

---

10th LUMEN International Scientific Conference Rethinking Social Action.  
Core Values in Practice | RSACVP 2018 |  
20-21 April 2018 | Suceava, Romania

---

## Rethinking Social Action. Core Values in Practice

---

# Ex-ante Assessment of the Activation Component Insertion within the Guaranteed Minimum Income on the Incidence of Poverty in Romania

Cristina STROE, Silvia-Florina COJANU

<https://doi.org/10.18662/lumproc.54>

**How to cite:** Stroe, C., & Cojanu, S.-F. (2018). Ex-ante Assessment of the Activation Component Insertion within the Guaranteed Minimum Income on the Incidence of Poverty in Romania. In A. Sandu, T. Ciulei, (eds.), *Rethinking Social Action. Core Values in Practice* (pp. 276-288). Iasi, Romania: LUMEN Proceedings. <https://doi.org/10.18662/lumproc.54>



## **Ex-ante Assessment of the Activation Component Insertion within the Guaranteed Minimum Income on the Incidence of Poverty in Romania**

Cristina STROE<sup>1\*</sup>, Silvia-Florina COJANU<sup>2</sup>

### *Abstract*

*The paper analyzes simultaneously two important aspects related to the adequacy of the guaranteed minimum income to reduce poverty among the vulnerable, as its main purpose and the adequacy to the size of activation among its beneficiaries to take up a job. Introducing a real pro-active element within the guaranteed minimum income, which will provide, besides the financial support for the poorest people, also a real activation of its beneficiaries, would be an important direction for improvement and modernization of this important social benefit. We also estimate that this new activation element included in the guaranteed minimum income could also have an impact on poverty reduction. The new insertion of this pro-active conditionality was simulated by swapping techniques, which allowed the introduction of this activation element within the guaranteed minimum income, meant to stimulate for work and also to reduce poverty. In this ex-ante evaluation exercise, we simulate the scenario with a 50% threshold applied to the work income (the new legislative conditionality with the 50% threshold will come into force next year); we analyze if the relative poverty will be reduced in this simulation exercise. For the ex-ante evaluation of the impact on the poverty incidence of this new activation incentive included in the guaranteed minimum income program, the classic simulation model was used. Thus, we focus concurrently on two essential aspects of this social benefit, namely poverty reduction, and increasing the social and occupational inclusion.*

---

<sup>1</sup> National Scientific Research Institute for Labour and Social Protection, Bucharest, Romania, [cristinaradu@incsmpps.ro](mailto:cristinaradu@incsmpps.ro).

<sup>2</sup> National Scientific Research Institute for Labour and Social Protection, Bucharest, Romania, [silvia.cojanu@yahoo.com](mailto:silvia.cojanu@yahoo.com).

<https://doi.org/10.18662/lumproc.54>

Corresponding Author: Cristina STROE

Selection and peer-review under responsibility of the Organizing Committee of the conference



This is an Open Access article distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 Unported License, permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited

**Keywords:**

*Guaranteed minimum income, activation element insertion, poverty reduction, simulation scenarios, ex-ante assessment.*

## 1. Introduction

Any person who does not have sufficient resources and is not able to purchase by their own means or to receive them from another source may apply for the guaranteed minimum income. This social aid is the most important instrument supporting the poorest people that don't have the necessary mechanisms to escape poverty and social exclusion. In Romania, this social aid is granted on the basis of Law no. 416/2001 on guaranteed minimum income [7], with its subsequent additions and modifications, and it was designed was to provide a form of financial support to ensure a guaranteed minimum income to families or single persons with very low incomes or without income. In order to meet the needs of those vulnerable and unable to provide for their living necessities, this social aid is provided in addition to the monthly net income of the families or the single persons.

Over time, this program faced certain reforms, additions and improvements in order to obtain a greater efficiency and effectiveness. However, the focus of the guaranteed minimum income law continued to be, particularly, to support the most vulnerable people, by providing incomes. Less focus was placed on offering real incentives to encourage the beneficiaries to move from the social assisted status to employment.

