Peer Review in Social Protection and Social Inclusion 2011

Improving the Efficiency of Social Protection

Lisbon, 29 - 30 November 2011

Synthesis Report

European Commission

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Kenneth Nelson
Swedish Institute for Social Research

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Summary

In the context of the global financial crisis and fiscal consolidations in parts of Europe, several Member States have reformed the non-contributory and means-tested parts of social protection. With this situation in mind, Portugal hosted a Peer Review to discuss measures to increase the efficiency of social protection. Eight peer countries were present (Belgium, Croatia, Italy, Latvia, Lithuania, Malta, Romania and Slovenia). The European Commission and two stakeholders, Caritas Europa and Eurocities, were also represented.

The efficiency of social protection has already been addressed at EU-level in connection with the Europe 2020 Strategy. The Social Protection Committee, for example, has encouraged Member States to reduce the complexity of programme regulations and the scale of administrative costs. The Committee has also drawn attention to the importance of fighting fraud and possible errors in benefit entitlement and calls have been made for more active inclusion and increased emphasis on the labour market participation of beneficiaries. The Committee has also stressed the importance of devoting more effort to reducing poverty and promoting social inclusion, particularly in Member States with low benefit levels and incomplete coverage. Thus, ideally, minimum income benefits should be both efficient and effective in reducing poverty and promoting social inclusion.

This Peer Review on the efficiency of social protection was principally structured around the reforms introduced to social protection in Portugal. Several issues were discussed, such as the principles for means-testing and efforts to reduce administrative costs and fraud. Central to the Peer Review discussions was the potential trade-off between efficiency and effectiveness in the re-organisation of social protection. The reforms to social protection in Portugal have made the means-tested minimum income benefits more narrowly targeted on the poorest of the poor with seemingly adverse consequences for the type of poverty alleviation expressed in the Europe 2020 headline target for poverty and social inclusion. According to this target, Member States are committed to lifting at least 20 million people out of poverty as defined by the indicators by 2020. The increased targeting of the major means-tested benefits on low incomes is not limited to Portugal.

Most of the peer countries have re-organised social protection in a similar fashion. This tendency may very well alleviate, or at least mitigate, extreme poverty at the very bottom of the income distribution but the impact on relative poverty and income inequality is less straightforward.

In order to draw any firm conclusion about the distributive outcomes of social protection reforms in Europe we need more and better data, particularly at the institutional level. Bearing this obstacle in mind, the chief conclusion from this Peer Review is that governments need to place more emphasis on the issue of effectiveness. In order to achieve the poverty target set in the Europe 2020 Strategy, benefits must not only be efficient but also serve to reduce poverty substantially. It is likely that more effective redistribution requires additional resources, something that may be hard to achieve in the short term due to current fiscal constraints. However, a two-pronged approach based on both the efficiency and effectiveness of social protection reform would be more closely in line with the social objectives envisaged in the Europe 2020 Strategy.

A. The efficiency and effectiveness of social protection from the perspective of European integration

The pressure on social protection systems tends to increase during economic downturns as more people apply for social benefits while there are fiscal constraints on expanding national budgets. In this context Portugal decided to reform the non-contributory parts of the social benefit system and to host this Peer Review on improving the efficiency of social protection. Efficiency is an ambiguous concept with several meanings. But in the European discourse on social inclusion, the efficiency of social protection is closely linked to cost containment and the extent to which benefits are distributed to people with incomes below the poverty line. The purpose of this Peer Review was to provide input into the on-going discussion on the efficiency of social protection in Europe and to relate current reforms to the ambitions set by the headline target for poverty and social inclusion in the Europe 2020 Strategy. According to this target, Member States are committed to lifting at least 20 million people out of poverty and social exclusion by 2020. Participating countries in the Peer Review were Belgium, Croatia, Italy, Latvia, Lithuania, Malta, Romania and Slovenia. Two stakeholders — Caritas Europa and Eurocities — were also represented.

There is little doubt that the efficiency of social protection is an urgent issue for the sustainability of European welfare states and for the continued success of European social integration. If social benefits can be better tailored to assist the poor, it is a good reason for institutional change. The need for policy reforms to improve the efficiency of social protection has also been recognised at the European level, perhaps most explicitly by the Social Protection Committee (2011) in its assessment of the social dimensions of the Europe 2020 Strategy. Measures proposed in this context concern the way that policy is implemented and active inclusion. While policy implementation issues include the complexity of programme regulations, the scale of administrative costs and possible fraud and error in benefit claims, policies to foster active inclusion are concerned more with encouraging labour market participation of beneficiaries.

