat 2011 figures.

³ Eurostat 2010 figures.

varies significantly across Member States, ranging from 1.2% in Luxembourg and Sweden to 30.9% in Latvia and 41% in Bulgaria.

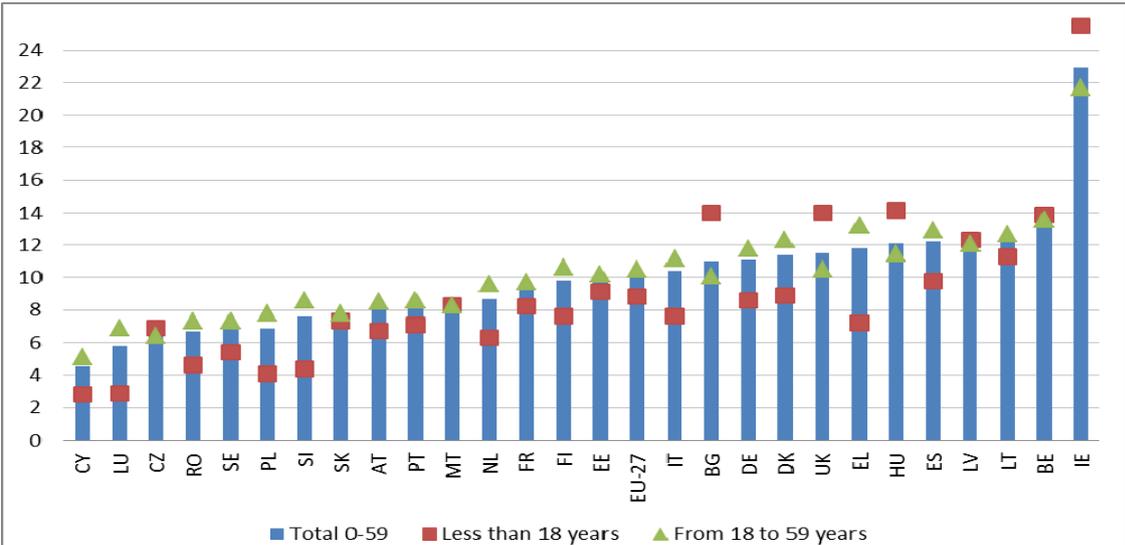
Figure 3. Severe material deprivation rate, 2011 (in %)



Source: Eurostat, SILC — ilc_mddd11

As shown by Figure 4, 10% of the EU's population aged 0-59 lives in households with very low work intensity (where adults worked less than 20% of their total work potential during the past year). Latvia and Spain (12.2%), Lithuania (12.3%) and Belgium (13.7%) have the highest rates, while Luxembourg (5.8%), Sweden (5.9%) and Romania (6.7%) have the lowest.

Figure 4. People living in households with very low work intensity, 2011



Source: Eurostat, SILC — ilc_lvh11

Source

Some groups are on average at greater risk of poverty than the total population, in particular **children**⁴ (with an at-risk-of-poverty rate of 19.9%), women (17.2%) and young people⁵ (23.3%), people living in single-parent households (34.5%) or large families⁶ (23.9%). The poverty risk for the unemployed is particularly high at 46%. People with a migrant background, Roma and people with disabilities are also particularly at risk (comparable EU-wide data are not available for each of these groups). Homeless people face an extreme form of poverty. With regard to children, those who are most at risk are those living in households with very low work intensity - this is the case for 8.9% of children. These children have an at-risk-of-poverty rate of 69.1%. Children growing up with a single parent are particularly at risk: 34.5% of single-parent households are at risk of poverty⁷.

The poverty risk **for older people aged 65+**⁸ (16%) varies from 30.9% in Bulgaria to 4.5% in Hungary. While lower than the poverty risk for the population aged 0-64 in 14 Member States, the poverty risk for people over 65 years of age is significantly higher in some others (e.g. Belgium, Bulgaria, Cyprus, Denmark, Greece, Malta, Austria, Portugal, Finland, Slovenia, Sweden and the UK). Single women are at substantially higher risk of poverty than single men (M/W 65+: 13.2/18.1), notably older women (M/W 75+⁹: 14.6/20.1).

