

# The guaranteed minimum income in Romania - Tool to support resilience to poverty and increase social inclusion & employment among beneficiaries

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## **ABSTRACT**

*The guaranteed minimum income GMI is a recognized tool in practice of reducing poverty and its severe and extreme forms among people facing this social risk. In order to ensure the guaranteed minimum income necessary to cover the needs of persons who are at a certain moment unable to ensure a minimum subsistence, a social aid is granted in addition to the monthly net income of the family or the single person. The purpose of this program was to provide some form of social assistance to these people in difficulty, who have very low incomes or even no incomes. The guaranteed minimum income is thus the most important measure taken into action to reduce poverty and social exclusion, which has a major impact on the existence of the most vulnerable people affected by this social risk. On the other hand, the program aims to increase participation of the recipients in the labour market, by containing certain activation components. Over time, it has been proven that these activation elements are not sufficiently stimulating to mobilize beneficiaries of social aid to transition from their social assistance state to labour market participant (with reference to the activable persons, respectively the working-age people with work capacity). For this reason, more acutely, the guaranteed minimum income is increasingly seen as an incentive tool to encourage work among activable recipients. Thus, the program is aimed at stimulation the social aid beneficiaries in their transition into employment and to get out of the social assistance network. In this sense, one solution is to insert more stimulating activation elements in the GMI program, which would support poverty alleviation among these people and families and increase their level of well-being. The paper considers an ex-ante evaluation of the introduction in the guaranteed minimum income program of an incentive to work, more active than the present one, and to estimate some effects that this simulation of introducing a pro-active work incentive in the social aid could have in contributing to poverty alleviation.*

**Keywords:** *Indicators, Ex-ante evaluation, Guaranteed Minimum Income, Poverty, Simulation*

## **1. INTERNATIONAL STRATEGIC CONTEXT**

Reducing poverty and increasing employment take different forms and facets and still represent major challenges, current and future of the European Union, but also at national level. In order to achieve this target, the European and national strategies have set out major goals along strategic time horizons. Many international strategic documents deal with the two important socio-economic dimensions, namely poverty reduction and employment growth. *The Millennium Development Goals Report (2003)*, prepared following the Millennium Declaration, set a number of specific targets for the period 2009-2015, in critical areas of development, and poverty reduction was a key strategic goal, with 5 direct and indirect targets. In the period 2000-2015, the Millennium Declaration was the only global development agenda with an agreement at the highest level, which included precise targets aimed mainly at reducing poverty.

Subsequently, the *Lisbon Agenda (2000-2010)* took an important step in building a competitive and dynamic European knowledge-based economy, by ensuring more jobs and greater social cohesion (growth, stability, cohesion), and two of the key strategic objectives were based on the employment component, but also on the poverty reduction. Then, the *Europe 2020 Agenda (2010-2020)* took over and further promoted these major objectives, namely the creation of a comprehensive labour market, but also the increase of social inclusion. In line with 4 major priorities, the 2020 Strategy focused on the social inclusion increasing through two initiatives, namely: an Agenda for new skills and jobs and a European Platform against poverty. This Platform aims to ensure economic, social and territorial cohesion; to guarantee respect for the fundamental rights of people affected by poverty and social exclusion and to ensure that they live in dignity and play an active role in society; and to support measures that promote community integration, vocational training and integration and access to social protection. A central concern of contemporary society, with all its components (institutional, academic environment, civil society, the private sector) the issue of poverty reduction is reflected in all priority strategies at global level. Since June 2017, with the adoption of the EU Council conclusions, efforts have focused on a sustainable future for Europe, with the EU's response to the *2030 Agenda for Sustainable Development*. The 2030 Agenda for Sustainable Development contains a set of 17 global goals, the first being: "No Poverty - Eradicating Poverty in All Its Forms and in All Contexts". In addition, after the 19 Covid pandemic, a comprehensive approach was thought to implement the UN's 2030 Agenda for Sustainable Development - a more thorough reconstruction after the effects of the global pandemic crisis (Council European Union, 2021). Ensuring a dignified and prosperous life for all citizens, pursued by the 2030 Agenda, implies for the coming years, reducing the high poverty risk and promoting the social inclusion. This can only be achieved by "integrating the three dimensions of sustainable development, namely economic, social and environmental, into a climate of peace, security and justice for all", as mentioned in the 2030 Agenda. In order to achieve these goals, the activity of the European institutions will be coordinated through *the New Strategic Agenda for 2019-2024 period* of the European Council, which sets out the new ways to implement political priorities. This New EU Strategic Agenda 2019-2024 outlines the European model for the future, imposing "the renewal of the basis for long-term sustainable and inclusive growth and strengthen cohesion in the EU. This can only be achieved by developing a strong economic base that is of key importance for Europe's competitiveness, prosperity and role on the global stage and for the creation of jobs" (European Council, 2019). As the multiple differences between generations, as well as territorial and educational, are now widening, generating poverty and social exclusion, polarities, economic and social inequalities, the European Pillar of Social Rights must be implemented, which implies further attention to social issues that still gravitate toward poverty alleviation. At the same time, the EU Council has summited to the attention the draft conclusions on the welfare economy (October 17, 2019), noting that "the welfare economy is a strategic orientation and approach to governance that seeks to place people and their well-being at the core of policy-making and of the decision-making process. While people's well-being is a value in itself, the welfare economy emphasizes the relationship of mutual consolidation between well-being and economic growth". Therefore, the new approaches to the *EU's New Agenda for 2019-2024*, as well as the *UN's 2030 Agenda for Sustainable Development*, strengthen and renew commitments to reduce poverty and social exclusion, to promote social inclusion and cohesion, and to increase the quality of life.

