SOCIAL

ANTI-POVERTY PROGRAM: SOME POLICIES WORK, OTHERS DO NOT

WARNING

This analysis is an assessment of the National Plan to Combat Poverty and Promote Social Inclusion (NAP), and the institutional structure of the Anti-Poverty Commission, the drafter of this document. We focus on two of the anti-poverty measures included in the plan, the minimum guaranteed income (welfare support) and the increase of the minimum wage.

HOW CAN POVERTY REDUCTION STRATEGIES BEST SERVE THE POOR[4]?

By focusing on results, not buzz-words:

- *A results-oriented strategy means that countries should understand the nature of poverty and determine which public actions will have the most impact on the poor.*

- *Since poverty is complex and multidimensional, the strategies should be comprehensive, and should include plans for rapid economic growth, sound macroeconomic policies, structural reforms, and social improvement.*

- *Every country's unique economic, social, cultural, and historical factors will shape its poverty reduction goals, but the International Development Goals[5] can serve as benchmarks.*

- *The outcome will represent demonstrable progress for the poor in sharing the benefits of growth, increasing their well-being, and reducing their vulnerability to risks. Poverty reduction strategies will set out actions that lead to these outcomes.*

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[4] http://www.worldbank.org/poverty/strategies/qanda.htm#how

[5] see www.wordlbank.org/data/dev/devgoals.html

- *None of these can happen overnight. A transformation of this magnitude will entail changing institutions so that they are accountable to all, including the poor, and building the country's capacity to respond to the needs of its citizens. Results will come only if there is a long-term commitment by governments and their partners, at home and internationally.*

The National Anti-poverty Plan (NAP)[6]

European Union member states agreed on the establishment of national strategies to combat poverty by June 2001. The model was subsequently borrowed by the candidate countries, and Romania was the first to have formulated such a National Anti-Poverty Plan. The plan concept was the responsibility of the Commission for Combating Poverty and Promoting Social Inclusion, an institution reporting directly to the Prime Minister.

POSITIVE ASPECTS

The basic concept is that poverty is a phenomenon that can be fought not only through social transfers towards those affected by it, but also by improving their access to symbolic (education) or human capital (healthcare) resources. NAP integrates public policies from various fields, in a multi-sectoral anti-poverty strategy. These include health, education, child protection, general welfare support or dealing with the situation of the Rroma community.

In principle, NAP stresses that social transfers should be supplemented by stimulating the economy (in other words, they should not run counter to economic incentives).

The strategy gives priority to the fight against absolute, rather than relative, poverty. This is why NAP emphasizes targeted anti-poverty tools (means-tested rather than universal` benefits), the best example being the minimum guaranteed income policy.

QUESTION MARKS

NAP includes policies that do not strictly match the document's principles

At closer inspection, the document contains some internal inconsistencies. The Anti-poverty Commission had to assume certain policies already implemented by the government, and include them in the plan, although they are not necessarily consistent with the principles stipulated in the first part of the strategy, nor with the analysis on the causes of poverty from the last part. For example, there are still some general, non-targeted social protection measures in place (the subsidy for residential heating, which

[6] The analysis on NAP follows the World Bank criteria, part of which are mentioned above; the assessment is based on the conclusions of a roundtable organized by SAR with government and non-government experts in social policy.

functions as a producer price subsidy and therefore covers the whole population).

The document includes debatable social policies (increased minimum salary, raising salaries in the public sector) which clash with its very principles.

On the one hand NAP acknowledges Romania's poor administrative capacity (an issue also highlighted in the EU reports), but on the other hand it integrates social policies that require refined public management mechanisms and may generate rent-seeking behavior: discount food-stores (*economate*); stopping evictions for non-payment of house maintenance costs; scaling up of the social housing policy, despite its disappointing results so far.

CAN THE STRUCTURE OF THE ANTI-POVERTY COMMISSION BE IMPROVED?