In recent years, the emphasis has been put on the introduction of activation elements within the guaranteed minimum income program, with the targeted purpose of transiting the beneficiaries towards employment. Thus, Law no. 196/2016 on the Inclusion Minimum Income [7], which will enter into force on the 1<sup>st</sup> of April 2019, aims to radically reform this major social benefit of the social assistance system. This new law will focus on the inclusion minimum income - as a social assistance benefit for families and single persons in difficult situations, in order to prevent and combat poverty and the risk of social exclusion.

Increasingly, integration into the labor market is a major challenge requiring intensified efforts to modernize and adapt legislation that directly or indirectly regulates the social assistance field, with the major aim of increasing the quality of citizens' lives and, thereby building an inclusive society, as also stated in the Explanatory Memorandum accompanying the new Inclusion Mimum Income Law. In this respect, Law no. 196/2016 which will replace the Law no. 416/2001, although it is mainly focused on regulating the right of families and single persons to this inclusion minimum

income benefit, but it also has the role to stimulate the employment of its beneficiaries, in subsidiary.

## 2. Problem Statement

The social dimension, in this context expressed through the reduction of poverty and the promotion of activation among the beneficiaries in order to take up a job and to reduce the total dependence on the social assistance system, has always been a major challenge of the European and national strategies. Among the main strategic documents of the European Communities, there are: The Millennium Development Goals Reports, from 2003 to 2015 [9], the Lisbon Agenda 2000 [1] to the Europe 2020 Strategy [2], etc. All these strategies set important targets to reduce poverty and to promote social inclusion. These directives have also been transposed into national documents, so the National Strategy on Social Inclusion and Poverty Reduction [8] presents a set of measures and directions to reduce poverty and its extreme forms, as well as to promote social inclusion and cohesion.

The scientific literature offers a detailed analysis of these concerns about improving the guaranteed minimum income scheme, seeking to find the best balance between the active side (through work incentives) and the passive one (granting financial support). Thus, as an example, some authors [5] adhere to this claim, arguing that „While originally focused on the provision of income security to those in need, the past two decades have been marked by a number of reforms that changed the mission and objectives of minimum income schemes in Europe. In this context, a number of EU member countries introduced reforms aimed at activating minimum income recipients” [5], and their paper mentions the countries where these reforms took place and which involved a substantial change in the nature and objectives of the minimum income schemes, by focusing on employment or participation in activation programs.

Such an approach, which is increasingly viewed as an indestructible link between the social assistance system and the labor market domain, is also addressed by other authors [6] who raise some questions, namely „Does social assistance provide benefits at the levels necessary to escape poverty? To what extent is the development of benefit adequacy related to active labour market policy?”. Their paper provides „new evidence about the construction of just social minimums by analysing the relationship between social assistance, benefit adequacy, and labour market activation”. The author’s analysis of 28 European welfare systems in 1990-2008 shows “that

social assistance seldom reaches commonly applied poverty thresholds. The adequacy of social assistance has also declined, along with the increased emphasis on the activation of beneficiaries". Following these analyses, the author concludes that „It therefore appears difficult to perceive European social assistance programmes as just distributive instruments" [6].

Other papers analyze in depth the link between the activation elements and the income support. Thus, the European Commission [3] focuses on this link between activation and income support, claiming that „Active labour market policies help ensure that unemployment and social assistance benefit recipients and other jobseekers have a better chance of finding employment than they would otherwise have". Although this section of the Annual Report is particularly aimed at the unemployed people, encouraging them and stimulating employment, other categories are not excluded, such as the social assistance benefits' recipients. Through these actions „benefit recipients are expected to engage in active job search and improve their employability in exchange for receiving efficient employment services and benefit payment" [3].

Thus, as the literature highlights, it is particularly important to adapt the social support and the social assistance, from the perspective of poverty reduction, but also from the perspective of activating the social assistance beneficiaries, so that they are not encouraged to remain in the social protection network, determining them to take up a job, through a real stimulation. Based on this context of the scientific literature, but especially the action directions provided in the National Strategy on Social Inclusion and Poverty Reduction [8], in the paper, we focused on two very important dimensions of the guaranteed minimum income - as the main benefit of the social assistance system related to the prevention and combating of poverty and the risk of social exclusion (according to Law no. 292/2011 on social assistance [7], with subsequent amendments and completions). These two dimensions concern both the reduction of poverty and also the increase of social and occupational inclusion through the insertion of real activation elements within the guaranteed minimum income. Thus, the added value of the paper consists in the ex-ante evaluation of the insertion of these activation elements into the guaranteed minimum income program. The analyses will focus on the ex-ante estimation of the impact on poverty incidence of these pro-active components inserted in the program. The fact that we are using an ex-ante evaluation instrument means that this activation component does not currently exist in the present law regulating the guaranteed minimum income.

