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# Financial Behaviour of Romanian Guaranteed Minimum Income Beneficiaries

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# Financial Behaviour of Romanian Guaranteed Minimum Income Beneficiaries

Silvia-Florina COJANU[1]

*Abstract*

*The aim of this paper is to explore the financial behaviour of guaranteed minimum income beneficiaries in Romania, based on their responses in a survey with national representativity for this target group. The main themes of analysis are: perception of their financial situation and satisfaction with the standard of living, perceived financially induced limitations, as well as financial behavior, considering income sources, savings and debt. The results are consistent with the reviewed literature on savings and debt under the poverty context: most respondents don't have access to mainstream credit and they financially depend on their social network of family and friends in times of need. Yet, in spite of the financial support of their social networks and of affirmed temperance in spending habits, they are faced with health endangering financial limitations - through lack of food or necessary medical treatments.*

**Keywords:**
*Financial behaviour, perception, poverty, survey.*

## 1. Introduction

In order to support the poor people, under certain conditions, a number of social assistance benefits are provided in order to ensure a minimum standard of living, to promote social inclusion and to increase the quality of life. One of the most important social assistance benefits is the

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guaranteed minimum income. Currently, in Romania, this benefit is regulated by Law no. 416/2001, with subsequent amendments and completions. Guaranteed minimum income GMI was designed as the main instrument to support the poor, providing them with some financial support. This is based on certain conditionalities related to the net family incomes according to the number of family members (this should fall within certain thresholds set by law). Permanent completions have been added to the guaranteed minimum income, viewed either in terms of changes in income thresholds or other eligibility requirements for the program. GMI is an important support in social assistance systems in other countries. Analyzing the MISSOC database of the European Commission (European Mutual Information System on Social Protection) for 32 EU and non-EU countries [16], it is clear that the GMI provides a financial support for vulnerable groups to reduce poverty among them. Some countries have several forms of the guaranteed minimum income scheme, in the sense that they are components provided to ensure survival (food, but also other personal needs - Czech Republic, Germany, etc.) or supplements in certain conditions (related to disability or old age – Germany, UK, or the education needs of children – Finland, or other special circumstances (change of home – Finland or exceptional medical expenses or for education - The Netherlands). For some countries like the Czech Republic, Germany, Finland, France, etc., the guaranteed minimum income supports these disadvantaged categories, helping to ensure a survival level for the beneficiaries, while also focusing on the activation component. Thus, it is noticed that, more recently, a special emphasis is placed on activating the beneficiaries of the minimum guaranteed income, so that a stronger link between social assistance and the labor market is highlighted, with the main purpose of reducing poverty among these beneficiaries. Also, in our country there are debates on improving the guaranteed minimum income, including from the perspective of activating the beneficiaries, and the Minimum Income Inclusion Law (Law no. 196/2016) is expected to enter into force in 2019.

Also, in recent years, a particular focus has been placed on universal basic income UBI, and many countries have already begun implementing it. The first initiatives were noted in 2013 when several EU countries have promoted the idea of this unconditional income UBI to assure the existence of the beneficiaries without working conditions or performing other duties towards the community. Then, Canada implemented UBI in some provinces (Ontario), such pilot project was initiated in April 2017, being sustained and promoted quite intensely at that time. In 2017, Finland also brought a change in the minimum income scheme without introducing any conditionality on the obligations of its beneficiaries, even improving this program, meaning that unconditional support was given even in the presence of a job for those who applied to this support. The Netherlands also joined the experiment to grant this unconditional support. Although relatively new, UBI still generates debate, being a fairly controversial issue not only for poor countries, but also for developed ones. Intense debates focus on the possibility of ensuring a minimum of survival, or continuing to study, or improving health or housing, or even finding a job alongside potential lack of motivation to look for a job, or growing budgets, with the pressures on emigration/immigration, or even the uncertainty of targeting those in need, etc., are the current debates and controversies. Even Finland - the initiator of the implementation of UBI program in 2017, says the program will continue until the end of 2018, without guaranteeing it could continue in the future. Efforts are being made to reduce poverty and its severe and extreme forms, and any approaches that lead to these targets must be visible and move closer to the strategic goals of the Europe 2020 strategy to reduce poverty. The present paper has a contribution to this target, providing an overview of prospects of GMI beneficiaries to reduce poverty, derived from the field survey on behavioral analysis of poverty from these beneficiaries. So, the paper presents partial results of a 2016 survey on beneficiaries of social aid for poverty alleviation. The survey themes were complex, approaching different angles of life in poverty as well as collecting perceptions on the best ways for tackling poverty, both in terms of personal strategies and in terms of governmental policies and measures. Yet, here, we only reflect on declared financial behaviour of the respondents in the context of their perceived standard of living.