NAP is a useful tool, which X-rays the issue of poverty and its sources very accurately. However, there is a discrepancy between the stated goals and the means to pursue them. In other words, there is a gap between theory and practice. The cause of this gap may originate from the very status of the Anti-poverty Commission (CASPIS), the author of the plan. This Commission was set up in April 2001. It is formally led by the Prime Minister and coordinated by the Minister of Labor and Social Solidarity. Its technical secretariat is headed by the reputed sociologist Catalin Zamfir, advisor of the Prime Minister on social issues. All ministries and government agencies are represented in CASPIS, together with international development partners, trade unions, employers' associations and independent experts. A total of 46 institutions are represented, plus some independent technical advisors.

CASPIS needs a more flexible structure and real political clout

As it stands, the institutional structure is a bit awkward. All these institutions seem to be merely represented in the Commission, whose technical secretariat is made up of just three people. It is difficult to coordinate so may persons and agencies, and a plenary session of the CASPIS looks more like a major public debate than a working meeting. Moreover, it is unclear how the trade unions or even some ministries (like Youth and Sports) could contribute to shaping anti-poverty policies via this commission. CASPIS is actually operational mainly at the level of the small technical leadership and secretariat, as confirmed by those on the member list who have not heard from it for a while now.

Although it is part of the Prime Minister's working apparatus, thus having in theory enough political clout, the Commission's influence is diluted by the number of its component structures. By itself, the secretariat has little chance to coordinate the activity of the ministries and follow up the implementation of NAP deadlines, as it is supposed to do. This situation becomes apparent in the document, where only some of the objectives to be reached have clear deadlines and responsibilities attached, depending on the responses of line ministries and agencies to the Commission's requests. Even more serious, there is another parallel body to CASPIS, the recently established Department for Social Policies of the Government, which makes CASPIS' place in the decision making process less than clear.

As far as CASPIS development projects are concerned, it is envisaged for the second part of 2002 to set up anti-poverty committees at the county level. It is very likely that these should copy the Bucharest model, with parallel expertise and decision-making levels.

Fig. 1. Comparative indicators, CEFTA countries

	Bg	Cz	Ro	Pol	SK	Hu
GDP/cap ($)	1,484	4,797	1,596	4,108	3,742	4,374
Monthly gross nominal wages, 2001 (Euro)	127	482	132	511	298	427
Monthly average pension, 2000 (Euro)	44	203	29	203	121	136
% spent on food, household income, 2000	42	21	38	31	26	35
FDI/cap, 2000 ($)	467	2,101	292	871	684	1,980

Source: *Freedom House*, Nations in transit and *INSSE, CESTAT Statistical Bulletin*

GUARANTEED MINIMUM INCOME – OVERPROTECTIVE?

The law on the guaranteed minimum income is the main anti-poverty policy included in the NAP. The authors' assessment of this policy is optimistic (see box below). These appreciations may be more or less correct, but a number of malfunctions have appeared in implementation that changed the initial calculations.

> „*In spite of the initial reluctance, the system proved successful. Firstly, it induced self-selection: people working in the underground economy gave up the social allowance. Second, the local governments …also found out here an important resource for social policy, which they used efficiently most of the time. Thus, an opportunity for community development programs emerged. Third, it has satisfied those moral values on which social allowances for those who want to be active and contribute to common welfare are based. Finally, positive effects have become apparent on those excluded from the occupational system, which could prove significant in the future*."
>
> (from the *National Anti-poverty Program and for Promoting Social Inclusion*)