Automatic stabilisers and limited discretionary measures have played an important role in supporting household incomes and aggregate demand during the crisis.¹⁰ However, more than 3 million more people were at risk of poverty or social exclusion in 2011 compared to 2010.¹¹

Relative poverty has increased significantly in a minority of Member States (e.g. Italy with a rate of change of almost 17.5% in 2011 compared to 2010 and Greece with a rate of change of 12%). In the Czech Republic, Spain, Latvia, Finland, Estonia, Slovenia, Finland, Sweden and Malta, relative poverty has increased by over 5% in 2011 compared to the previous year. It has decreased in Bulgaria, Luxembourg, Poland, Portugal, Romania, and the UK. At the same time, the severity of the crisis has increased greatly in some countries, with people at risk of poverty dropping further to the bottom of the income distribution scale. The median income has increased in the great majority of Member States, while it has decreased in Bulgaria, Estonia, Spain, Greece, France, Latvia, Lithuania and Portugal¹².

⁴ Less than 18 years old.

⁵ Between 18 and 25 years old

⁶ Two adults with three or more dependent children

⁷ Eurostat code ilc_li03

⁸ Eurostat code ilc_pnp1

⁹ Eurostat code ilc_pns1

¹⁰ Third Report on the social impact of the economic crisis and ongoing fiscal consolidation, Social Protection Committee, 2011.

¹¹ Indicator measuring people who are at risk of poverty/severely materially deprived or in a household with very low work intensity (i.e. aggregate of the three indicators presented above).

¹² Trends in the at-risk-of-poverty rate should always be looked at together with the level and changes of the at-risk-of-poverty threshold. The poverty threshold is related to the general level of income and its distribution among the whole population. This threshold may, therefore, change from one year to another as individual incomes change suddenly, as has occurred, for example, since the beginning of the crisis in many countries. For example, people with an income that was previously slightly below the poverty line may now move above the line, even though their actual situation has not changed or, conceivably, has even worsened. Consequently, the poverty rate may stay stable or change only slightly while at the same time, due to general income deterioration, the poverty threshold may have decreased substantially.

2. Assessment of the main challenges in the Member States

The challenges facing the Member States can be analysed with reference to three aspects: adequate income support, inclusive labour markets, and access to quality services. These are the three pillars of a comprehensive strategy to fight against poverty that the European Commission has identified in its Recommendation on active inclusion¹³. Yet active inclusion strategies mainly aim at preventing and addressing poverty of the working age population, and need to be supplemented by specific tools aimed at the population of non-working age¹⁴.

Improving the efficiency and effectiveness of income support

Tax and benefit systems¹⁵ are among the most important instruments to prevent and address income poverty. In 2010, expenditure on social protection benefits (excluding pensions) reduced the poverty rate in the EU from 26% to 16%, i.e. by 37%. Yet, providing the right kind and level of support remains very challenging for too many Member States and the impact of social protection varies greatly across the EU.