## **2. NATIONAL STRATEGIC CONTEXT**

In this European context, Romania aimed to reduce by at least 580,000 the number of people with risk of poverty and social exclusion, since the implementation of the *National Strategy on Social Inclusion and Poverty Reduction for the period 2015-2020* and the Strategic Action Plan 2015-2020 (GD no. 383/2015). Other national strategies also aim to reduce poverty and associated severe and extreme forms. Thus, the *National Strategy for Sustainable Development - Horizons 2013-2020-2030* (GD no. 1460/2008) presents as target objectives and way of action during these years, according to the EU strategic guidelines, the following: \*for Horizon 2020 - the main objective was to ensure an

integrated approach to the active inclusion of disadvantaged groups, by combining personalized assistance measures in communities with labour market integration actions, and \*with regard to Horizon 2030 - the main objective is to reduce the poverty incidence to a level comparable to the EU average. For the present and next period, reference is made to the *National Strategy on Social Inclusion and Poverty Reduction for the period 2021-2027*, which reflects the progress achieved through the implementation of the previous strategy in the field (the National Strategy on Social Inclusion and Poverty Reduction for 2015-2020). This New Strategy covering the 2021-2027 period contributes to improving the still persistent deficits and marks a turning point in national strategic thinking, promoting “a new model of governance in the field based on intensifying solidarity, constructive cooperation and shared responsibility of all actors engaged in ensuring cohesion and social progress and for whom public-private collaboration is a key element”. The overall objective of this New 2021-2027 National Strategy is to reduce the number of people at risk of poverty or social exclusion by at least 7% compare with 2020. The Strategy addresses measures to poverty alleviation, the right to social assistance, access to services of general public interest, opportunity for social and economic participation of vulnerable groups, in terms of respect the human rights, and also provides for recovery and resilience measures in the social services system in the context of the Covid 19 or other special situations. According to the National Strategy for Social Inclusion and Poverty Reduction 2021-2027, the aim of the strategic objective is to ensure a decent living for all and to combat transitional situations of poverty, so that they do not turn into structural problems of poverty and social exclusion. According to the Semester Country Report 2018, Romania has already reached the assumed target of reducing the number of people exposed to the risk of poverty and social exclusion (European Semester 2018, pp. 1). Although Romania has reached its target of reducing the risk of poverty and social exclusion, by 580 thousand people, the Semester Country Report 2018 highlights an alarming increase of poverty, especially among vulnerable groups (children, young people, etc.) who have often faced the highest poverty incidences (European Semester 2018, pp. 35). These categories vulnerable to poverty (young people, families with children, Roma, disabled, rural population, inactive people, etc.) are also mentioned in the previous Semester Report 2017. Also, marginalized rural communities are targeted, as here are the largest “pockets of poverty” concentrated mainly in the North-East area of the country, HH cluster areas / High High (Lincaru et al., 2018, Fig. 3. Map 1, pp. 740), associated with other phenomena (low wages, low number of employees, large number of unemployed, large number of GMI recipients, depopulation, ageing, few jobs, poverty, migration, and so on). Thus, even if the upward trend of poverty has been reversed, however, as assessed in the European Semester Report 2018, poverty still reaches high values, and new exogenous shocks such as the Covid pandemic, as well the economic and social effects triggered by the recent armed conflict generated near the country's borders will be felt acutely, on short term especially by the poor people and the vulnerable who were not poor until now. As a result, these poor people will have to strengthen their resilience to such to shocks and social risks, together with the support from the state. This dynamic, enhanced by recent world events, requires rethinking strategic objectives, as these shocks will slow progress towards poverty alleviation, they will fuel precariousness, and will intensify the tensions faced by social assistance systems, thus multiplying the need for adequate, coherent, effective and efficient social programs.