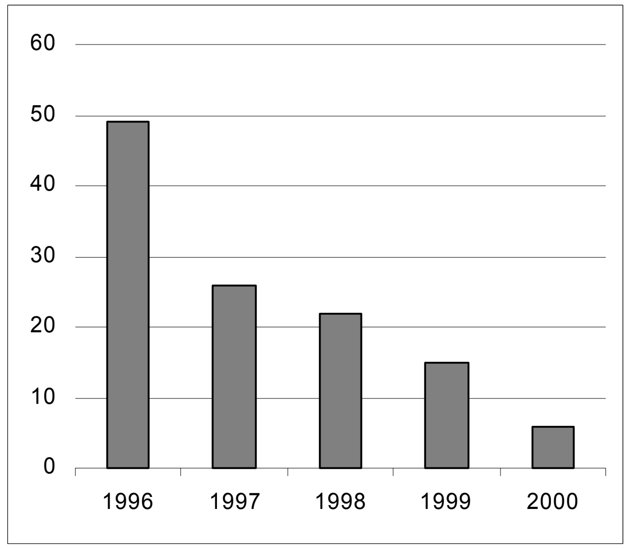
EWR has already analyzed this law when it came into force[7]. We were arguing at that time that the initiative was welcome, but difficult to administer due to the poor capacity of the local governments involved in its implementation. The experience of social allowances being transferred down to the local authorities showed that the number of beneficiaries

[7] See Early Warning Report 1/2002, ***Social*** section.

decreased dramatically. Fig. 2 displays this trend since 1995, the last year when the central government managed these funds. The first issue of this year's Report provides a detailed analysis.

There is a serious risk that the guaranteed minimum income policy could be undermined by the same implementation problems. Although there is no global assessment of the issue[8], some worrying signs have already emerged. The Ministry of Labor and Social Solidarity (MLSS) estimated at about 600,000–750,000 the number of families to benefit of these provisions, before the law was passed. In August this year, only 363,000 allowances were paid, according to MLSS data. Although initial estimates on the guaranteed minimum income said that around 10% of the population may qualify, only 5.14% (1,086,000 people) were actually on the list of beneficiaries on August 31.

Fig. 2. Families receiving allowances (1995 = 100)



Source: Ministry of Labor and Social Solidarity, 19995 = 100%

POOR PEOPLE – EQUALLY POOR LOCAL BUDGETS

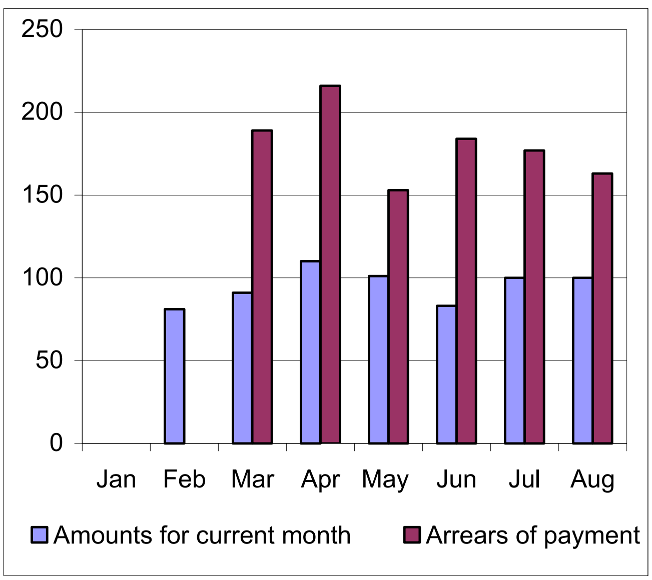
Local governments have a hard time implementing costly national welfare policies

The guaranteed minimum income is conditioned by 72 hours community work every month. Municipalities would thus have more labor for community services. However, while this certainly presents advantages for municipalities, it also presents a new administrative challenge, as employing those people requires additional managerial capacity. Moreover, as the Prime Minister himself recently remarked, there is a widespread habit among beneficiaries of the guaranteed minimum income to obtain medical certificates showing that they are unable to work. For instance, in Piatra Neamț, three months after the coming into force of this law, more than 50% of those receiving the guaranteed minimum income justified their absence form work with such certificates. The corrupt medical system, as well as the "silent agreements" between welfare support receivers and municipalities (who many times consider it is not worth the trouble of having these people around, pretending to be doing something) led to a proliferation of false sick leaves. The practice of the 72 hours of community work is a safety net: the guaranteed minimum income was intended not only as a transfer of money to the poor, but implied their involvement in the labor market as a way of avoiding the classical "poverty traps". But in practice it seems to work differently.

[8] The World Bank is about to begin an impact study on the Law, in cooperation with the Ministry of Labor and Social Solidarity.