The Social Protection Committee (2011) has also recognised that additional resources for redistribution are required in order to reach the Europe 2020 poverty target. Member States have therefore been encouraged to reinforce minimum income benefits by expanding coverage and raising benefit levels in areas where policies are weak. Accordingly, it is not only the efficiency of social protection that has been emphasised, but also the effectiveness of policies. The effectiveness of social protection depends on the extent to which programmes actually reduce poverty. This dual perspective on the functioning of social protection is essential for successful poverty alleviation. Looking back, we can conclude that the Lisbon Strategy, the predecessor of the Europe 2020 Strategy, did not deliver the expected payoffs in terms of substantially reducing poverty, despite economic and employment growth (Cantillon, 2011). Economic growth and employment at EU level are still critical for social development. However, social protection has gradually moved up the policy agenda and is now seen as an additional cornerstone of an effective policy for social inclusion, complementing the effects of growth and employment.

It is nonetheless important to recognise that social protection continues to be subject to the principle of subsidiarity in Europe. The EU has limited competence in this area and there are hardly any EU directives or regulations relating to social protection that have to be implemented nationally. Instead the social dimension of European integration emanates mainly from non-binding EU initiatives, though there may be some indirect convergence as a result of EU economic and monetary integration. The Open Method of Coordination (OMC), in particular, is central to the social dimension of European Integration. The OMC encourages the dissemination of ideas and best practices across Member States. Under the OMC, Member States have agreed on common objectives and indicators in terms of which national and EU developments can be assessed and compared. The intention is to help Member States identify good examples which can be applied in the national context to develop new ways of tackling poverty and social exclusion.

The European Commission (2008) recently reiterated the importance of its recommendations for common criteria to be applied to the concept of sufficient resources and social assistance issued in the early 1990s. The chief objective of these recommendations was to ensure that all Member States recognise the right to sufficient economic resources and to define common principles for implementation. The precise governance structures were not detailed, although the Commission encouraged Member States to extend coverage, introduce differentiated benefit rates and establish formal indexation procedures. In some respects the benchmark measures for EU policy in the social area have become more precise. The level of minimum income, for example, it is argued, should be (at least) on a par with the at-risk-of poverty threshold agreed by the EU Member States (European Parliament, 2009). The at-risk-of poverty threshold is defined as 60% of the median level of disposable income after adjustment for household size and composition. The Peer Review discussion paper[1] showed that the minimum income benefit packages of Member States have seldom reached this level. In addition, benefits have — almost without exception — been eroded over the past two decades due to a failure to index benefits in line with wage rises.

1 http://www.peer-review-social-inclusion.eu/peer-reviews/2011/improving-the-efficiency-of-social-protection

B. Reforms to non-contributory benefits in Portugal

Portugal enacted two decrees in 2010 that have reformed the functioning of social protection. The new regulation is part of the Portuguese Stability and Growth Pact to promote economic growth and reduce the state budget deficit in the aftermath of the global financial crisis. The changes to social protection concern the non-contributory and means-tested parts of the system, including Social Integration Income (*Rendimento social de inserção*) and Unemployment Assistance (*Subsídio social de desemprego*). Both eligibility criteria and entitlement conditions have changed, and greater emphasis has been placed on activation and tackling fraud. The legal framework for the various non-contributory means-tested benefits has also been harmonised to reduce the complexity of the system and lower administrative costs. For example, the establishment of the social security online website[2] has substantially simplified the handling of benefit claims.

The eligibility criteria and entitlement conditions for means-tested benefits have changed in a number of ways. The benefit unit for all programmes is now defined in terms of family ties and the sharing of income. This has substantially widened the definition of the family unit used in the means test for Social Integration Income so that it now comes close to the definition of a household. In the previous legislation for Social Integration Income larger multi-generational households could be split into smaller family units for assessing benefit claims, for example, into units comprising only the nuclear family or the grandparents. This is no longer possible. The income categories that are included in means-testing have also changed. In the new regulation income from capital and property, and any housing benefits in-kind are taken into account. As a result, almost all family income is included in the means test, including family benefits, disability benefits and benefits for dependents.