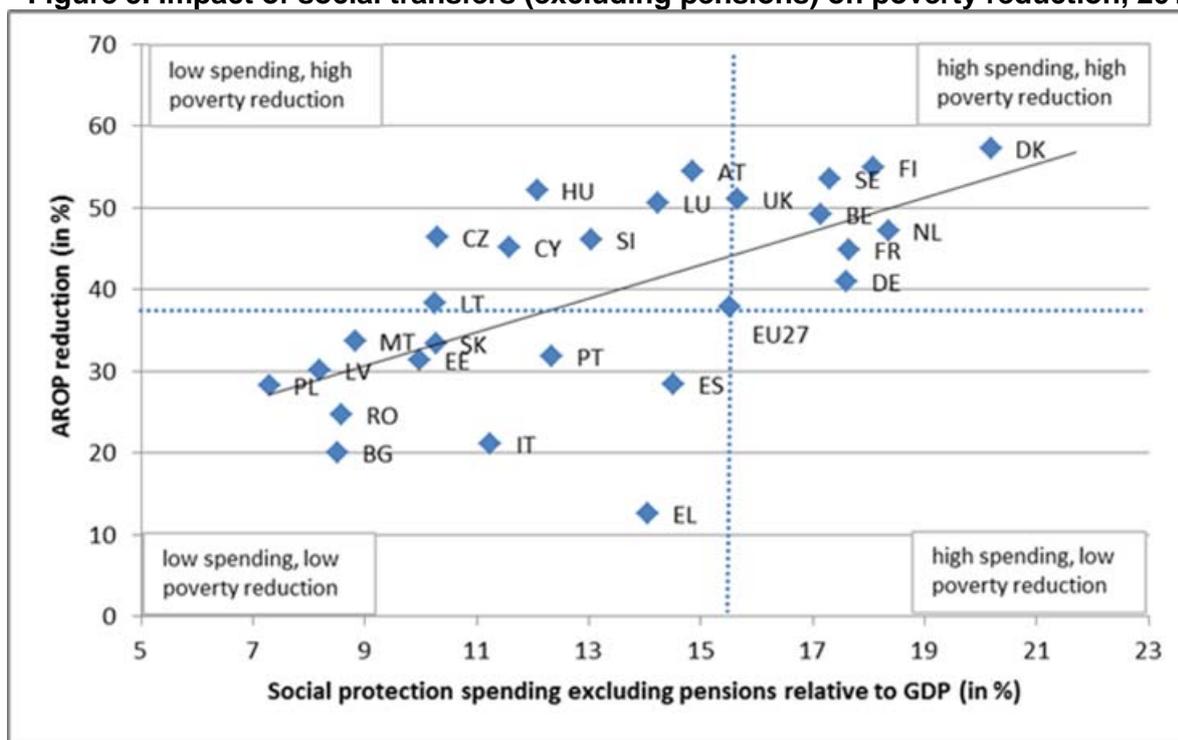
Measuring *social protection expenditure* against the poverty reduction it achieves (Figure 5) gives an indication of its efficiency. The data suggest that some systems are more efficient than others. Bulgaria, Latvia, Poland and Romania are clustered in the area of low spending with low impact; Spain, Italy, Portugal, and Greece show similar results but for higher overall spending. Hungary, Czech Republic, Luxembourg, Cyprus, Slovenia and Austria are clustered among those countries where low social protection spending has a high impact on poverty reduction. Member States whose social protection expenditures have a high impact on poverty reduction are also those with high levels of expenditures: Denmark, Finland, Sweden, the Netherlands, France, Germany, the UK and Belgium.

¹³ Commission Recommendation on the active inclusion of people excluded from the labour market 2008/867/EC of 3.10.2008, OJ L307/11.

¹⁴ Policies to prevent and tackle poverty in old age are discussed in the thematic fiche on adequate and sustainable pensions.

¹⁵ Including sickness/healthcare and disability, child and family, unemployment, housing and social exclusion benefits.

Figure 5. Impact of social transfers (excluding pensions) on poverty reduction, 2010



Source: Eurostat, SILC — 2010 (*2009) and European System of integrated Social Protection Statistics (ESSPROS), 2009

Differences in the effectiveness and efficiency of social spending depend on multiple factors. Firstly, there is great diversity in the level of poverty and inequalities before social transfers, depending on the distribution of original income (i.e. earnings from work, including self-employment income, capital income and pensions¹⁶). Segmented and polarized labour markets¹⁷ will typically produce high levels of inequalities before transfers, which would then require higher degree of redistribution. Secondly, important differences in the size and design of social protection expenditure can help explaining differences in the redistributive effects, across income and population groups. Key features include the composition of expenditure by function and by type, the progressivity of taxation, the combination of universal and means-tested benefits and the labour market friendliness of spending (i.e. the level of spending and design of services supporting integration in the labour market and the disincentive that might be embedded in the tax and benefit systems¹⁸).

Looking at specific social protection functions provides further clarifications. Important functions of social protection are those that play a preventive role by protecting people against the financial implications of social risks (such as job loss, health risk or old age).