However, the most painful issue here is that of the funds that should be provided by local governments. The burden lays 80% on the central budget and 20% on the local budget. As a result, there are 1,500 billion lei that should be paid by local authorities this year, which represents a huge challenge for poor localities. Such is the situation for instance in Mizil, a small town in Prahova county, where the municipality is "sieged" by welfare benefit claimants. Another unemployment-stricken town, Petrosani, in the mining Jiu Valley, has the same problem, as the minimum income law increased the social expenditures of the municipality by 8 times. Other cities have similar problems to cope with: Cernavodă, Vaslui or Botoşani[9]. And these are large municipalities, with a better financial situation than rural areas and small towns. In this latter case, especially in mono-industrial areas, the situation is probably even worse, though less visible.

Fig. 3. Dynamics of minimum income payments, January-August 2002 (billion lei)



Source: MLSS

There are also situations when local authorities simply refuse to pay the allowances. The local council of Gradinari, Buzau county, for example, does not make payments, though the beneficiaries have already done their community work. Article 31 of the law is clear: "The local council shall give priority, in the local budget, to the necessary funds to pay the rights provided by this law". But it is tempting to interpret this provision rather "conservatively" if the budget is based on scarce resources. On the other hand, there are unjustified blockages even when it comes to the flow of funds form the central budget. Fig. 3. shows that in the first 8 months of implementation, the back-payments are constantly higher than current ones. Other problems appear in the County Councils, which redistribute the money to localities. Apart from their own challenges, therefore, municipalities also have to bear the pressure generated by these delays.

RECOMMENDATION:

The more than 1,500 billion lei that should be allocated by local budgets is unaffordable for many municipalities. The Government should take this into account, if it wants to amend the minimum income policy. The 20% can be decreased for certain localities, based on certain socio-economic criteria. One possible solution would be to use a methodology similar to that used in

[9] See Jurnalul Naţional - 11/03/2002.

the depressed-zones policy. This is difficult, however, as there are few indicators that can be calculated for each locality, and moral hazard effects may appear if some localities are bailed out. One objective indicator can be the unemployment rate, which can be used as a benchmark.

There are other, more refined methodologies that could be taken into account. A development indicator[10] could be built, and the local contribution percentage could consider a certain scale for this indicator. Although this solution seems rather complicated, the expertise of CASPIS could be helpful, at the same time involving this institution in the decision making process.

MINIMAL, BUT GUARANTEED INCOME – IS THIS ANOTHER POVERTY TRAP?

The effect on unemployment was only temporary

It was obvious that the guaranteed minimum income (GMI) would lead to a higher officially recorded unemployment, as potential beneficiaries had to prove that they were searching for a job, and thus they had to register with the national Employment Agency. This forecast was confirmed one month after the implementation of the law, when the official unemployment rate rose from 8.6% in December 2001 to 12.4 in January 2002, reaching a peak of 13.2% in February before going down abruptly in the following months. An optimistic explanation would be that the downward trend comes from economic growth and the active measures for combating unemployment (25% of the Unemployment Fund, according to the MLSS). Still, if we deduct the effects of the GMI implementation, unemployment should drop to 4%, which seems unrealistic.

Fig. 4. The impact of the income support policy on the unemployment rate

	2001			2002: policy begins							
	Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun.**	**Jul**	**Aug**
Unemployment rate	7.7	8.0	8.6	12.4	13.2	13.0	11.1	10.2	9.6	9.0	8.5

Source: MLSS

In fact, the unemployment rate fluctuation follows more probably the level of expectations amongst the population. 365,000 out of 585,000 of registered applications were honored in August. The others were either rejected after social inspections (around 60,000), or they were suspended afterwards. These rejections were mostly because the targeted receivers refused to show up for the mandatory community work. These persons had their entries erased from the National Employment Agency records, and they did not have any interest to register again once in every three months. This is the explanation of the unemployment rate's dropping to the level prior of the Guaranteed Minimum Income Law application. As it was expected, the law has determined the sudden – but temporary – surfacing of a portion of the

[10] One example is the indicator built by Dumitru Sandu, *Spațiul Social al Tranziției*, Polirom, 1999

The guaranteed minimum income has proven not to be a poverty trap

hidden unemployment. As a result, the answer to the question raised above is rather negative: the people working in the underground economy prefer not to receive the minimum income, given the conditions attached to it. Therefore, the concerns that this policy could rather deepen poverty through encouraging passivity are not founded.