The reforms are also aimed at keeping the nominal value of benefits constant, in part to meet the cap on social spending defined in the state budget. To this end, changes have been introduced to the basic rates and

2 http://www2.seg-social.pt/ingles/

the differentiation of family needs. The new regulation is adjusted to the old OECD equivalence scale, according to which the main applicant is assigned a weight of 1, each additional person over 18 one of 0.7 and each child one of 0.5. In addition, some supplements to the Social Integration Income have been abolished. Measures to increase compliance and reduce fraud have also been introduced. For example, there is a penalty for non-entitled payments based on false statements. In addition, after being in receipt of Social Integration Income for six months, beneficiaries are required to participate in labour market activation measures.

It is too early to assess the precise outcome of these changes. Caseload data presented in the host country report do, however, show that the number of recipients for Social Integration Income and Unemployment Assistance went down substantially between 2010 and 2011. The number of recipients for the means-tested family benefit has also declined significantly over this period. Although the significance of minimum income benefits has been reduced, the impact of this on social inclusion is less straightforward. One way of assessing this is to run a series of micro level simulations to compare the situation before and after the policy changes, as the host country independent expert did using data from the EU Statistics on Income and Living Conditions (EU-SILC). Before reviewing the results of this study it should be emphasised that the simulations did not take behavioural effects into consideration and as such should be interpreted with caution.

The simulations revealed that the changes to Social Integration Income are likely to reduce benefit expenditure by half, whereas the gains in efficiency are much more modest, if present at all. Essentially, Social Integration Income only affects the incomes of families in the bottom decile, which is too far below the EU at-risk-of poverty threshold noted above to have any substantial effects on aggregate levels of relative income poverty. The Social Integration Income raised the income of the bottom decile by about 29% before the reforms. After the changes the increase was reduced to 16%. Social Integration Income, therefore, seems to have become even more narrowly targeted on the very bottom of the income distribution, essentially benefitting only the most vulnerable. The simulations also revealed that the reformed benefit has less redistributive power than previously. Before the changes, Social Integration Income reduced the Gini coefficient by around 0.028[3]. The corresponding reduction in the at-risk-of poverty rate was around 1.7 percentage points. After the reforms, Social Integration Income reduced the Gini coefficient by only around 0.017 and the at-risk-of poverty rate by 0.6 of a percentage point. In absolute terms the change in redistribution may seem modest, but in relative terms the redistributive effects of Social Integration Income have been weakened severely. The equalising effects of Social Integration have been reduced by more than a third in terms of income inequality (according to the Gini) and by around two-thirds with respect to relative poverty.

According to the host country independent expert, the changes to social protection in Portugal have been driven more by the need to reduce costs than by a concern to respond to the increased demand for income support. The potential of the reformed Social Integration Income to reduce poverty and promote social inclusion has been offset by harsh budget constraints and the cap placed on social expenditure. The independent expert concluded that the possible gains in terms of modest increases to the efficiency of the system hardly justify the substantial reduction in redistribution.

3 The Gini coefficient is a measure of dispersion widely used to estimate the degree of income inequality. It varies between 0 (everyone has the same income) to 1 (one individual has all the income).

C. The policies and experiences of peer countries and stakeholders

Before the Peer Review meeting in Lisbon each peer country submitted a short report on its own policies and experience[4]. This section summarises these reports.

Expenditure on means-tested minimum income benefits has increased substantially in **Belgium** due to the slowdown of the economy following the global financial crisis. The number of recipients of the benefit (Social Integration Income) usually amounts to 2–3% of total population. In 2009, the number of beneficiaries increased to 9% of population and as a consequence, the Belgian government decided to reallocate part of health care funds to programmes that were affected most by the crisis. Meanwhile measures were introduced to reduce fraud and the misuse of benefits, by, for example, introducing more stringent controls and supervision of beneficiaries. The struggle against fraud was also integrated into the multi-annual performance contracts, which regulate the responsibilities of the state and other legal bodies in the management and operation of social protection. Further changes involved tackling the non-take-up of benefits through measures to make beneficiaries automatically entitled to the maximum reimbursements for medical and heating costs. Administrative costs were addressed back in the early 1990s with the establishment of the Crossroads Bank for social security to provide information on each person receiving support from various social benefit programmes.