This pro-active component is included in the new Law no. 196/2016 on the Inclusion Minimum Income, art. 11 (which stipulates that 50% of the

income from work is not taken into account in the net monthly income of the family calculated in order to establish the right to this benefit) - a law that will replace in April 2019 the present Law no. 416/2001 on the Guaranteed Minimum Income (which provides the increase of the social aid by 15% for households where at least one person proves to work, earning salary income). Thus, the present paper is important because it studies, in anticipation, some effects of these changes. As such, the novelty of such an ex-ante simulation exercise is the first step in estimating a real image on the future activation component that will be inserted into the guaranteed minimum income program and its impact on relative poverty.

### **3. Research Questions/Aims of the research**

We started from the fact that the present Law no. 416/2001 on the guaranteed minimum income, art. 6, paragraph (1) provides that „Families and single persons with a monthly net income below the guaranteed minimum income benefit from a 15% increase in the amount of the social aid if at least one family member proves to have a job, earning salary income, on an individual work contract basis, or he has the status of civil servant or performs an activity”. This provision marked at that time (2002) an important step towards encouraging the efforts of social assistance recipients to overcome their socially assisted persons’ status and transiting to the employed status (previous legislation [7], Law no. 67/1995 on the social aid, article 3, paragraph (3), contained a provision related to the stimulation of employment for the social aid beneficiaries; but this was not an effective incentive as the amounts were very small, they were not stimulative for beneficiaries’ employment). However, the reality did not fully confirm that this activation element of the guaranteed minimum income scheme represented a real incentive for beneficiaries’ employment. The present Law on the Guaranteed Minimum Income also establishes a number of community-based working hours, under certain conditions for people who are able to work, but this provision cannot fit into the pattern and typology of real work incentives.

Thus, it is particularly appropriate to provide real incentives for occupational inclusion within the guaranteed minimum income scheme, which may lead to activation of the beneficiaries under certain conditions (working capacity, etc.), encouraging them to take up a job at the expense of a permanent placement in the social protection / social assistance network. These results of the simulations represent the real value added of the paper and offer a real novelty, because they bring into the light a pro-active

element included in a social assistant benefit to motivate its beneficiaries to take a job.

Thus, the purpose of the paper is to analyze how the new activation component included in the guaranteed minimum income might contribute to poverty reduction. The main objectives of the paper are: O1.Determining poverty rates under current conditions; and O2.Simulation of poverty rates in the conditions of insertion of a new activation element within the guaranteed minimum income. The differences between the two poverty rates, the real and the simulated one, will help us determine whether the introduction of this incentive among the guaranteed minimum income beneficiaries might lead to a certain poverty reduction and also the quantification of this reduction of poverty rate for certain of households' types. The underlying hypothesis was that if the work incentive would increase among the employed persons from the household receiving the guaranteed minimum income, then the poverty rate among the persons of that household would reduce with a certain value.

#### **4. Research Methods**

To estimate the impact of the guaranteed minimum income on the poverty incidence, we simulated the poverty rates when the new pro-active element included in this major social assistance scheme is taken into account and when it is not taken into account in calculating the households' incomes.

The simulation was carried out using the micro-economic database from the Household Budget Survey, 2014, conducted by the National Institute of Statistics/NIS. The HBS is organized as a continuous quarterly survey for a period of 3 consecutive months, on a sample of 9360 permanent dwellings, distributed in monthly sub-units independent of 3120 permanent dwellings. Yearly, the planned sample size is 34770 dwellings. The response rate was 78.2% in 2014 (72.3% in urban areas and 85.4% in rural areas).