¹⁶ In this context, pensions are regarded as original income because their main function is to redistribute income over the life cycle.

¹⁷ Segmentation refers to a situation where a group of well protected and well paid workers coexists with a group of workers in less paid, precarious jobs, without much opportunities for those in precarious jobs to progress towards better jobs. Polarization refers to several aspects of job creation that lead to a relative increase of both low wage and high wage jobs (See ESDE 2011); it also refers to the fact that new jobs tend to benefit to job rich households (women entering the labour market as second earners) and do not easily reach jobless households. These are long term trends observed in most EU countries before the crisis and have been accelerated by the crisis.

¹⁸ E.g. inactivity or unemployment traps.

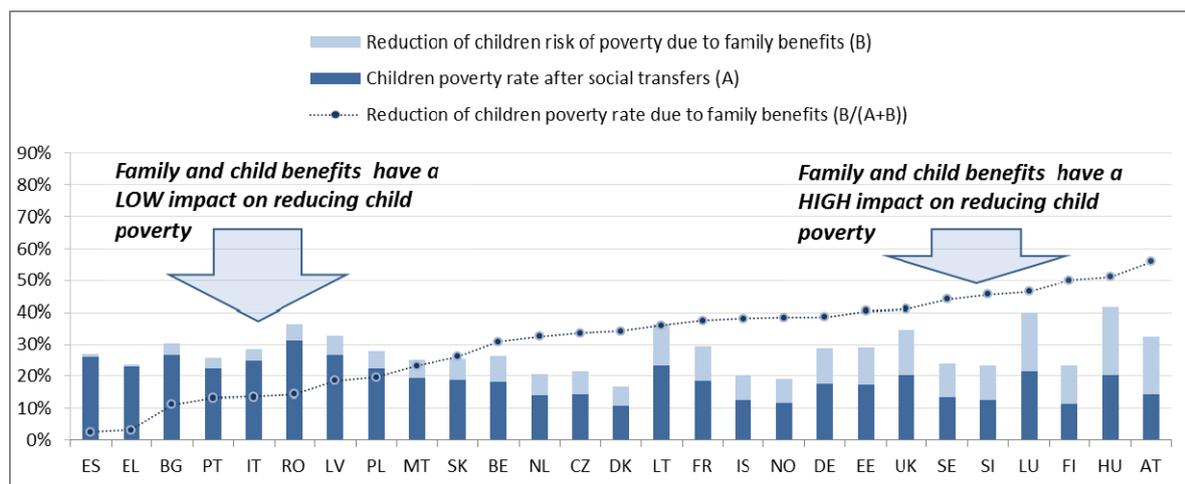
Unemployment insurance constitutes the first level of safety net in case of a job loss. Its main function is to ensure a replacement income to people losing their job, while facilitating the return to employment. Unemployment benefit schemes vary greatly across the EU with regard to a number of characteristics that are important for their effectiveness and efficiency. These include coverage¹⁹, generosity (net replacement rates in the first year of unemployment vary from 30% in Greece and Romania to more than 70% in The Netherlands, Denmark, Ireland), duration (going from maximum 6 months in Malta and the Czech Republic to unlimited duration in Belgium), strictness of eligibility and availability-to-work conditions, and financial disincentives to work that may be embedded into them. Unemployment benefit schemes also need to be combined with measures to support the return to the labour market and maintain the employability of workers (training, job search assistance, etc).

Minimum income schemes (e.g. safety nets of last resort) have a major role to play to support those who are further from the labour market, including people who are not anymore eligible to unemployment benefits. They face a number of challenges, related in particular to the adequacy and coverage of benefits (Bulgaria, Italy, Malta, Estonia, Spain, Latvia, Lithuania, Portugal, Slovakia, Greece, Romania), or the creation of inactivity traps (Czech Republic, France, The Netherlands, Austria, Slovenia, Sweden, Belgium, Denmark, Germany, Hungary, Finland, United Kingdom, Ireland). Currently, in no country are minimum income schemes *alone* sufficient to lift people out of poverty, in a context where the adequacy of benefits with respect to living standards has generally deteriorated. In several Member States, a significant percentage of people in need still have no access to minimum income support or do not exercise their rights, which can be due to the complexity of rules and legislation governing the distribution of social assistance, and the stigma attached to some benefits.