Croatia has adopted a new strategy for social development for the period 2011–2015. One explicit objective was to increase the efficiency of social benefits. In 2011 a new Social Welfare Act was introduced. The new harmonised legislation covers 8 different benefits: social assistance (Subsistence Allowance), housing allowance, one-off assistance, education allowance, disability allowance, allowance for assistance and care, parental allowance and disability inclusion allowance. In order to make eligibility criteria and entitlement conditions more transparent a register of social

4 For more information see the papers at: http://www.peer-review-social-inclusion.eu/peer-reviews/2011/improving-the-efficiency-of-social-protection

benefits was created which sets out the rights and duties associated with the various benefits. In the new system able-bodied beneficiaries of the Subsistence Allowance are obliged to accept job offers and engage in work-related activities. Benefit levels are linked to a budget base, which is defined each year in the state budget. The basic rates of the Subsistence Allowance have changed slightly — in particular, the rates for single people have been increased from 100% to 120% of the base amount. Under the Croatian system of minimum income benefits, a large enough proportion of total expenditure goes to families in the bottom quintile of the income distribution. However, insufficient coverage and low benefit levels means that the system is of limited effectiveness in reducing the EU at-risk-of poverty rate.

Italy is one of the few European countries that have refrained from introducing a national framework for a general minimum income benefit. Instead there are 'categorical' minimum income benefits (i.e. those that apply only to specific groups) for particularly vulnerable sections of the population, such as the elderly and those with disabilities. Since most categorical minimum income benefits in Italy cover people that are out of the labour force, the relationship between activation and efficiency has not been a crucial part of the national debate. Instead the focus is on limiting fraud. According to recent legislation, all institutions in charge of providing means-tested minimum income benefits and services to the poor have to submit lists of beneficiaries to the Social Security Service (*Istituto Nazionale Previdenza Sociale*) for cross-checking against tax registers. However, the legislation has not yet been implemented. There are wide regional differences since although the state, in theory, has sole jurisdiction over determining the level of benefits, in practice it does not fully exercise this right. Some degree of harmonisation is enforced via the Index of Equivalent Economic Situation (IEES), which regulates access to various categorical minimum income benefits. The means test for these programmes covers all household members and other dependents in the application. The definition of the family unit, therefore, extends beyond that of the Social Integration Income and other non-contributory and means-tested benefits in Portugal. Another difference is that IEES takes into account taxable income and income from financial assets from the previous year, something that makes it difficult to deal with immediate or short-time fluctuations in welfare needs.

Latvia was hit severely by the global financial crisis and experienced a decline in GDP of 22% between 2007 and 2009. Since median household income fell dramatically as well, the EU at-risk-of poverty rate has not increased much. Latvia has reinforced the system of minimum income benefits during the crisis, in part facilitated by financial assistance from the European Central Bank and the International Monetary Fund. The rates of the general minimum income benefit were substantially increased in 2009 from LVL 27 per person a month (around EUR 34) to LVL 40 for adults (around EUR 57) and LVL 45 for children (around EUR 64). Further differentiation of the basic rates has been discussed, but not yet implemented. Despite the increase in the basic rates, the benefit levels of the general minimum income benefits are comparatively low and targeted at the poorest sections of the population. The general minimum income benefit is particularly important for the long-term unemployed since entitlement to contributory unemployment benefits lasts only for nine months. The massive inflow of beneficiaries following the increase in the unemployment rate gave rise to a large administrative burden on local welfare agencies which are responsible for handling claims. In response the state abolished the obligation for people to obtain a 'needy person's' status before being eligible for minimum income benefits. The state also co-finances half of the costs associated with the benefit and 20% of the associated housing benefit. Another problem was that beneficiaries appeared to give up actively looking for work. Every claimant is, therefore, now required to register with the Employment Agency before being eligible for benefits. It is uncertain whether this procedure has in fact made beneficiaries more active in looking for a job and led to an increase in employment. Nevertheless, there is on-going discussion about introducing more stringent activation measures.

