

Romania: The future of the guaranteed minimum income in the context of the COVID-19 pandemic

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Description

Over the period 2014-2020, the guaranteed minimum income (GMI) scheme, the most important means-tested benefit in Romania, became a weak means of addressing poverty. Recent legislative developments will decisively shape the future of the GMI. While some of these developments attempt to improve the design of the scheme by building in adequate work incentive structures and administrative sleekness, others ensure transparency in updating the benefits/eligibility thresholds associated with the scheme. However, the success of the scheme depends also on the adequacy of benefits, which has proved to be one of its weakest points.

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The guaranteed minimum income, adopted as early as 1995, is one of the three means-tested schemes in Romania – along with the family support allowance and the seasonal heating benefits. Redesigned in 2001 (law no. 416/2001), the GMI underwent a series of important amendments meant to improve its targeting power and effectiveness. In 2016, a law was adopted that changed the design of the GMI scheme, by consolidating all three means-tested benefits into one single benefit (law no. 196/2016): the minimum inclusion income (MII). The MII was expected to better coordinate existing benefits and to stimulate employment by reducing the marginal tax rate on low work income. Further, it was also expected to increase the adequacy of benefits and to improve coverage of the poorest 20%.

However, implementation of the law has been postponed several times since 2016 and it is now expected to take effect in April 2022. In this context, and due to the lack of a transparent mechanism for updating the benefits, the last update of the GMI eligibility thresholds was performed in 2014. The GMI eligibility threshold level has thus remained the same, while the level of the national minimum salary increased by over 200% between 2014 and 2021; this has undermined the GMI effectiveness and has significantly eroded its already weak adequacy. Thus, the eligibility threshold for a single person household (after its last update, in 2014 - 142 Lei [€32]) - decreased

from 30% of the “at-risk-of-poverty” threshold (AROP threshold: Eurostat variable ILC_li01) in 2014 to a mere 14% in 2020. In July 2021 its value was 10.2% of the national minimum net salary. The freezing of the GMI eligibility threshold has resulted in a constant reduction since 2014 in the coverage of the scheme, which in July 2021 reached an all-time low of 159,000 households, i.e. 2.1% of Romanian households.

Three legislative measures will enrich the current scheme with additional incentive structures to encourage informal workers and (other) people on a low income to enter the labour market: a) the 2016 law on MII, which should take effect in April 2022; b) a recent proposal to amend the current and future law on GMI (draft law 267/2021), emphasising the need to actively help people to find and retain formal work; and c) the GMI support measures adopted as part of the 2021 National Recovery and Resilience Plan, which propose the introduction of work vouchers to increase the proportion of workers in the formal economy, as well as the piloting of a “zero-tax minimum wage” project.

Two recent legislative measures will also have an impact on the reform. First, the draft law regarding the definition of vulnerable energy consumer, revised twice and expected to be adopted soon (in the context of the full liberalisation of the energy market), will reverse the integration carried out by the 2016 law on MII, separating energy consumption benefits from other means-tested benefits (see Pop, 2021). The argument behind the separation of benefits was that energy vulnerability and monetary

poverty risks overlap only partially (Romanian Government, January 2021). The second measure is the law on the mechanism for updating the social reference index (SRI), used as a unit to express the level of most of the social benefits in Romania and adopted in August (law no. 225/2021). The SRI is an index adopted as part of the legislation regarding unemployment (law no.76/2002) and is intended to ensure that social benefits are updated in line with the evolution of labour market incomes, in order to preserve their relative value. With the August 2021 law, the SRI will be updated annually with the inflation rate, starting from March 2022. This law is of great significance, as the value of SRI has been frozen for the last 13 years and, consequently, social benefits have been updated on a discretionary, unsystematic basis. This has not only jeopardised the adequacy of the benefits but has rendered them less effective by updating them to differing extents.

Outlook and commentary

As shown above, over the period 2014-2021, the GMI has increasingly become a weak benefit with very low coverage, unable to effectively tackle poverty.

During the COVID-19 pandemic, most of the measures adopted by the Romanian government favoured the protection of formal work-related incomes and the prevention of unemployment, rather than providing social protection to the poorest segments. While the GMI has traditionally enjoyed low political and public support (Cernat and

Vasile 2018), in March 2020, many trade union confederations asked the government to consider the adoption of a universal minimum income for all citizens, regardless of their employment status. But despite a revival in the public interest in social assistance benefits, implementation of the 2016 law on MII was, in 2020, postponed one more time. It is only since 2021 that political actors have regained interest in the GMI, as shown by the most recent legislative proposals mentioned above.

The success or failure of the scheme depends on both its design (e.g. the built-in work incentive structure, administrative sleekness) and adequacy of benefits.

The 2016 law on MII, which integrates and consolidates all means-tested benefits under one umbrella, lays the foundations for an effective and efficient protection system for the poorest segments of society. The additional legislative proposals described above support the design of the MII law, by strengthening work incentives. Furthermore, depending on how it is implemented, the law on vulnerable energy consumers could significantly enhance the response of the GMI to monetary poverty by broadening the definition of energy vulnerability beyond the income criterion (e.g. by targeting households who are not connected to any energy source or live in informal settings, targeting consumers who depend on energy consumption for health reasons and offering broader support to the elderly).

Yet the weak point of the current and future GMI schemes remains the inadequacy of the benefits. The

increase in the eligibility threshold and in the level of the benefit stipulated by the 2016 law was rather modest, considering that the law was expected to take effect in 2018; the eligibility threshold would, in 2018, have amounted to a mere 35% of the AROP threshold, covering no more than 5% of Romanian households.

In this context, the recently adopted law on the updating mechanism for the SRI is crucial and welcome. Yet a revision of all benefit levels, expressed in SRI units, and of their joint impact on household welfare will be essential to increasing their effectiveness, efficiency, and long-term sustainability.

Further reading

Cernat, Maria, Mihai Vasile (2018), [Perspectives on poverty in Romania. The impact of mass-media discourse regarding social assistance beneficiaries on the legislative process \(only available in Romanian\)](#), București: Friedrich Ebert Stiftung, Perspective.

Pop, L.M. (2021). [Romania: A draft law on social protection of vulnerable energy consumers](#), ESPN Flash Report 2021/34, European Social Policy Network (ESPN), Brussels: European Commission.

Romanian Government (January 2021), [Substantiation notes on the draft law on energy vulnerability](#)

Romanian Government (March 2021), [Draft law on vulnerable energy consumers](#)

Romanian Government (June 2021), [National Recovery and Resilience Plan](#)

Romanian Parliament (July 2021), the [Law regarding the updating mechanism of the Social Reference Index](#) (law no. 225/ 2021).

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