Child and family benefits can have a significant impact on reducing poverty among families and children. Yet their redistributive impact differs between EU Member States (see Figure 6). Although in many EU Member States each income quintile receives a share of family benefits proportional to the relative share of children in population, the distribution is rather unfavourable to the poor in particular in Bulgaria, Estonia, Spain, Latvia, Lithuania.

¹⁹ Coverage rates vary depending on sources and mode of calculation (SILC, LFS, OECD) but all show great variations between countries with low coverage (40% or below in most Southern and Eastern countries) and those with high coverage (70% or more in Nordic and continental countries).

Figure 6: Poverty reduction effect of family and child benefits for children aged 0-17



Source: EUSILC UDB 2010, IE and CY not available.

The crisis has exerted pressure on social protection expenditure in different ways. The early years were notable for increased expenditure on social protection to mitigate the social impact of the crisis and stimulate the overall economy. However, with the phasing-out of crisis-related measures starting from 2010 and the aggravation of the sovereign debt crisis, a number of Member States have reversed their spending pattern and pursued a more stringent fiscal policy characterised by reduced spending and restricted access to benefits. A number of Member States have also introduced cuts in the most universal forms of benefits (such as family benefits in the United Kingdom or Cyprus). Also, further pressure on social assistance expenditure has arisen from people who are no longer eligible for unemployment benefit and therefore turn to social assistance for income as a last resort.

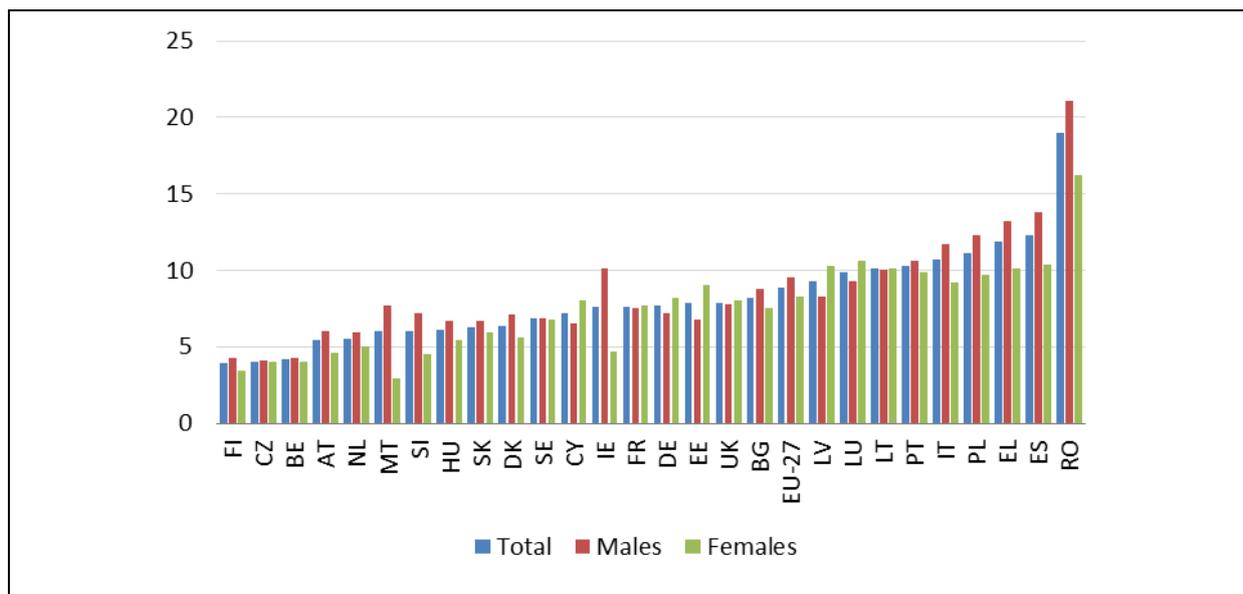
Addressing labour market exclusion and tackling in-work poverty