Expenditure and caseloads for minimum income benefits in Lithuania have increased substantially as well. Here too the main reason for this massive inflow of beneficiaries is the sharp increase in the unemployment rate following the global financial crisis. At the same time, it was generally believed that the system was poorly targeted and inefficient. Amendments to the law on minimum income benefits have therefore been introduced. The revised legislation became effective on 1 January 2012. The objectives include strengthening efficiency by providing benefits only to those defined as needy, increasing incentives for employment, reducing fraud and increasing cooperation between municipalities and the local community. Several changes were introduced, including differentiating benefit rates according to family composition. In order to encourage the transition from dependency to work, it was decided that beneficiaries should be able to retain half of the benefit for a period of up to six months after taking up paid employment. In order to reduce fraud, an amendment was made to allow municipalities to increase the stringency of procedures before granting entitlement to benefit. The discretionary power of the municipalities to act more in line with local conditions has also been increased and it is therefore easier for the municipalities to bypass national guidelines in order to meet local welfare needs.

Non-contributory benefits in **Malta** have evolved into a complex system in which a number of different interconnected programmes supplement one another. There is no harmonised means test that applies uniformly to all non-contributory benefits. Policy makers are at present discussing new ways of minimising fraud and the misuse of benefits as well as possible ways of reducing payments over the duration of the period of entitlement to receipt of benefit.

Romania has one of the lowest levels of government revenue relative to GDP in the EU and social spending is considerably below that in many other Member States. The budget deficit is also much higher than the EU average. A process to reform parts of social protection has recently been initiated, partly to increase the efficiency of minimum income benefits. Besides new measures to reduce fraud, the proposed changes are intended to reduce the complexity of the system. Essentially, nine new benefits will replace the vast array of 'categorical' programmes that are currently in place. The new benefits include an 'Insertion Minimum Income', which resembles (in structure) the general minimum income benefits in place in other European countries.

Slovenia has recently reformed its system of minimum income benefits. The new regulation, effective January 2012, is expected to improve the efficiency and effectiveness of benefits in reducing poverty. The level of minimum income benefits has been raised and new measures have been introduced to encourage people to take up employment. The new rates provide higher benefits for dependents and incorporate work incentives, allowing beneficiaries to exempt part of their employment income from means-testing or to receive an activation supplement. Efficiency will also be increased by improved harmonisation between the various forms of non-contributory benefits. Instead of using a unified means test, the new regulation defines the order in which benefits can be claimed. The regulation is built around the idea of a one-stop shop, where entitlement to the various benefits is determined at the same time. In addition, information about families and their income will be compiled from various registers, something, it is hoped, that will reduce fraud and ease the administrative burden. It is important to note that the revised legislation does not necessarily mean that benefits will be targeted more narrowly. On the contrary, the number of beneficiaries is expected to rise substantially, so contributing to more effective redistribution.

Caritas Europa's input to the Peer Review was focussed on the active dimension of social protection. Some concern was raised in connection with current activation programmes in Spain in particular, which seem to force beneficiaries to engage in various labour market insertion programmes without proper consideration of the complexity of social inclusion. Caritas Europa also highlighted the fact that active approaches to social protection often fail to deliver in terms of labour market participation and employment particularly among the poorest population groups. Governments should therefore be encouraged to adapt existing arrangements to better protect the needs of the least fortunate, even in times of tight budget constraints.

Eurocities also underscored the importance of labour market activation for social inclusion taking the Dutch experience as the point of departure for discussion. The unemployment rate varies significantly across the Netherlands, being around 10% in the major cities and about 3% in rural areas. The general feeling seems to be that active approaches to social protection in the Netherlands have had the desirable effect of increasing transitions from welfare dependency to work. In recent years the Dutch system of social protection has been substantially reformed and much more emphasis has been placed on active approaches to social inclusion. Meanwhile, contributory benefits have been tightened and the duration of unemployment benefit shortened. However, the relative importance of minimum income benefits in the overall system of social protection has not changed considerably, possibly due to the emphasis on activation policy. Despite the positive experience with active labour market policy in the Netherlands, Eurocities emphasised the growing need for evidence-based policy reform, where the consequences of policy changes for the efficiency and effectiveness of social protection can be better monitored and assessed.