### **3. BRIEF REMARKS REGARDING POVERTY AND GMI FROM THE LITERATURE**

The pulse of poverty in Romania is constantly being taken and numerous studies and reports support this research. Constant concerns with central theme of the poverty approach are also those of the World Bank, which focused on poverty in Romania. Thus, the 2003 Report (World Bank, 2003) analysed the profile of poverty and the link between social assistance and poverty benefits, the coverage degree of these programs, and also assessed the impact of social benefits on the poverty incidence (a previous analysis was conducted in 1997). Since that time, the issue has been raised to extend the GMI program, but also to improve its targeting, coverage and adequacy to support in a better way the vulnerable segments of the population facing the risk of poverty and social exclusion. Another Report conducted in 2007 was a program of analytical assistance and counselling, focused

on poverty and economic growth in Romania (World Bank, 2007). The next Report 2015 was established as a foundation study for the National Strategy on Social Inclusion and Poverty Reduction for the period 2015-2020 (World Bank, 2015). Other impact studies were carried out on the measures regarding the guaranteed minimum income, and one of them estimated this impact at the level of 2011 and 2012 (Ministry of Labour, Family and Social Protection, 2012). Even though the study is not so recent, it presented an iteration at a certain moment and an alarm signal that a more sustained effort is needed to boost social aid recipients to transition into employment. Another study, conducted under the aegis of the Government, which considered the socio-economic analysis for the programming of European funds 2014-2020 (Ministry of Labour, Family, Social Protection and the Elderly\*, 2014), analysed the GMI program and its impact on poverty reduction, noting that "GMI beneficiaries remain among indecently low-income citizens, who almost one in three live in absolute poverty even after receiving social aid" (\*Ministry of Labour, Family and Social Protection / Ministry of Labour, Family, Social Protection and the Elderly is currently the Ministry of Labour and Social Protection – the institution has changed its name over time). A European Commission study focused on guaranteed minimum income schemes implemented in many countries. The comparative analysis of the main features of these schemes for the countries studied panel concluded that these GMI schemes across Europe play a particularly important role in reducing poverty and social exclusion (European Commission, 2015). Other studies have analysed the GMI program in Romania and determined the poverty rates before and after social transfers, assessing the adequacy of the GMI level, as well as the effectiveness of this program in reducing poverty (Radu, 2009, Stroe et al., 2011). A similar focus is given to analyses of the anti-poverty impact of national social assistance programs, and the results indicated that "social assistance programmes achieve only limited poverty reduction, while spending a significant amount of their resources on the non-poor. The more extensive and generous programmes achieve higher effectiveness in reducing poverty" (Avram, 2016). The distributional effects of policy changes, often implemented to deal with emerging situations, have been compared to other countries (Avram et al., 2013). Also, other studies highlighted the impact of in-work benefits on work incentives and poverty (Vandelannoote, Verbist, 2020), by using EUROMOD simulation models, or focused for some segment of the population, as youth (Vergnat, 2019) or family with children (Avram, Militaru, 2016), etc. Analyses at the national level have been extended to income and inequality and highlighted that "social benefits are in favour of inequality reduction (...), the results being sensitive to social and fiscal policy changes" (Militaru, 2015). Thus, analyses of social benefits, with an impact on income changes and inequalities, but also on the incidence of poverty, are carried out frequently at national and international comparative level of European countries, and literature abounds in such studies and research, especially against the background of finding solutions that will contribute to the reduction of poverty among the vulnerable.