Access to employment is regarded as the best way out of poverty and social exclusion. The last decade has seen the persistence of groups who remain outside or on the margins of the labour market, often facing multiple entry barriers (low skills, care responsibilities, age, migrant background, disability and other discriminatory factors, etc.). Bulgaria, Germany, Denmark, Greece, Hungary, Spain, Latvia, Lithuania, Belgium have above-EU average levels of jobless households and households with very low work intensity.²⁰

However, having a job is not always a sufficient safeguard against poverty and social exclusion, especially in the current context of high labour market segmentation. 8.9% of EU workers are currently at risk of poverty, with above-EU average rates in Romania, Greece, Spain, Lithuania, Poland, Luxembourg, Portugal, Latvia (see Figures 7 and 8). In-work poverty is measured at household level and is in most cases linked to low skills, low wages, precarious employment and low work intensity, which highly depends on the household composition and the presence of children. Those on temporary contracts and in part-time work are also particularly at risk of in-work poverty.

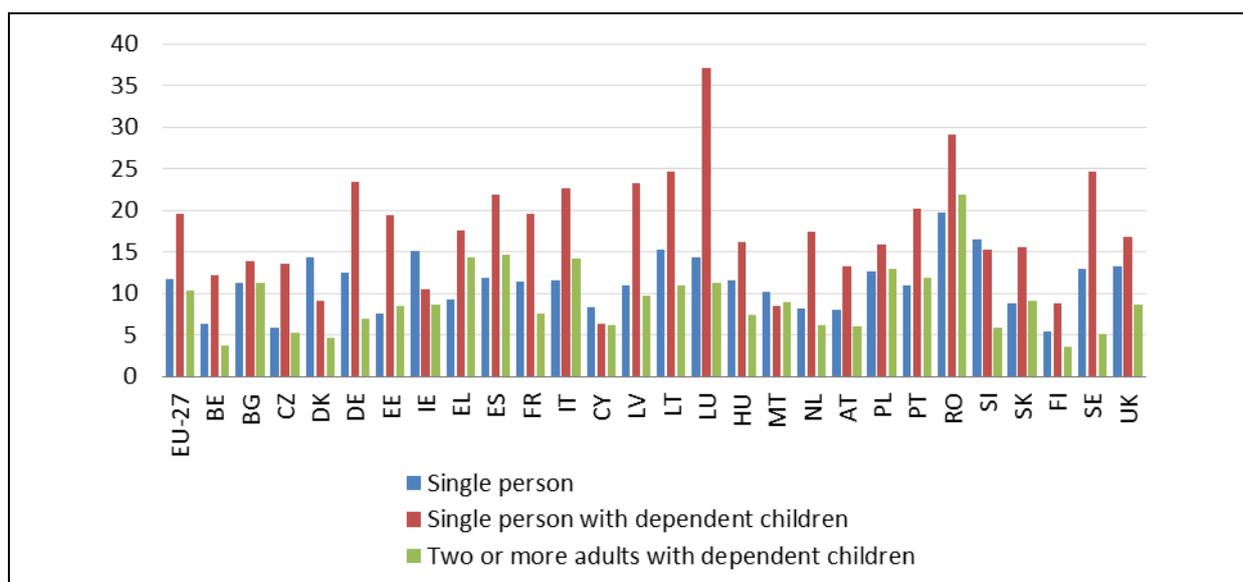
²⁰ Indicators of jobless households reflect the concentration of joblessness and inactivity at household level, while indicators of unemployment focus on individuals and ignores inactive and discouraged workers. Before the crisis, some countries had low unemployment rates with relatively high numbers of people living in jobless households (unemployed couples, lone mothers, people living on disability benefits).