D. Discussions during the Peer Review

Several issues pertinent to the debate about how to achieve efficient and effective social protection systems were discussed during the Peer Review meeting in Lisbon. Measures that are used to increase the efficiency and targeting of social protection may sometimes have unintended and adverse consequences for poverty alleviation. Based on the Portuguese reform of minimum income benefits the discussion paper for this Peer Review provided a number of examples of possible conflicts between efficiency and effectiveness in the re-organisation of minimum income benefits. The key point for discussion was the potential trade-off between efficiency and effectiveness. Other subjects that were opened for debate during the meeting were the non-take-up of benefits, the implied equivalence scales embedded in the benefit formulas, the ways of means-testing and approaches to activation. A short summary of the main conclusions to emerge from the discussions on each topic is presented below.

The discussion of **potential trade-offs between efficiency and effectiveness** confirmed that several peer countries had narrowed the scope of benefit recipients to families at the very bottom of the income distribution. Current legislation and reforms are seemingly not intended to reduce the EU at-risk-of poverty rate but rather to relieve extreme poverty. Slovenia is perhaps the most notable exception to this general pattern, the generosity of minimum income benefits actually having been increased.

A representative from Portugal was worried that benefit cutbacks had reduced motivation among low-income families to apply for assistance, so lowering the take-up and the equalising effect of benefits on the income distribution. The representative also noted that the changes in eligibility criteria for minimum income benefits had excluded many families from additional in-kind benefits, such as free school meals and books. Fears were, therefore, voiced that the new legislation on minimum income benefits would make it more difficult to persuade poor families to send their children to school. The independent expert added the point that child well-being was important for the continued social and economic success of EU countries. One of the Portuguese representatives also recalled the need for impact assessments of policy initiatives, which should have occurred prior to the reform taking place. This is in line with the methodological framework for social policy experimentation presented by one of the representatives from the European Commission at the meeting.

Some participants thought the focus on minimum income benefits was too narrow and suggested that it was also important to take contributory benefits into consideration. In Lithuania, for example, restricted access to contributory unemployment benefits has put pressure on minimum income benefits and increased the need for harmonisation between the contributory and non-contributory parts of the social protection system. In Belgium, the extent to which contributory benefits are earnings-related has gradually been eroded. This tendency is now being reversed since it was believed to damage public support and threaten the whole system of social protection in the country. Some participants also wanted to broaden the discussion of efficiency to include additional costs besides social spending. It was equally argued that intergenerational equity should be taken into account and the future costs of social policy financing considered. The interest which future generations would need to pay on under-financed state budgets is an example. The independent expert noted that discussions on efficiency have a tendency to focus on government outlays whereas revenues are largely ignored. The money redistributed to the poor will most likely be used for consumption with some financial return for society, both in terms of tax revenue and employment.

A further issue addressed was the **non-take-up of social benefits**. Some measures that have been used to improve the efficiency of social protection and to ensure consistency in the allocation of social assistance benefits may have unintended and adverse consequences for benefit take-up, which might reduce the effect on alleviating poverty. An example concerns the impact on the motivation of the poor to apply for benefits in Portugal (as noted above). It was widely agreed that the non-take-up of social benefits is seldom given enough weight by policy makers and that empirical evidence regarding the extent and nature of non-take-up is often lacking. In Malta, Lithuania and Romania, for example, no accurate data on the non-take-up of social benefits exist, even though the problem of incomplete benefit take-up seems to be widespread. In Belgium there has been an inquiry into the causes of the high incidence of non-take-up. Some of the reasons for not claiming benefits were: a general ignorance on the part of potential beneficiaries, the shame or stigma associated with receiving minimum income benefits and a determination of some of the poor to stay out of the public benefit system. The study also showed that families with children were more likely to apply for benefits than households without.

Slovenia is another interesting case. Means-testing is well established but the stigma associated with minimum income benefits is relatively low and the take-up rate is believed to be comparatively high. However, concerns have been raised that the non-take-up rate may increase in the near future. The Act of Inheritance passed in the 1970s stipulates that in certain circumstances the state may claim back benefits from the estate of a deceased who was on welfare. The act has never been strictly implemented, although more emphasis on mutual financial obligations in respect of deceased beneficiaries is expected because of the budget constraints imposed on Slovenia by the current financial crisis. This development has sparked a debate about the rights-based character of non-contributory and means-tested benefits and the possible consequences for the take-up of benefits and poverty alleviation.

The non-take up of minimum income benefits has also been a problem in Croatia, particularly in relation to means-tested pensions. Means-testing in Croatia involves both income and property. Property has to be declared at the Land Register before eligibility for minimum income benefits can be established, creating a major disincentive to apply for financial support.