#### **4. EX-ANTE IMPACT EVALUATION OF GMI ON POVERTY INCIDENCE**

Over a decade and a half, the trend of poverty has been increasing, even though they have alternated periods of increasing with those of decreasing of its incidence.

##### **4.1. Risk of poverty – although declining since 2015, it remains at high values**

In contrast, starting with the period 2014-2016 when the highest poverty thresholds of over 25% were reached, in the following period the trend is a decreasing one, thanks to the national strategies implemented in order to reduce poverty. Thus, poverty has decreased since 2015 from 25.4% to 23.4% in 2020, so by 2 percentage points. Although at first view, the decrease would seem particularly small, this value of 2 percentage points means a lot in terms of progressivity in a relatively short period. This indicates a significant decrease in poverty rate, as mentioned in the European Semester Report 2018 (even if in the Report, the indicator referred to the risk of poverty and social exclusion, which has decreased since 2015 from 44.6% to 38.9% in 2018 and with a more significant rate of decline then, to 35.8% in 2020). Although 2020 was a pandemic year, the slight improvement in the incidence of poverty, even by 0.4 percentage points, came amid slight increases in income (increase of the average income and also of the minimum gross wage in the economy) and special

measures taken by the state to support employment in the context of the pandemic Covid 19 (measures such as technical unemployment, or reduced work / `Kurzarbeit`).

#### 4.2. Simulation of the poverty rates – impact of the Guaranteed Minimum Income GMI

The assessment of the contribution of the guaranteed minimum income to poverty reduction was carried out using the EUROMOD microsimulation model. In order to highlight the impact on poverty of the guaranteed minimum income, the poverty rates were simulated in absence of the social aid program, in order to see how much the lack of this social benefit would influence.

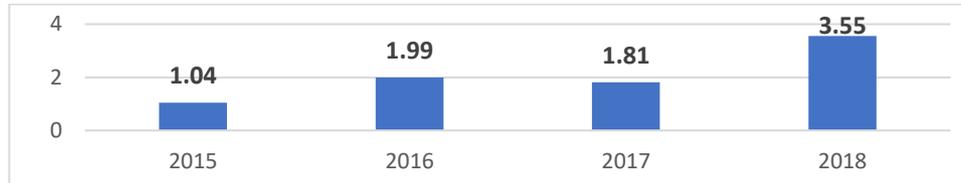


Figure 1. Percentage changes in the poverty rate, recorded versus simulated, total population  
(Source: estimates based on EU-SILC data and the EUROMOD model)

At the level of the total population, the difference between the registered poverty rate and the simulated one in the absence of the GMI shows the largest discrepancy achieved in 2018, being 3.55%, and the lowest in 2015, of 1.04%. The relatively low values are explained by the fact that in total disposable income, social aid, as well as other social assistance benefits, have a particularly low share in income from social transfers (significant weights are pensions, e.g., 85.9% is the share of pensions in income from social benefits in 2018, according to NIS, 2019).

It is therefore noted that the effects are not uniform, even if there have been no major changes in the conditions of granting and the levels of guaranteed minimum income, that would justify this increase in 2018 compared to previous years. The differences are related to the relative situation of the beneficiaries of the guaranteed minimum income compared to the poverty threshold, but also to their representation in the sample of the survey (EU-SILC survey was the basis for processing using the EUROMOD microsimulation model).

#### 4.3. Simulation of poverty rates – impact of the GMI that contains a new work-incentive

Currently, the Law on GMI includes the provision “Single families and persons with monthly net income up to the level of the guaranteed minimum income, benefit from a 15% increase in the amount of social aid per household, if at least one family member proves that he works on the basis of an individual employment contract or civil service agreement” (art. 6 of Law no. 416/2001 of the guaranteed minimum income, with subsequent amendments and completions). However, as can be seen in the figure above, the poverty rates in the presence, but also in the absence of this social aid benefit do not offer a significant reduction in the poverty rate. The differences are put especially on the relative position of the recipients against the poverty threshold (with social aid and without this social benefit, these people were also found in the poverty network), or on the representation of these beneficiaries in the sample of the EU-SILC survey that was the basis of the simulation model (a small number of cases). For simulation, for a new approach and a new pro-active element into the GMI program, we start from the provision contained in the Law on the inclusion minimum income, which has not yet come into force (it is estimated in the third quarter of 2023). The Law states that “to stimulate an active life and participation in the labour market, in case that one or more family members earn income based on an individual employment contract, employment relationship or other legal form of employment, or family members are self-employed or carry out an agricultural activity, 50% of all of their incomes, but not more than 400 lei per family, shall not be taken into account in determining the monthly net income of the family” (art. 11 of Law no. 196/2016 on the inclusion minimum income). The present paper does not take into account the 50% threshold, but a lower one (respectively a 35%) and simulate the poverty rate in the case of this new insertion of work-incentive in the guaranteed minimum income (a lower threshold implies a lower financial effort, in the