## 2. Problem Statement

The UK Behavioural Insights Team developed a model referring to poverty as a lack in different forms of capital – economic capital mainly, but also other forms such as cognitive capital, social capital, environmental capital or human capital [1]. These are the key resources in the process of decision making and certain decisions determine financial status. This model aims at explaining why people with similar levels of economic capital may face very different poverty outcomes, by taking into account the contribution of the other types of capital. Observed financial behaviour is a consequence of complex decision making processes and, in turn, these processes are influenced by a multitude of elements – contextual factors, as well as cognitive biases. There are numerous studies that try to shed light on the realities of decision making under poverty imposed limitations, bringing phenomena such as time discounting, conspicuous consumption, cognitive depletion (with its effects of widening the gap between intention and actual money saving behaviour) to the forefront of research interests. All these elements influence financial decisions of the poor, with significant effects on their financial status.

Hamilton et al. [2] highlight on the common perceptions regarding the poor – they are perceived to be more passive and less creative, they are condemned for making pleasurable and unnecessary purchases, mostly "present oriented, living one day at a time with little planning to the future, and always procrastinating decisions that could lead them to a better-off economic situation".

Others, such as Neeman and Moav [3], focus on conspicuous consumption that hinders investments and savings, with negative effects on poverty proliferation. Conspicuous consumption of the poor is also mentioned in other papers [4]. Others ([5] referenced in [6]) showed that the poor spend less on food, health and education and significantly larger sums on entertainment, feasts, clothing and tobacco. Conspicuous consumption is perhaps a rational response to the stigma the poor usually face, with negative effects both personally and socially.

Poverty stigma partially explains, in fact, another poverty propagating behaviour which is the non-take up of benefits [7]. One other possible explanation for the non-take up phenomenon resides in the complexity of the application process, perceived to be difficult and discouraging (see [1] for a literature review on this theme). More accessible application procedures would increase take-up with positive effects on the quality of life of the poor.

Whatever the reasons behind it, the non-take up is a behaviour that strongly influences financial status and further financial decisions, such as the use of credit. The lack of savings and the use of credit, especially high cost credit, may push households into poverty, or into deeper poverty.

Some studies show that the poor do wish to save and act in this direction, but often the results are diminished due to the instability of their financial situation and economic circumstances in general (see [8] and [9] as referenced in [1]). Research established that there is an identifiable gap between declared intentions and actual behaviour, as intentions sometimes fail to generate the consequent behaviour [10]. This is also applicable to money saving intentions and, in the context of poverty, the willpower depletion (that increases the gap between intention and result) is even more of a significant problem, since there are many factors that limit the mental bandwidths of the poor [11]. Thus, poor households are confronted to an increased risk of over-indebtedness (see [12] for a literature review), as they have a very small chance of building up a savings buffer for emergency situations.

This tendency of easily entering into debt is also explained by the fact that poverty is indeed connected to the phenomenon of hyperbolic discounting, as the poor prefer smaller rewards sooner over larger rewards later (this theme was approached in [1] with extensive references). This type of behaviour is rational in the context of poverty, with rapid and unpredictable changes, thus postponing gratification often means losing the opportunity altogether. Yet, this type of behaviour is often a poverty propagation generator, due to the fact that it negatively impacts the ability of households to safe money for future needs.