Some of the peer countries have introduced a variety of measures to increase the take-up of minimum income benefits. For example, the establishment of the Crossroads Bank in Belgium noted above makes it possible to keep track of individual beneficiaries and automatically link them to various associated rights, so reducing the non-take-up for certain in-kind benefits. The Netherlands is another example of a country where the outsourcing of programme implementation to independent agencies increased the take-up rate of supplementary minimum income benefits, particularly among immigrants.

A more common approach to increasing the take-up rate is to inform the potential recipients of their rights to receive public support. As noted above, the non-take-up of minimum income benefits became a major issue in Croatia with the introduction of means-tested old-age pensions. An extensive advertising campaign launched two years after the pension reform substantially increased the take-up rate. In Malta, local governments have been asked to distribute leaflets to all households explaining the benefits available. Similar procedures have been adopted in Romania, where independent organisations are asked to spread information about public programmes.

One of the most essential but problematic aspects of social assistance is to secure horizontal equity, that is, to make sure that every family eligible receives financial support according to their needs. Social assistance rates that are well adjusted to needs can improve the efficiency of social protection systems to the extent that people do not receive benefits once their income is above the poverty line.

The **implied equivalence scales embedded in the benefit formulas** were also addressed during the Peer Review. The general impression from the discussion was that countries have defined the structure of benefit rates very differently. Whereas some countries rely on *ad-hoc* policy decisions, other countries have — to differing extents — introduced more formalised methods to define the different income needs of families. None of the participants at the Review agreed with the idea of a single European definition of differentiated family needs. Instead, it was considered that benefit rates should reflect the actual local or regional needs of claimants, which can differ substantially between countries. However, some participants thought that there might be some rationale for streamlining the methods by which rates are determined.

The nature of the **means-test** involved in assessing benefits was discussed as well. Much of this discussion centred on the tapering of **income from employment**, so that parts of it are exempt from means-testing, often in order to increase incentives to work. In some countries, such tapering is also used to encourage beneficiaries to look for work in the formal labour market. Several peer countries have applied income tapering to minimum income benefits, although the exact means used differs substantially between countries in both structure and the rate of tapering applied.

The Peer Review, in addition, included a general discussion of **active approaches to social protection**. Most countries at the Review had developed active approaches that worked alongside, or were integrated with, minimum income benefits. It was difficult to find success stories from the different practices, probably due to the complexity of regulations surrounding labour market activation policy and the general lack of empirical evaluations. Nonetheless, some worries were raised that the activation paradigm that has swept across the EU is underpinned by a punitive philosophy with reduced emphasis on incentives to find work. There seemed to be some agreement among participants that active approaches should be supportive and provide beneficiaries with the necessary skills and competences to find work. The importance of job placement services was also noted; although it was recognised that the success of active labour market policy is to some extent related to the overall structure of the labour market and to unemployment levels.

The level of governance was equally considered important for the success of labour market insertion programmes. One tendency that seems to be prominent across Europe is that government intervention is being implemented at the lowest (i.e. most local) possible level, where services can be better tailored to the needs of individuals. The Norwegian example was referred to, under which different government agencies at both national and local level have begun to exchange ideas and practices on how better to respond to the needs of individuals and to integrate them into the labour market[5].

5 For more information see: http://www.peer-review-social-inclusion.eu/peer-reviews/2009/developing-well-targetedtools-for-the-active-inclusion-of-vulnerable-people

E. Conclusions and key lessons

The social dimension of the Open Method of Coordination is aimed in part at promoting analytical capacity building and mutual learning in the EU on issues relating to poverty and social inclusion. The Peer Reviews are essential to this process of common knowledge building and the issues discussed should be closely linked to policy reforms and focused on topics of importance for the long-term, strategic targets set by the Europe 2020 Strategy. The participants in the Reviews are encouraged to identify innovative approaches and to improve the dissemination of the results of policy implemented in different countries.

The present Peer Review has contributed to a better understanding of the ways in which the EU Member States have reorganised social protection in order to respond to budget constraints arising from the global financial crisis and fiscal consolidation. A number of key issues relating to non-contributory minimum income benefits have been identified, some of them in much need of continued exploration.