conditions of current budgetary constraints). To assess the GMI impact on the incidence of poverty, the main tool used is to simulate poverty rates, under certain conditions, when or not is taken into account the newly inserted pro-active co-ordinate in the disposable income. Scenarios have been developed to change amounts within available income, on the basis of which some changes in poverty rate have been made. The model could also capture the budgetary effort that this hypothetical change could entail.

### Scenario for the simulation exercise of the Guaranteed Minimum Income GMI

**Basic Scenario** Guaranteed minimum income as it is in force (and as it was at the time of the simulations, November 2019, together with the available statistical data) includes the facility to supplement with 15% the level of social aid for households with employed people (*in force in this moment*).

**Alternative Scenario** In addition, an activation component (work-incentive) is included, according to which 35% of the income obtained as wages are not taken into account when determining the net income per household member for GMI eligibility testing (*simulation / ex-ante poverty impact exercise*). At the same time, the facility to increase the level of social aid by 15% for households with employed persons is eliminated in the simulation.

The hypothesis envisaged in the Alternative scenario implies a change in the philosophy of the program, in the sense that currently the social aid is supplemented by 15% if a member has a job, and in the simulation exercise, 35% of the household incomes are not taken into account when determining eligibility for GMI test. This new incentive is a proactive one, encouraging employment and earning an income from work, and simultaneously receiving social aid.

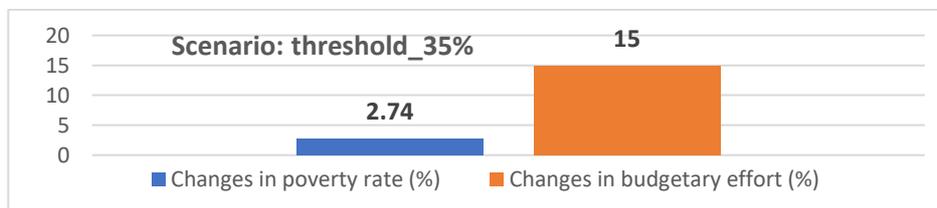


Figure 2. Percentage changes in the poverty rate, recorded versus simulated with 35% threshold (Source: estimates based on EU-SILC data and the EUROMOD model)

Regarding the Alternative Scenario, when an activation component is included within the GMI according to which 35% of the household incomes are not taken into account in the determination of the net income per family member for GMI testing of eligibility, the simulations carried out using the EUROMOD model showed the following at national level:

- this change with work-incentive component within the GMI program would influence poverty in the total population in a proportion of 2.74% and
- this change with work-incentive component into the GMI program would involve a change in budget expenditures by 15% (budgetary effort).

Thus, it can be seen that the effects do not seem particularly significant, at least in changing the incidence of poverty, because in very few households receiving social aid there are employed people. But such a value of almost 3% is also important when it comes to reducing poverty among vulnerable people who face this risk. In the same time, it is noted that the budget effort is relatively important, especially in a period of crisis, but it can still be correlated with a certain decrease in the poverty rate.

Concluding, it is found that, when 35% of work incomes are not taking into account, the scenario showed that the poverty rate would be influenced by 2.74%, in the sense of decreasing it, when applying the new activation element. This decrease in poverty is not particularly significant, but it shows a certain trend, which has confirmed the hypothesis from which it was based in this scenario, namely that an insertion of an activation element more stimulating than the present one, it could involve a decrease in the risk of poverty among beneficiaries. However, perhaps a higher threshold of work-incentive could have a more pronounced impact on reducing poverty among recipients, but also with an obvious setback, in increasing the budgetary effort. Even if it is not appropriate to increase the budgetary effort in such a current crisis period, however this simulation exercise and new outcomes could interest decision-makers in responding to the pro-active motivation of social aid recipients to transition into employment.