This is associated also to a lack of understanding of financial decisions' real impact. Qualitative research results show that many people do not understand the real cost of credit (see [1]). Studies [1] showed that, as poor people usually don't have access to formal credit markets, they are forced to borrow through informal channels with very high interest rates and constraints regarding the amounts (see also [12]). This use of high-cost credit, can easily lead to over-indebtedness, thus propagating and deepening poverty (see also [13] and [14]).

Some believe that financial literacy would help diminish these problems associated to financial decisions, yet the poor usually don't have access to this type of information in adequate terms. As credit suppliers are advantaged in selling high cost credit, the poor in need are often the easiest to add to the client list, and that is why literature affirms that, on a certain level, strict regulations of access to certain types of credit products may benefit consumers. Debt in poverty often means cutting back on spending on basic necessities such as food [12]. Literature shows that this is often associated to social exclusion, as households reduce spending on social activities and are often confronted to stigma due to their poverty [12]. And it is extremely difficult for families from low income households to escape debt, as they enter into the debt trap – thus being able to pay only the minimum repayment amount and other charges that may be included but being unable to pay the capital initially borrowed (see [12]).

In Romania, the consumption from own resources is a significant behaviour of the poor. "Instead, the importance of the consumption from own resources can be observed constantly in rural areas, when the percentage differences between poverty rates in the presence/absence of own consumption, have particularly high values that cannot be found in any other analysed structure. In other words, if the consumption from own resources does not occur, the poverty of rural would be greatly increased...” [15].

## 3. Research Questions/Aims of the research

In order to further explore the research theme, we analyzed some partial results obtained through a 2016 survey developed by the National Scientific Research Institute for Labour and Social Protection (data collection subcontracted), in a project with focus on the beneficiaries of guaranteed minimum income (financed through the Nucleu Programme PN 16440401/2016). The survey had an exploratory nature, assessing the perceptions of this category on poverty, poverty causes, measures and strategies for tackling it.

The following themes were approached in the present paper:

- Satisfaction with the standard of living,
- Perception of the material situation / poverty versus income;
- Financial behaviour - sources of income, savings and debt;
- Financially induced limitations.

## 4. Research Methods

For this survey, a representative sample of 600 beneficiaries of the guaranteed minimum income of working age was created, at a 95% confidence level, with a maximum margin of error of 4%, using multistage stratified random sampling, taking into consideration the distribution of beneficiaries on counties and areas of residence (urban/rural).

The guaranteed minimum income is a social assistance benefit granted to the poorest of the poor, for poverty alleviation. This benefit is means tested. The law establishes income thresholds, while also considering the household componence.

For 2016, the guaranteed minimum income threshold was established at 142 lei for one member households, 255 lei for two members households, 357 lei for three members households, 442 lei for four members households and 527 lei for five members households. For households with more than five members, the social aid quantum was increased with 0,073*ISR (Social Reference Indicator = 500 lei).

There were 241992 guaranteed minimum income beneficiaries in Romania, according to the data of the National Statistics Institute for July 2016.

The research methodology was developed by the authors of this paper, but sampling and data collection were subcontracted. Data analysis and interpretation belong to the authors.

## 5. Findings

As it can be seen in the two graphs below (Figure no.1 and Figure no. 2) the vast majority of respondents are unsatisfied with their standard of living (86% - see Figure no. 1). This is no surprise, in fact, as the guaranteed minimum income beneficiaries are among the poorest of the poor in terms of income and owned goods.