The key lessons from the Peer Review give cause for optimism but also give rise to concerns. The governments of the peer countries recognise the need for income protection and have introduced reforms to the non-contributory and means-tested part of the system. The chief focus has been on increasing the efficiency of benefits along the lines suggested by the Social Protection Committee in their assessment of the Europe 2020 Strategy. Although the precise policy responses differ across the peer countries, one observation is that almost all reforms have been aimed, at the very least, at improving the effectiveness of benefits by targeting them more restrictively on those at the very bottom of the income distribution. Although such changes may have increased the efficiency of social protection, the redistributive outcomes are less clear. One interpretation of the most recent policy developments is that social protection and minimum income benefits have become increasingly concentrated on tackling extreme levels of financial hardship and not the income levels that are reflected in the headline target for reducing poverty and social inclusion in the Europe 2020 Strategy. To this extent it is doubtful whether the recent reforms of minimum income benefits in the peer countries will be enough to lift at least 20 million people out of poverty, as defined in the Strategy, by 2020. In order to achieve this target there needs to be more redistribution and benefits need to be increased significantly further up the income scale.

Insofar as the targeting of social protection on low incomes has occurred to differing extents as between the EU15 and EU12 Member States, the most recent developments as regards means-tested minimum income benefits may have introduced even greater institutional diversity across the EU, with adverse consequences for European social integration. In order to provide a more comprehensive framework for social protection which has, potentially, more chance of achieving the Europe 2020 poverty target we may also need to broaden the discussion of social protection to encompass first-tier contributory benefits as well. Contributory benefit programmes are not only likely to have significant direct effects on poverty and social inclusion, but may also give rise to indirect effects due to their interplay with second-tier benefits.

Contributory benefits may prove essential for the organisation and functioning of non-contributory and means-tested minimum income benefits. In the discussion paper for the Peer Review it was noted that social insurance might influence the political, budgetary and institutional possibilities of policy makers to increasing minimum income benefits for those further up the income scale (Nelson, 2006). The politics surrounding this interplay between programmes concern the ways in which contributory social insurance promote cross-class interests in support of the welfare state. One central aspect here is the degree to which social insurance provides income security for individuals in middle- and higher-income groups, something that is likely to increase also popular support for vertical redistribution, for example, in the form of higher levels of non-contributory minimum income benefits. The budgetary aspect refers to the marginal financial costs of increasing the size of minimum income benefits (it is assumed that the marginal financial cost is lower, the more social insurance has reduced the demand for means-tested provision). The institutional requirement for raising non-contributory minimum income benefits concerns the "distance of legitimacy"', according to which the minimum levels of social insurance to some extent set the maximum level for means-tested provision. Generally, it is difficult to imagine a system where the non-contributory benefits are more generous than the contributory ones, although history provides a few examples where this occasionally has been the case. All of these factors may constrain decision-making as regards the organisation of the welfare system. Before policy-makers can increase the level of non-contributory minimum income benefits they may first have to reform social insurance, something that should be taken into consideration when assessing the likelihood of reaching the headline target for reducing poverty and social inclusion in the Europe 2020 Strategy.

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http://www.peer-review-social-inclusion.eu

Improving the efficiency of social protection

Host country: **Portugal**

Peer countries: **Belgium, Croatia, Italy, Latvia, Lithuania, Malta, Romania, Slovenia**

Stakeholders: **Caritas, Eurocities**

Social protection expenditure tends to rise with economic downturns and in Portugal the experience of the recent crisis has highlighted the need to improve the efficiency of social protection provision and to make it more cost effective.

Two decrees in June 2010 resulted in the implementation of the following measures:

- Redefining the means-tested eligibility criteria for access to social support to ensure consistency in the allocation of non-contributory benefits (namely social assistance, child benefits, and unemployment benefit);
- The clarification of three key concepts (the concept of household, what constitutes total income, and the equivalence scale to apply to individuals in households in order to take account of economies of scale in expenditure) which will serve to ensure that benefits provided correspond to the target groups without over- or under-counting the numbers concerned;
- More help to those needing to acquire new skills or qualifications conditional on them showing a high level of commitment to the programmes involved
- Enforcement measures to fight fraud and improve supervision of the system more generally.

The Peer Review is designed to gather expertise on measures to improve the efficiency of social protection strategies and to evaluate the measures Portugal has taken.