## 5. CONCLUSION

The goal of this paper was to analyse the potential positive effects of the simulation scenarios regarding the presence of a new minimum work-incentive element into the guaranteed minimum income, to highlight the measure of the poverty incidence reduction among the poorest people receiving social aid and to estimate the budgetary effort needed to sustain this proactive support. In the same time, this work-incentive component means that the beneficiaries are stimulated to find a job and to receive the social aid in the same time, in certain conditions. The results of the simulations exercise using the EUROMOD microsimulation model showed:

- social effects: the change in poverty rates in the simulated scenario compared to the current situation, would lead to a 2.74% decrease in the incidence of poverty;
- economic effects: the change in the fiscal effort in the simulated scenario compared to the current situation would mean an increase of 15%.

Even if these effects do not seem to be particularly significant, they provide a certain picture, as a foundation for addressing those pathways that promote discouragement of dependence on social aid and stimulate the activation of beneficiaries. Unfortunately, the EUROMOD model cannot capture the change in the employment transition of GMI beneficiaries, so it cannot simulate how much the proactive behaviour of social aid recipients could change under the condition of this new threshold of pro-work incentive. But it is certain that, through this encouragement of employment, the new program makes practically the transition from outdated passive solutions to active ones to promote occupational inclusion. This transition into employment would be beneficial for the individual and the family receiving social aid, as it would obtain income from employment, that would contribute to a better standard of living, with all the advantages deriving from this new status as an employed person on the labour market; a benefit also for the community, whereas it would lead to an increase in the well-being and quality of life of its citizens; a huge support for the social assistance system, as by migrating a larger mass of recipients to employment it would relieve the necessary resources involved in supporting them (exceeding the GMI eligibility threshold, the income from their employment would no longer lead to receive social aid), and so on. It is obvious that there could be other positive effects, which this EUROMOD microsimulation model cannot surprise, besides the fact that the person would have a job, which would increase his income from employment and get out of the social assistance network, with all the economic, social, psychological implications it can have on the individual and family; the budgetary effort could be reduced, as a result of decrease in the number of people / households receiving social aid (to a higher employment wage, the disposable income of household members would lead to the movement above the poverty line and those persons / households would no longer be eligible for GMI, or could still be placed slightly below the eligibility threshold, and the difference granted as a social support would be lower), and so on. All these actions could be translated into a win-win action for all (person / household, community, social assistance system, financial support, state). At the same time, potential negative effects such as the poverty trap or low incomes should be taken into account, as identified by some authors who focused on the tax rate on low wage earners / the low-wage trap (Lincaru, Ciuca, 2014), or also on other barriers for

persons to become active (Grigorescu et al. 2020). In conclusion, we consider that the ex-ante impact assessments of this simulation exercise based on the proposed scenario manage to outline a rather expressive picture of the influence of the GMI which contains a new pro-active component, aimed to stimulate the recipients of social aid program in their transition from the social assisted person status to employed person. The picture drawn from the simulations shows a certain ex-ante impact on reducing the incidence of poverty that can be considered not particularly expressive, but still important when referring to the poorest people who benefit from the guaranteed minimum income. On the other hand, in the simulations carried out, the decrease of the poverty incidence is recorded in the total population; it is possible that for certain types of households, especially those with dependent children, or those found in rural areas, these poverty reductions will be more expressive, in the context of the proposed scenario, especially as these segments present more vulnerabilities, facing a much more pronounced risk of poverty and social exclusion. Until the implementation of the Law on new minimum inclusion income, which contains a much higher threshold, which would involve a much more consistent budgetary effort, this approach with a lower threshold of 35% could be a reasonable balance from the decisional perspective (but in the paper established assumptions, other research studies with other thresholds and iterations remain open). And this picture is also reasonable, especially under restrictive and simultaneous conditions of poverty reduction in accordance with the targets and deadlines set out in the specific strategies undertaken, but also not to entail particular budgetary costs, especially in the current priority budgetary constraints, amid the new economic crisis generated by the Covid 19 period and the implications of the new conflict at the border of the country, both with effects that will cancel out small progress (regarding the poverty decreasing in the last years), with long-term consequences, affecting more vulnerable and poor people.

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