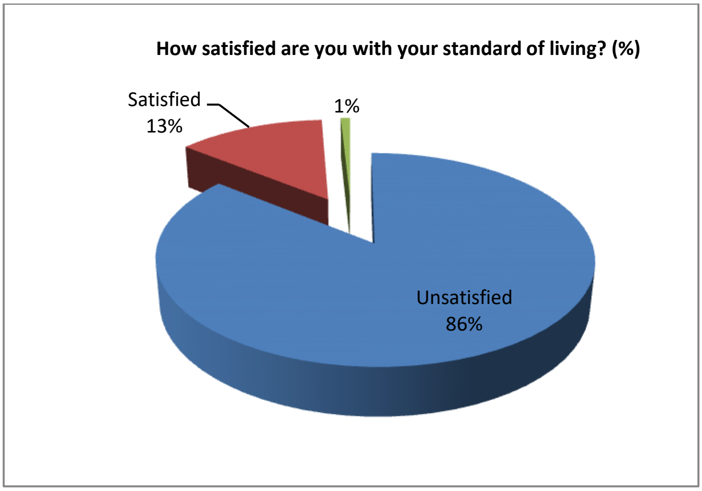


**Figure 1:** Satisfaction with the standard of living (INCSMPS Survey, 2016)

When a more nuanced response is requested with the aid of a 10 points scale, most respondents concentrate their answers on the points 3 (20%) and 4 (18.8%) of the scale, thus avoiding the more extreme answers on insatisfaction.

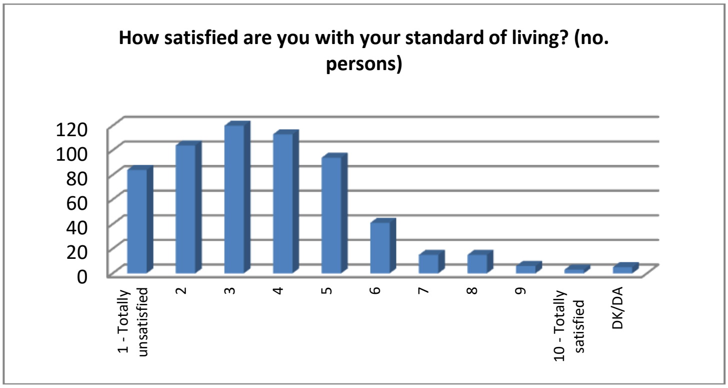


**Figure 2:** Satisfaction with the standard of living – Lickert Scale (INCSMPS Survey, 2016)

Respondents perceive their poverty in an acute form. In fact, 90.7% of respondents grade their financial situation on the first five scales of the Likert Scale, most respondents (23.3%) choosing the third step of the ten points scale to best reflect their financial position (where 1=very poor, see Figure no. 3)

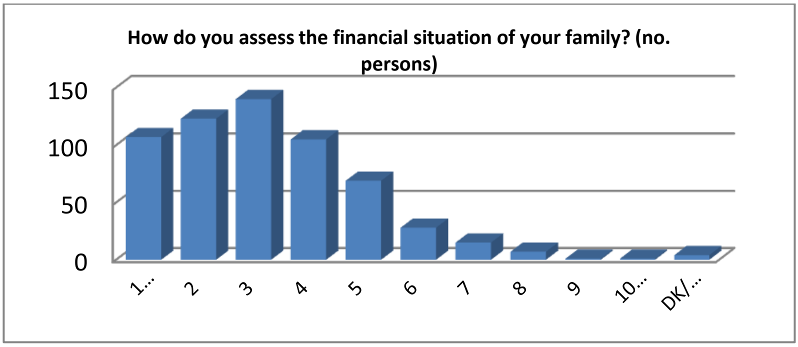


**Figure 3:** Assessment of financial situation (INCSMPS Survey, 2016)

Most respondents (55%) assess their household net family income to be under 500 lei. Also, 35%, place their net monthly income between 500 – 1000 lei. This income threshold is surpassed by 10% of respondents (see Figure no. 4).