The simulation of poverty rates was achieved in the presence and absence of the activation incentive within the guaranteed minimum income. Scenarios have been developed to change amounts within the available incomes that are the subject of this important social welfare benefit. Based on them, some simulations have been made considering their impact on the evolution of the poverty rate calculated using the 60% threshold of the median of the incomes available per adult equivalent. Thus, in the scenario for the insertion of pro-active elements in the guaranteed minimum income, simulations were made for households where there are employed persons

and, in their case, 50% of the income obtained from work is not taken into account when establishing the net household income that is compared to the income test threshold established by law.

The main methodological steps for the simulations made taking into account the new activation threshold were the following:

- the relative poverty rate was calculated at the 60% threshold of the median of incomes available per adult equivalent;

- disposable income included an own-consumption component (total available income); also the poverty rates were calculated with the income containing the own-consumption component;

- the poverty rate was calculated taking into account the proposed scenario with a certain income test threshold; in the simulation, 50% of the work income was not taken into account when establishing the net household income that is compared to the income test threshold established by law;

- the simulated poverty rate in the new scenario was compared with the real poverty rate, and the difference between the two rates could highlight the influence of the new scenario compared to the current situation;

- all poverty rates were calculated for each of several categories: total population; households with children up to 2 years of age; households with one or two children; households with three or more children.

The poverty rate is calculated as a ratio between the number of poor people (with incomes below the threshold) and the total population:  $Pr = (Pp / N) \times 100$ , where: Pr = poverty rate, Pp = number of poor people and N = population. The ex-ante evaluations focused on simulation of the poverty rates when the guaranteed minimum income program included in anticipation those incentives for work. These incentives are also provided by the new Law no. 196/2016 stating that „50% of all work income is not taken into account when determining the net monthly incomes of the family”.

In the simulations, it was assumed that in the households with employed people, a certain proportion of the work income was not taken into account when establishing the net household income (in this case, this proportion is 50%). So, the new household income for household with employed people is the following:  $V_{T1} = V_{T0} - p * \text{Income from work}$ , where:

$V_{T1}$  represents the new household income for households in which there is at least one employed person;  $V_{T0}$  is the currently income of the household in place for testing the eligibility for guaranteed minimum income; p is the proportion of work income to be taken into account when



establishing the new household's income (in this paper this proportion is 50%).

The difference between the two poverty rates, the simulated and the real one, can determine the impact, or the influence of this new activation component on households' poverty status. Thus, it is possible to estimate how the poverty rates are influenced, through households receiving the guaranteed minimum income that would be subject to the new legal provision that proactively encourages and stimulates the beneficiaries to take up a job.

## 5. Findings

From the analysis of the Household Budget Survey results, it is observed that the share of the guaranteed minimum income in the total available income is quite low, of about 0.2-0.30% (the highest shares, of about one quarter of the available incomes, being covered by social insurance pensions, as expected in social transfers). Thus, the impact assessment of the simulations on the basis of the proposed scenario must take into account this reduced share in the total incomes of the household, which means that the influence on poverty rates cannot be expected to be very high.

The envisaged scenario focuses on the income of the household when 50% of the work income was not taken into account when establishing the net household income that is compared to the income test threshold established by law for the eligibility test to the guaranteed minimum income.

Thus, the impact assessments were made taking into account the following considerations: the simulations were made for the threshold of 50% of the work income that was not taken into account in establishing the new income threshold. The poverty rates were determined at the threshold of 60% of the median of the available income, and within the available incomes, the own-consumption component was taken into account.

The results of the simulations revealed the following aspects: the relative poverty rate, under the current conditions (Law no. 416/2001) is 18.36% at the total population level. Under the simulated conditions, where 50% of the work income was not taken into account in the calculation of the net household income that is compared to the income test threshold established by the law, the simulated poverty rate becomes 18.13% (Table 1).

**Table 1.** The impact of the Scenario on the relative poverty for total population (%)

	Poverty rate (%)	Simulate poverty rate (%)
Total	18.36	18.13

Source: statistical processing of the HBS, 2014, NIS, Romania.

Thus, it is noted that, for the total population, the introduction of the activation element described above reduces the relative poverty rate by 0.23 percentage points. This poverty reduction is not particularly significant, but it shows a certain downward trend, which confirms the hypothesis of this scenario. Thus, with a reduction in the relative poverty rate of 0.23% for the total population and up to 1.06% for some types of households, we cannot speak of a considerable impact of the new activation element introduced in the guaranteed minimum income benefit. It is noticeable that for some types of households, the impact on the poverty rate is more pronounced than in the total population, and this is increasingly significant as the number of children in the household increases.