Figure 7. In-work at-risk-of-poverty rate, 2011



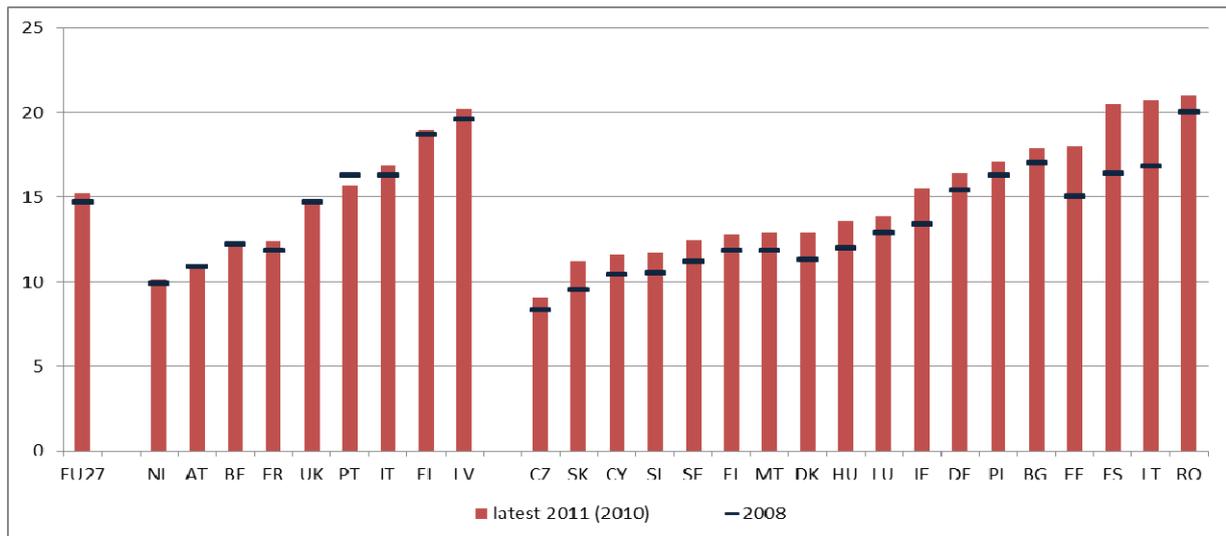
Source: Eurostat, SILC — *ilc_iw01*

Figure 8. In-work at-risk-of-poverty rate, 2011



Source: Eurostat, SILC — *ilc_iw02*

Figure 9. Share of working age population at risk of poverty (%); 2008-2011

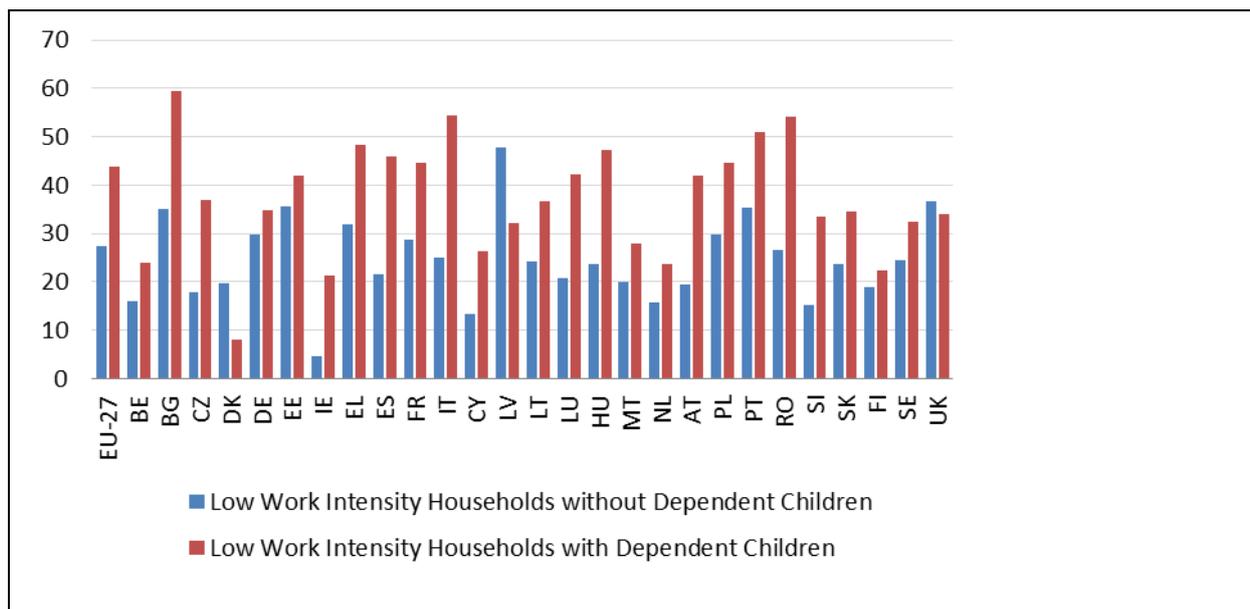


Source: Eurostat; EU-SILC (2011 income year 2010); except for EU-27, BE, DK, EL, FR, IT, CY, NL, SK, (SILC 2010 income year 2009) IE and UK (SILC 2010 – income year 2009-10)

Minimum wages play an important role in limiting the incidence of low pay. Twenty Member States have a national statutory minimum wage set by government, and six have minimum pay rates regulated by sector-level collective agreements, with significant variations in the minimum wage level across the EU-27. There is a negative relationship between the minimum wage and the in-work poverty rate in the Netherlands, Belgium, France, the United Kingdom and Ireland — these countries have high minimum wages and low in-work poverty rates, while Spain, Portugal and Greece, which have significantly lower minimum wage levels, have much higher levels of in-work poverty. Minimum wages in the new Member States tend to be set below the national poverty threshold; hence they do not provide enough income to pull a significant number of people out of in-work poverty.

In the absence of adequate support services, household composition can be a major factor behind low work intensity and in-work poverty: single parents not working full-time and families with one earner face the highest risk of poverty (see Figure 10).

Figure 10. In-work at-risk-of-poverty rate for Low Work Intensity households, 2011



Source: Eurostat, SILC — *ilc_iw03*

Access to quality services

Access to services such as childcare, housing, healthcare, education and life-long learning, electricity and fuel, basic bank accounts and transport, contributes to the reduction of inequality and to the fight against poverty, by supporting people's access to the labour market and more generally their resilience and participation in society.