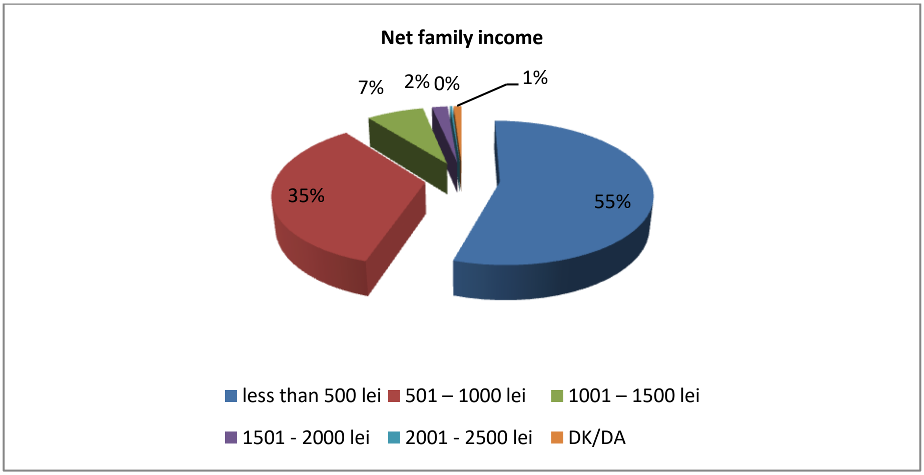


**Figure 4:** Net family income (INCSMPS Survey, 2016)

This income puts them in the impossibility of saving money (see Figure no. 5). This explains, perhaps, why less than 1% of respondents saved money in the last year, only 3% spent from savings, while 49% neither saved, nor spent from savings. Also, 30% of respondents needed to borrow money, took loans.

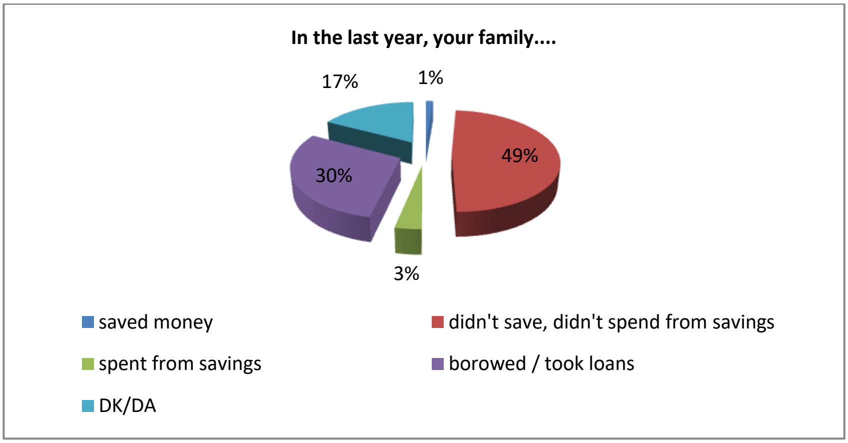


**Figure 5:** Saving and borrowing behaviour (INCSMPS Survey, 2016)

Respondents reflect on their financially imposed limitations (see Figure no. 6), as 57.8% of respondents stated that in the last 12 month they were confronted to the situation of not having enough food, while 22.5% declared that they were **often** in that situation of not having enough food.

At the same time, 71.2% put their health at risk by not following medical treatments due to their lack of money. Actually, 33.7% of respondents say that they frequently ignored their medical needs in order to direct their financial resources to other priorities. Only 10.7% of respondents declare to have never been confronted to the situation of being unable to pay on time for their utilities, in the last 12 months, while 36.5% were frequently confronted to this problem and the issue happened sometimes for 35.3%.

While 60.3% were never confronted in the last 12 months to difficulties in paying bank installments, 24% refused to answer this question. This structure of response suggests that most respondents don't have bank loans, whether due to lack of access, or due to their own choice. Only 15.7% of respondents said they had difficulties with bank installments in the last 12 months (frequently, sometimes or rarely).

In the same time, in order to afford their daily living expenses, many respondents have to borrow money and are in debt. Only 20.5% of respondents didn't borrow money for their daily living needs in the last 12 months. The rest of almost 80% of respondents spent borrowed money.

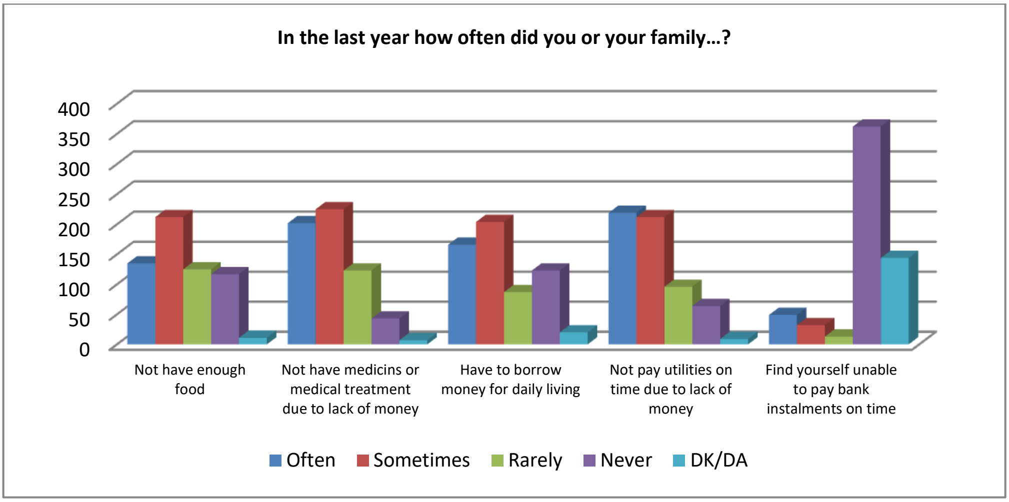


**Figure 6:** Financially imposed limitations (INCSMPS Survey, 2016)

The graph below (Figure no. 7) shows that, while often choosing to borrow money over the last 12 months previous to the survey, most respondents didn't have any debt at the moment of the survey (42%). 23% assessed their debt to small amounts of money, while only 5% said that their family was in debt with significant sums of money.

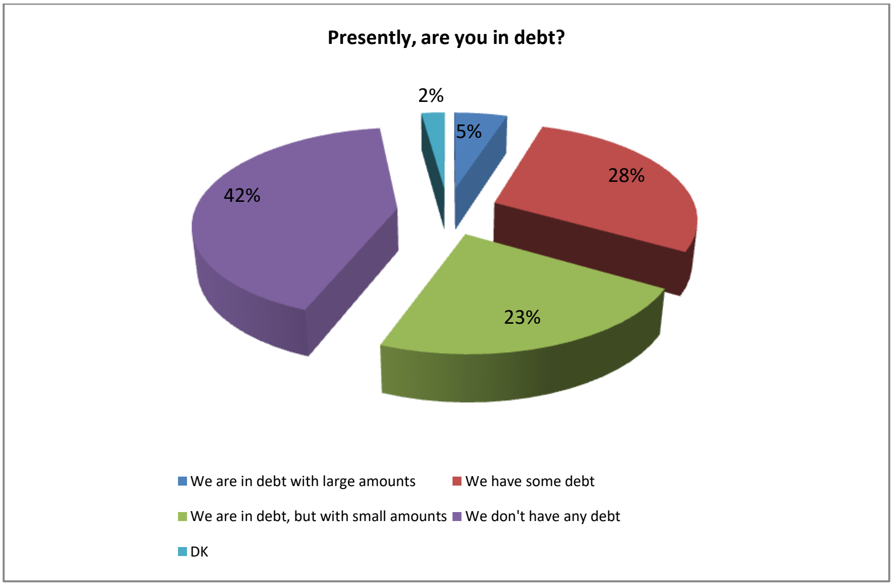


**Figure 7:** Debt (INCSMPS Survey, 2016)

Most respondents depended on family ties for borrowing money in times of need. 57.6% borrowed money from relatives (sometimes and often), while 21.5% of respondents rarely used this resource. Social ties are also important for support in times of need, yet less frequently used – 18.5% borrowed frequently from friends in the last 12 months, 35.5% sometimes borrowed money from friends, while 20.3% rarely borrowed.

Respondents did not rely on bank services for their financial needs. In the last 12 months previous to the survey, almost 90% of respondents (534 persons out of the sample of 600) did not borrow money from banks. It is possible that, due to their financial situation, they were not eligible for bank services - most of respondents did not have employment, they mostly lived from the social aid for the guaranteed minimum income and child allowances.

In fact, borrowing money from outside their immediate social circle seems to be difficult. 91.3% never took non-bank loans in the last 12 months, and only 2.5% loaned in this manner with a certain frequency (17 people out of 600).

Loan sharks are also avoided, only 24 persons using this kind of money supply in the last 12 month, while 93.8% never using it. Pawn shops are also avoided, with only 7.7% pawning goods for money in the last 12 months. One possible explanation is that most respondents are in fact so deep in poverty that they do not own goods that might be used for pawning.

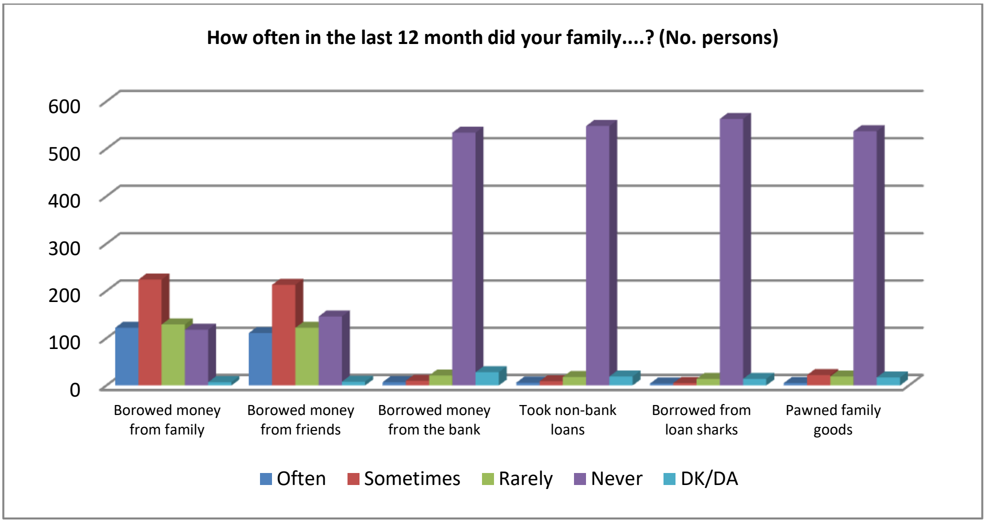


**Figure 8:** Sources of borrowed money (INCSMPS Survey, 2016)

In terms of economic behaviour, most respondents affirm their temperance.

They don't buy things that they do not need, just to indulge. In the last month (last 30 days) only 9.2% of respondents had bought something just for their pleasure, even though, in fact, that acquisition was not a necessity. The rest of 87% did not buy outside their needs.

They carefully plan their acquisitions, not buying impulsively. Only 16% declare to have bought something impulsively in the last 30 days and only 22% spent more money that they could afford, while 74.8% stayed within their budget.

That is perhaps why most respondents were not confronted to shopper's remorse in the last month (72.7%), while only 23.2% regretted spending money on certain products.

## 6. Discussions

The survey sample has statistical representativity for the Romanian guaranteed minimum income beneficiaries (of working age). This is an important aspect that increases the relevance of the results.

The sample was established to reflect the distribution of beneficiaries on counties and urban/rural areas of residence, as, in developing the sample, the statistical data of the Ministry of Labour and Social Justice MMSJ have been used.

## 7. Conclusions

Results show that their financial situation is a significant source of insatisfaction for respondents. Their situation makes it impossible for them to build a savings buffer for unexpected needs and many of them depend on borrowed money for their daily living.

While it seems that most respondents don't have access to mainstream credit (thus, consequently, they don't have difficulties with bank instalments payments), they financially depend on their social network of family and friends.

Yet, in spite of the financial support of their social networks and of affirmed temperance in spending habits, they are faced with health endangering financial limitations - through lack of food or necessary medical treatments.

## Acknowledgement:

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