It can be observed (Table 2) that the most pronounced effect is observed among households with 3 and more children aged 0-18 years, where the poverty reduction is slightly above 1 percentage point; this is the highest impact on the analysed households' types. Households with dependent children were generally considered because poverty is more pronounced among them. In conclusion, we consider that the ex-ante impact assessments on the relative poverty in this simulation exercise based on the proposed scenario manage to outline a rather expressive picture of the influence of the guaranteed minimum income with this new activation element.

**Table 2.** The impact of the New Scenario on the relative poverty for some types of households (%)

	Poverty rate (%)	Simulate poverty rate (%)	Difference (pp.)
Households with children aged 0-18 years	29.00	28.80	0.20
Households with 2 adults and 1-2 children aged 0-18	29.82	29.51	0.31
Households with 2 adults	56.41	55.75	0.66

and 3> children aged 0-18

Households with 3 and more children aged 0-18	52.52	51.46	1.06
--	-------	-------	------

---

Source: statistical processing of the HBS, 2014, NIS, Romania.

The ex-ante analysis shows a rather low impact of this activation component included in the guaranteed minimum income benefit on poverty, but one must assume that its impact might be better outlined when calculated on severe poverty (calculated at 40% of the median income). It is obvious that there could be other positive effects, that cannot be captured by this model: the transition from the assisted status to the employed status; the budget effort would be reduced, especially since the number of people/households receiving social assistance would diminish, or the work income would no longer lead to eligibility for the guaranteed minimum income, and so on. At the same time, potential negative effects such as the poverty trap should be taken into account, as some authors [4] have identified with regard to tax rates on low wage earners: the low-wage trap (or the poverty trap).

## 6. Discussions

Like any simulation model, our approach also has its limitations that take into account several aspects. First of all, we must mention the use of the statistical data sources, mainly the Household Budget Survey, which is a selective research that involves high costs. The use of exhaustive administrative data sources might have provided a more realistic picture, as studying directly the de facto beneficiaries of this social assistance benefit regarding the guaranteed minimum income would build a much more complete and detailed picture and would, consequently, eliminate the disadvantages of selective research.

However, the impact assessment of the activation element included in the guaranteed minimum income scheme on relative poverty rates used in this paper is also able to highlight a rather expressive image of the influence of this important social assistance benefit on relative poverty incidence.

These ex-ante evaluations are particularly important, providing a proactive tool to assess some effects of social policies through simulation exercises, thus providing the knowledge foundation for the new main coordinates of political reforms.

## 7. Conclusions

The paper represents an iteration of the relationship between the guaranteed minimum income and the incidence of relative poverty, focusing on poverty rates and also simulating relative poverty rates when taking into account certain activation elements that are stimulating the beneficiaries of the guaranteed minimum income to take up a job.

The guaranteed minimum income is one of the most important social assistance programs for vulnerable groups of the population facing the risk of poverty and its severe forms, with an important role in preventing the aggravation and persistence of poverty. Even with this important social assistance benefit designed to prevent and combat poverty and social exclusion, a fairly large number of people are in poverty (with a poverty rate of 18.36% in 2014, calculated based on Household Budget Survey data). Under the simulated conditions, we considered that 50% of the work income earned by employed persons in the households receiving the guaranteed minimum income would not be taken into account when determining the net monthly incomes of the family eligible for this social benefit. The calculated poverty rate under these conditions was 18.13%, which means a slightly reduction of 0.23 percentage points, when compared to the real poverty rate.

This value is not very high, so it cannot be said that the new activation element introduced under the guaranteed minimum income program could generate a major impact in terms of poverty reduction, while also stimulating the beneficiaries to transit towards employment (it is true that another limitation of the model is its inability to estimate the number of people in households receiving guaranteed minimum income that could take up a job, following the implementation of the pro-active conditionality).

Thus, with a 50% proportion of the income from work which was not taken into account when establishing the new income threshold towards which eligibility for the guaranteed minimum income scheme is established, we consider that this scenario that would accompany Law no. 196/2016 coming into force next year, would help the poverty reduction.