For instance, access to quality and affordable childcare is key to giving all children the best chances in life, regardless of their social background. Yet evidence shows that the most vulnerable children (e.g. children from low-income families or families that are furthest from the labour market, Roma children, children from migrant backgrounds) have generally lower rates of participation. This can be attributed to a range of factors such as availability and access, in particular in rural areas, affordability, eligibility, and parental choice. The cost of childcare can also act as a major barrier to work (e.g. in Bulgaria, the Czech Republic, Ireland, Latvia, Lithuania, Malta and Slovenia), when lone parents with low prospective wages are financially better off caring for their children themselves. Adequate access to family services and other social services are also crucial to ensure the well-being of children growing up in vulnerable situation and prevent the unnecessary children's removal from their family. There is evidence that people reintegrating in the society after having spent time in institutions are particularly exposed to poverty and social exclusion (poverty, homelessness, school drop-out, etc.)

Access to high quality healthcare from an early age is indispensable for people to grow and live in a healthy condition that enables them to contribute to society. Poverty and inequalities in access to healthcare translate into illness, disability to work, dependency and more poverty. (In the poorest EU regions, the chance of a child dying before its first birthday is over 5 times higher than in the richest regions and the gap in life expectancy between poor people and the well off reaches 10 years in some Member States). Investing in health for all and bridging inequalities in access to healthcare is key to enabling people to work and contribute to the economy. Particular attention is needed for people in vulnerable situation such as older people and disabled, ensuring them access to health services as close as possible to their community (including rural areas) thus avoiding institutionalisation.

Provision of services for the homeless is also crucial. Better figures are needed, but it is clear that homelessness has been increasing due to the social stress of low growth, rising unemployment and fiscal austerity. Yet more worryingly, a new profile of homeless people is emerging which consists of women, families with children, young people and people with a migrant background.