CAN ROMANIA AFFORD SUCH A HIGH MINIMUM WAGE – OR THE LAW IS MEANT TO BE ENFORCED SELECTIVELY?

Among other anti-poverty measures, NAP also includes the increase of the minimum national wage. In the second stage of this increase, negotiated by the Government and trade unions, the minimum wage will rise by 47% starting with January 2003. One of the arguments put forward by the trade unions in support of this measure was the need to place the Romanian minimum wage in line with "European standards". It is not very clear what standards are implied here. If we compare Romania's proposed standard to those existent in other CEE countries, the ratio between the minimum and average wages would be much higher in Romania than in any other candidate country, even those more advanced in the EU accession process (Fig. 5)

Fig. 5. Minimum wage policy – regional comparison

	Cz	Hu	Pol	Sk	Ro
Minimum salary (monthly, Euro)	189	199	196	107	**75**
Average monthly salary (Euro)	481	426	510	297	**131**
Min / average ratio	0.39	0.47	0.38	0.36	**0.57**

Source: Capital and INSSE, CESTAT Statistical Bulletin

It is not very clear what calculations were used in these bilateral negotiations between trade unions and the government, without the participation of the employers' associations – if there were any calculations at all. Informal estimates place the overall gain to the government budget from direct taxes at 500-800 billion lei. But on the other hand the state will lose, because a number of jobs will be shifted to the underground economy. The additional administrative costs alone are likely to offset the estimated profits. At present, the unemployment benefit is 70 percent of the minimum wage. Equally, the amounts allotted for encouraging employers to hire unemployed people and young graduates are 70 percent and 100 percent of the minimum wage, respectively. The increase in the overall level of the minimum wage will lead to additional budgetary expenditures of around 3,200 billions lei.

Another negative effect that must be considered is the drop in the external competitiveness of the Romanian enterprises, which may influence the current positive trend of exports. The textile and the related branches, producing largely in lohn system, make around 30% of the Romanian exports. The salaries are low precisely in this sector, which has been an important incentive for investors. Increasing the minimum wage will increase their costs. Recent estimates show that the profitability of private enterprises will go down by 5,600 billion lei, with reported GDP losses of between 0.4 to 1%.

True, there are signs that such negative consequences might not be at this order of magnitude. The domestic business associations and the international financial institutions have expressed their concern regarding the new social burden imposed on the private sector, as well as the negative effects on the budget revenues, since many jobs are likely to migrate towards the informal sector (off-record comments from the Ministry of Finance put the fiscal loss to about 0.8% of the GDP). In response, government officials have recently declared that the minimum salary regulations "may apply to the public sector only, and only in those units that do not incur operational losses". If so, the implications are indeed much less significant.

The worst thing to do: pass unworkable laws and implement them selectively

The problem is, this policy turn-around leaves many things in suspension and creates implementation problems – e.g. what does "public sector" mean exactly: budgetary institutions only, companies with 100% state ownership, companies with partial state ownership etc? These will presumably be addressed by subsequent implementation norms, which are usually drafted by ministerial staff without consultation. The most important shortcoming of this way of legislating by under-specifying policy is that it perpetuates the traditional gap between written norms and actual practice. Passing laws that we know in the first place are not meant to be enforced ad-literam, but according to some quasi-informal guidelines issued by the central bureaucracy, undermines the very principle of the rule of law and only increases the disregard for written norms. Norms that are interpretable and can be enforced selectively represent the best source for vicious behavior in the public sector. Instead of instructing people to disregard the provisions of a legal act in certain cases, it would be much better to write a workable text in the first place.

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