Even though this contribution is not particularly large, it still shows a positive trend, and its main benefit is the direct stimulation of employment in a more active way than presently, which would bring multiple advantages on multiple plans and dimensions: that of the individual (by supporting the transition towards employment, but also in terms of poverty reduction on individual and household level); but also the one of the state budget (by reducing the budgetary effort allocated to the social assistance measures through this major social benefit, considering that this measure would

reduce the number of those in poverty through employment, thus degreavating the social assistance budget). We believe that through this initiative of introducing an activating element within the guaranteed minimum income, this benefit supports an active life through labour market participation, which ensures and enhances a more social and occupational inclusion, while also generating a decrease in the incidence of poverty.

Thus, the classic simulation model is a particularly useful and relatively easy to use tool for impact assessments of social assistance benefits on the incidence of poverty, both in the ex-ante and ex-post evaluations, necessary in order to provide ongoing evaluations and monitoring of the social benefits of the social welfare system.

For a good diagnosis at national and local level, and for a constant analysis of the performance of various social assistance programs, continuous evaluations and monitoring of social policies are needed in order to support their improvement and upgrading. These steps are also in line with the European major objectives, also set out in the national and European strategy for poverty reduction until the 2020 horizon, but also in line with the increase of beneficiaries' quality of life, with their stimulation to take up employment and not to remain permanently dependent on state support through some social assistance benefits.

### **Acknowledgement:**



This paper was accomplished through Nucleu-Program, implemented with the support of the Ministry of Research and Innovation, Romania, Project PN 18420202, Contract 12N/2018 (Această lucrare a fost realizată prin Programul-nucleu, derulat cu sprijinul MCI, Proiect PN 18420202 / 2018).

### **References**

- [1] European Commission. Agenda 2000. For a stronger and wider Union. Lisbon European Council 23-24; March 2000. Available from: [http://www.europarl.europa.eu/summits/lis1\\_en.htm](http://www.europarl.europa.eu/summits/lis1_en.htm).
- [2] European Commission. Europe 2020 A European strategy for smart, sustainable and inclusive growth. Available from: <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>.
- [3] European Commission, The Social Protection Committee. SPPM Thematic Reviews on the 2013, Social trends to watch the role of activating and enabling benefits and services for reducing long-term exclusion from the labour market.

2013. 22. Available from:  
<http://ec.europa.eu/social/search.jsp?mainCat=0&subCat=0&policyArea=0&policyAreaSub=0&year=0&country=0&city=0&refNo=&advSearchKey=SPPM+thematic+reviews+on+the+2013&mode=advancedSubmit&langId=en&searchType=&order=>.
- [4] Lincaru C., Ciuca V. Youth and the Labour Market in Romania. Place of Publication: Cambridge Scholars Publishing; 2014: 415.
- [5] Moreira A. The activation dilemma. Reconciling the fairness and effectiveness of minimum schemes in Europe. Place of Publication: The Policy Press; 2008: 168.
- [6] Nelson K. Social Assistance and EU Poverty Thresholds 1990-2008. Are European Welfare Systems Providing Just and Fair Protection Against Low Income?. European Sociological Review. 2013 April 1; 29(2): 386-401. Available from: <https://academic.oup.com/esr/article/29/2/386/478695>.
- [7] The national legislative framework: GD no. 383/2015 on the national strategy regarding the social inclusion and poverty reduction, Law no. 196/2016 on inclusion minimum income, Law no. 416/2001 on guaranteed minimum income, Law no. 67/1995 on social aid. Available from: [www.cdep.ro](http://www.cdep.ro).
- [8] The National Strategy on Social Inclusion and Poverty Reduction for the period 2015-2020 and the Strategic Action Plan for the period 2015-2020 (GD no. 383/2015). Available from Ministry of Labour and Social Justice site: <http://www.mmuncii.ro/j33/index.php/ro/2014-domenii/familie/politici-familiale-incluziune-si-asistenta-sociala/3916>.
- [9] United Nations. The Millennium Development Goals Report 2015.75. Available:  
[http://www.un.org/millenniumgoals/2015\\_MDG\\_Report/pdf/MDG%202015%20rev%20\(July%201\).pdf](http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf).