

**EU-CHINA SOCIAL PROTECTION REFORM PROJECT  
COMPONENT 3**

**VOLUME ON 2015 RESEARCH TOPICS**

**TOPIC 3.2.1**

**EXPERIENCES ON UNIFIED STANDARDS FOR CALCULATION OF SOCIAL  
ASSISTANCE BENEFITS**



***EU-CHINA***

Social Protection Reform Project  
中国-欧盟社会保障改革项目

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**3.2.1 Experiences on unified standards for calculation of Social Assistance benefits  
Assessment Report**

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## **Abstract**

Experiences on the unified standards for the calculation of Social Assistance benefits – short explanation of the Dibao focus in the whole report.

The Minimum Livelihood Guarantee Scheme (MLGS, Dibao, or subsistence allowance) is the core benefit in the Chinese social assistance system, as well as the most important assistance program. Currently, dedicated social assistance benefits largely depend on a Dibao entitlement, i.e. if the applicant's family income cannot reach the MLGS standard, they will be likely to receive dedicated social assistance in line with their specific needs. The MLGS is an income supplementary assistance system, which makes sure that the income of the population in poverty can be kept at a certain level (Dibao standard), so that they have the capacity to purchase basic living consumables. Therefore, the Dibao Standard (Dibao line) is essential in defining people's eligibility and their benefit level. It has for a long time been a challenge for the Civil Affairs Departments to calculate and adjust the standards along with economic growth. The Civil Affairs Departments are making great efforts in establishing the adjustment mechanisms to maintain the balance between welfare and productivity.

This report analyzes the issue of Dibao Standards in China. Section 1 introduces the definition, significance, theoretical methods and the current policy framework and practice. Based on data and statistics, Section 2 analyzes the historical development and changes in the Dibao standards. It also examines the factors affecting the Dibao standards. The last section summarizes the pressing issues and the challenges faced within the Civil Affairs Departments and briefly discusses the future direction as well.

### **1. The definition, significance, theoretical methods and current policy framework**

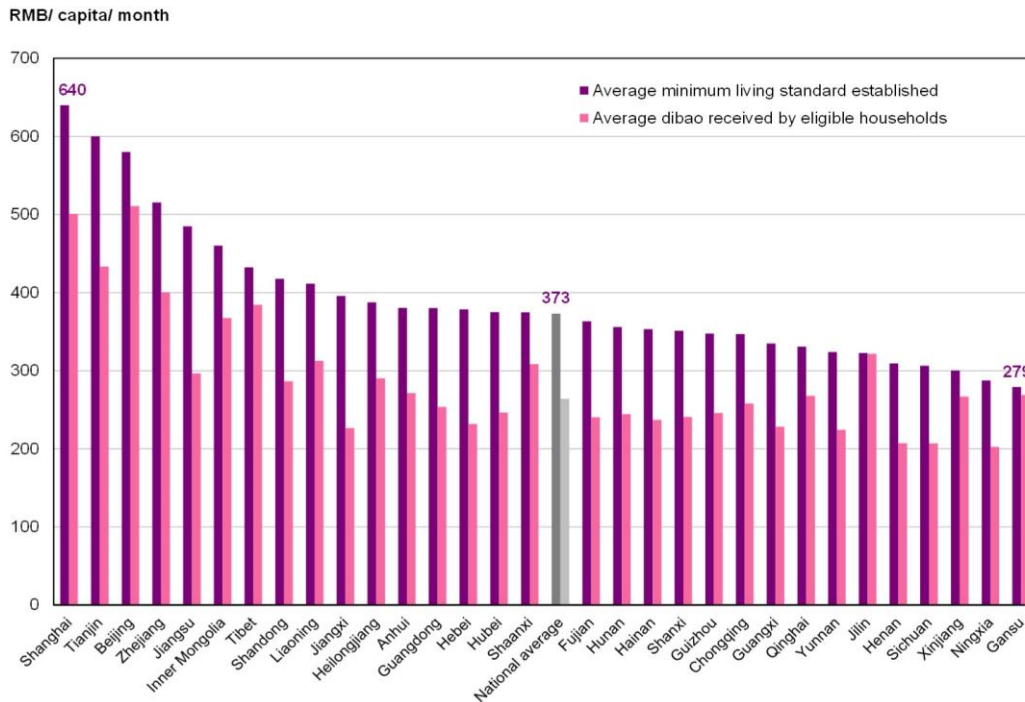
#### 1.1 Definition of the Dibao Standards

The Minimum Livelihood Guarantee Scheme (MLGS, Dibao, or subsistence allowance) is the core content in Chinese social assistance policy, as well as the most important assistance program. The MLGS is an income supplementary assistance system, which makes sure that the income of the population in poverty can be kept at a certain level (Dibao standard) therefore giving them the capacity to purchase basic living consumables. Therefore, the Dibao Standard (Dibao line) basically determines people's eligibility for assistance (can/cannot receive) and the benefit level (how much).

In order to have a fair and unified standard for social welfare, the Dibao scheme must be set to provide consistent assistance. It is a basic allowance which aims to ensure poor people's basic living rights within a certain period of time. The Dibao allowance for families will not be cancelled until people's income can satisfy their own living demands. With the development of the economy, the improvement of people's living standards and national fiscal capacity, a dynamic standard will also make relevant adjustments in order to ensure that poor people can enjoy the achievements arising from economic development and live a civilized and decent living.

The Dibao standard has certain features: 1) it defines which people can receive the benefit so it must be "strong" to allow clear identification of the families in most difficulty. 2) the standard should not be high so that the working population would be discouraged. 3) it should be scientifically calculated, say, with a set of indicators to ensure its validity and reliability. 4) currently it is mainly based on a household's income (cash oriented). 5) it considers the family as whole and does measure individuals' income separately. 6) it is different from the actual Dibao subsidy received by the recipients (see figure 1.)

Figure 1. The average minimum living standard by provinces in 2013 (CNY)



Data source: Ministry of Civil Affairs, 2014.

### 1.2 Significance

In the process of establishing the Dibao system, it is meaningful to measure the Dibao Standard scientifically. If the Subsistence Security Standard is too low, it can not guarantee citizens' basic life demands and survival rights. This would easily trigger social unrest and impede the harmonious development of society. More seriously, it goes against the basic concept of modern public administration. If the Subsistence Security Standard is set too high, it will make employees discontented, increase the fiscal burden and create the welfare dependence phenomenon some European countries are faced with. Welfare dependence makes workers unwilling to work, hindering economic growth and social development. Therefore, setting a scientific and reasonable security standard not only helps save social resources but also protects the rights and interests of low-income groups. The Subsistence Security Standard is a criterion to measure both personal and family poverty situations. It should be set according to the social and economic development levels, as well as the expense residents need to expend in order to maintain a basic living. It is also the core of the Subsistence Security System. The study of the Resident's Subsistence Security Standard is significant in theory and practice.

In particular, the Dibao standard not only determines whether people can receive Dibao or not, in fact, as the Dibao entitlement is closely related to the other dedicated assistance programs, the application of the standard is greatly extended. It turns out to be far more significant than it was expected to be.

### 1.3 Poverty measurement methods

The basic goal of the Social Assistance System is to guarantee recipients' basic living. In some sense, social assistance is a special kind of "distribution according to needs" system that is possible in the current conditions. The "need" refers to the "basic living need". The problem is the amount of expenses needed to ensure a family's basic life. For such a question, different families will have different answers, because each family's reality is different. However, from the aspect of social

assistance practice, a consistent "line" must be drawn to determine the recipients of relief and assistance standard. In theory, there are some commonly used methods to measure poverty as follows.

- 1) Engle's Ratio Method. The poverty line equals the lowest food consumption spending divided by the poverty point's Engel's coefficient. This way is easy to operate and the standard calculated is connected to the level of income.
- 2) Income Ratio or International Poverty Line Method. Poverty line equals 50% to 60% of the country's or the region's average income. This method is simple to calculate and the poverty line is linked to the social average income. This allows participants to share in the achievements of economic development better.
- 3) Vegetable Basket or Basic Needs Method. The poverty line equals the expense of residents' daily necessities list. This method can reflect directly the content of the lowest food consumption spending.
- 4) Mathematical Model Method. This quantifies the indicators of poverty and obtains the poverty line by related ways. The "Martin Method" is the most representative. It can determine high poverty and low poverty lines. Although the "Martin Method" needs complicated calculations, a high poverty and low poverty line can reflect absolute poverty and relative poverty.
- 5) Extend Linear Expenditure System Method (ELES). This method uses the Extend Linear Expenditure System model with the expenses and prices of daily necessities to obtain the poverty line. The data is more objective and scientific, covering different income and expenditure levels. However, its cost is very high due to its complicated calculation and strict data requirements.

In terms of their operability and calculation basis, the measurements of poverty line above have their respective advantages and disadvantages.

Take the Engel coefficient method for an example. Although this method is simple and clear and the data it requires and provides are relevantly stable, China's regions have differences in their commodity prices and marketization levels. Moreover, researchers have debates about the use of Engel's coefficient: the question is, "which Engel's coefficient should we adopt"? The Engel's coefficient should be 50% to 60%, of a poor resident's income. Should it be measured with international recognized poverty line?

The market basket method is more intuitive and relatively easy to be accepted and understood. It can ensure the basic living of poor residents. The method needs scientific research and the participation of residents. A Dibao standard measured by this method can be compared horizontally, but it will limit the decent lifestyle of the beneficiaries.

Mathematical model method. Take the Martin method for example. This method can judge reality objectively, but it is hard to ensure consistency in determining the high and low poverty line. And individual citizens whose consumption exactly reaches the food poverty line are difficult to determine and calculate. The extend linear expenditure method itself is relatively complex, and it remains to be tested whether it is reasonable to define the poverty line based on consumption expenditure.

The income ratio and average number method is simple and can reflect the relativity of poverty and regional differences. But it can not reflect individual specific needs. The income ratio method may be empirical, subjective and arbitrary when it comes to determining ratios. The method may be stressful for the fiscal expenditure of poor regions.

#### 1.4 Policy framework and implementation



Dibao was first initiated in Shanghai in the early 1990s and was then promoted nationally during the mid-and late-1990s. In 1997, the State Council issued the “Notice on Establishing the Urban Minimum Livelihood Guarantee Scheme Nationwide” to extend the local experimentation to a national policy framework. In 1999, the State Council passed the “Regulations on the Urban Minimum Livelihood Guarantee Scheme” to strengthen the legal framework of MLGS (Dibao). In 2007, the State Council issued the “Notice on Establishing the Rural Minimum Livelihood Guarantee Scheme Nationwide”. This allowed rural people to be secured by MLGS as well. Meanwhile, local governments should formulate and announce the subsistence allowance standard according to the expense required to maintain the basic living standard and then investigate and assess the average family income of the applicant.

In 1999, the Regulation was formulated for the purposes of standardizing the system of guaranteeing the minimum subsistence for city residents and guaranteeing a basic livelihood of city residents. It stipulates that “City residents holding non-agricultural registered permanent residence and whose average income of family members living together is lower than the local standard for guaranteeing the minimum subsistence for city residents shall have the right to obtain basic livelihood material assistance from the local People's Government. The income stated in the preceding paragraph refers to all monetary income and material income of family members living together, including alimony, payments for support or payments for foster care that should be paid by persons providing statutory alimony, payments for support or for foster care, but not including the pensions and subsidies for the disabled or the family of the deceased enjoyed in accordance with the provisions of the State.”

Article 4 indicated that “A responsibility system of local People's Governments at all levels shall be exercised for the system of guaranteeing the minimum subsistence for city residents. The departments of civil affairs of the local people's governments at or above county level shall be responsible for the administration of guaranteeing the minimum subsistence for city residents in their respective administrative areas; the financial departments shall, in accordance with the provisions, secure the funds required to guarantee the minimum subsistence for city residents; the departments of statistics, pricing, auditing, labor and social security, and personnel, etc. shall, according to their division of functions and each taking responsibility for their own work, be responsible for the relevant work of guaranteeing the minimum subsistence for city residents within their respective functions and duties.”

Article 6 explicitly sets out who should get Dibao and how to establish the Dibao standards. “The standards for guaranteeing the minimum subsistence for city residents are determined in the light of the clothing, food and living expenses which are required for local city residents to maintain a basic livelihood, and appropriate consideration shall be taken of the expenses for water, electricity, fuel coal (gas) and expenses for the compulsory education of minors.

The standards for guaranteeing the minimum subsistence for city residents in municipalities directly under the Central Government and cities divided into districts shall be formulated by the departments of civil affairs of the People's Governments of the municipalities or cities in conjunction with such departments as the finance, statistics and pricing. They shall be submitted to the People's Governments at the same level for approval and then be published for implementation. The standards for guaranteeing the minimum subsistence for city residents in counties (cities at the county level) shall be formulated by the departments of civil affairs of the People's Governments of the counties (cities at the county level) in conjunction with such departments as the finance, statistics and pricing, and after being submitted to the People's Governments at the same level for approval and to the people's governments at the next higher level for recording, be published for implementation. When the standards for guaranteeing the minimum subsistence for city residents

need to be raised, a reappraisal and re-decision shall be done in accordance with the provisions of the preceding two paragraphs.”

The 2007 Notice on Rural Dibao indicates that rural Dibao standards are set by the local governments (above county level), in line with the cost of local rural residents’ food, clothes, water, and electricity etc. The standards should be rendered to the next higher level of government and be executed after approval. The standards should be adjusted along with the prices of local living necessities and general living standards.

In 2014, the “Interim Measures of Social Assistance” indicate that “the criterion of the minimum subsistence guarantee shall be determined and released by the People’s Government of province, autonomous region, municipality directly under the Central Government, or districted city according to the expenses of local residents’ minimum subsistence and be appropriately adjusted on the basis of the local economic and social development levels and price changes.”

In practice, the local Dibao standards are set with local discretion. According to the published minimum living standard line, some cities calculated the standard by using the sample survey method; some cities used the method of consultation with the People’s Government’s finance, labor security, statistics, prices and other departments; some took the approach of contrast and reference; and some made subjective judgments based on the local financial situation.

In 2006, government representatives of Zhejiang Province, Guangzhou and Nanjing reported their method at the “*Chinese Urban Residents’ Minimum Living Standards International Seminar*”. It can be divided into several steps. The first is to list the basic necessities of life for each person each month according to local reality and then divide them into three categories: survival needs, food and clothing needs and development needs. The second is to designate the type of goods and their required quantity on the basis of the list of basic necessities of life and the basic living standards of the recipients (which can be referred to as the Standard of the Local Nutrition Society). The third is to calculate the money required to buy these goods according to the commodity prices based on a market survey or the food prices regularly published by the local statistical department. The fourth is to calculate the urban residents’ minimum living standard according to the total of the money. The fifth is to fine-tune the urban residents’ minimum living standard according to the local financial situation and other related factors and determine the standard figures. Noticeably, China has not yet set a unified formulation method for the urban residents’ minimum living standard. It has just limited the general aspects of the standard line and delivered the right to set the urban residents’ minimum living standard line to local People’s Government. Some of the problems exposed with the implementation of the standards set by local governments are:

**Dibao standards and the rural poverty line:** The rural poverty line is closely related to the rural minimum living standard, but it is not entirely consistent. The rural poverty line is an economic indicator for distinguishing the rural poor from the non-poor, while the rural minimum living standard line is for distinguishing the recipients of social assistance from other rural people. The rural minimum living standards should be higher than (or at least equal to) the rural poverty line. The difference between the two points of view is whether the minimum living security line is consistent with the poverty line. Gao Hai (2008) pointed out that in China, the minimum living standards are not entirely consistent with the poverty line. The poverty line is just an important reference to determine the minimum living security line.

In 2007, MoCA’s Dibao Division noted that the rural minimum living standards should not be lower than the poverty line promulgated by the State, otherwise they cannot guarantee the minimum living needs of rural residents. But the rural minimum of living standards should not be too high either, otherwise rural Dibao will discourage people’s willingness to save.

In general, the local Dibao standards have five categories of methods and procedures: 1). Sampling survey; 2) Inter-departmental discussion and negotiation: different sectors of civil affairs, finance, statistics, price and other administrative sectors discuss and negotiate, finally a standard will set to accommodate the various requirements of these sectors. 3) Reference group method: local governments could either refer to other regions' Dibao lines or social average wages or unemployment allowance or minimum wage. 4) Purposive decision method: that is to set the standards according to the judgment and will of the officials/sectors. 5) Mixed methods: to mix the methods above.

Currently, in practice, three methods are commonly used: 1) refer to the average wage e.g. Jiangsu Province sets 20 to 25% of urban disposable income and rural annual average income; 2) the consumption ratio e.g. Dalian sets 30 to 35% of the urban and rural average consumption of the previous year. 3) refer to the minimum wage e.g. in 2005, Zhejiang stipulated that the urban Dibao standard should be set at 40% of the minimum wage and the rural Dibao line at the equivalent of 60% of the urban Dibao line. Furthermore, in line with the requirement of MoCA, many regions establish temporary CPI subsidy mechanisms to reflect the CPI growth in the Dibao standards.

## 2. Policy implementation of the Dibao standard

As a core element of China's social assistance system, the Minimum Livelihood Guarantee for Urban and Rural Residents is the safety net for Chinese citizens. It is characterized by means-testing and an appropriate guarantee standard in the social-economic transition. For this system, the guarantee standard (Dibao standard or Dibao line) is the key issue directly related to governmental issues, such as financial delivery, poverty reduction and labor market policy. Therefore, it is among the most important topics in China's social assistance policy.

### 2.1 Analysis of principal social-economic factors affecting Urban and Rural Dibao Standards

#### 2.1.1 Orientation of the development of China's social assistance system

The social assistance standard is not only an issue related to financial capacity at a certain stage of economic development, but also an issue closely associated with government's political ideas and its conception about reducing poverty. Unlike some other countries in the world where the social assistance system is at the margins of the social protection system, China's social assistance system is functioning to guarantee the basic livelihood of poor people, to maintain social stability and social harmony, to improve social inclusion and justice, to narrow the income gap and to eliminate social disruption on account of the fact that China is experiencing rapid economic development and a profound socio-economic transition. In implementing social assistance and poverty reduction in China, fairness and sustainability are considered as the fundamental orientations of policy making in the reform and the development of the social assistance system. Meanwhile, against the backdrop of economic development and the improvement in people's living standards, China's reform of the social assistance system aims to build up a harmonious society featured by co-building and sharing among the people. This is the concern when making the policy for the social assistance standard.

#### 2.1.2 Diversity and heterogeneity of the social origins of Dibao recipients in socio-economic transition

Following the reform of State Owned Enterprises and the urban economic system that have taken place since the 1990s, unemployment has been a prominent concern in Chinese society. It has had an impact on the lives of urban residents and created a new poor stratum in the transition from a planned economy to a market economy. Therefore, changing the traditional social relief system in order to establish a new type of regulated, socialized and institutionalized social assistance system is set to be the goal of the social protection system and is the objective demand of the reform of the social assistance system. At the same time, because of the change in the urban-rural relationship and the urban-rural coordination in the context of rapid urbanization, some farmers lost their lands. This

has created new challenges in respect of rural poverty. And as the concept of social assistance in China is changing, the urban and rural Dibao are developing and social assistance is improving systematically with the regularization of its management and administration. The coverage and implementation of social assistance are respectively expanded and intensified. This has covered more and more urban and rural residents who have problems in surviving. Therefore, the social origins of the Dibao recipients has changed gradually from those unemployed who were retrenched from State Owned Enterprises at the time when the Dibao system had just been introduced to diverse social groups like the disabled, elderly, poor farmers and poor students, who have some differences in terms of the reasons for and the situation of their poverty, their ability to get employed and their type of family.

Due to the big economic disparity among regions, Dibao recipients are characterized by heterogeneity of social origins, differences in demands and the diversity of the causes of their poverty. All of these should be considered seriously in the process of managing and setting the standard for social assistance. The policies should be made with target of reducing poverty, guaranteeing livelihoods and improving social justice. The assistance should be delivered in line with the type of targeted groups, ensuring that the social assistance is managed in a suitable and specific way.

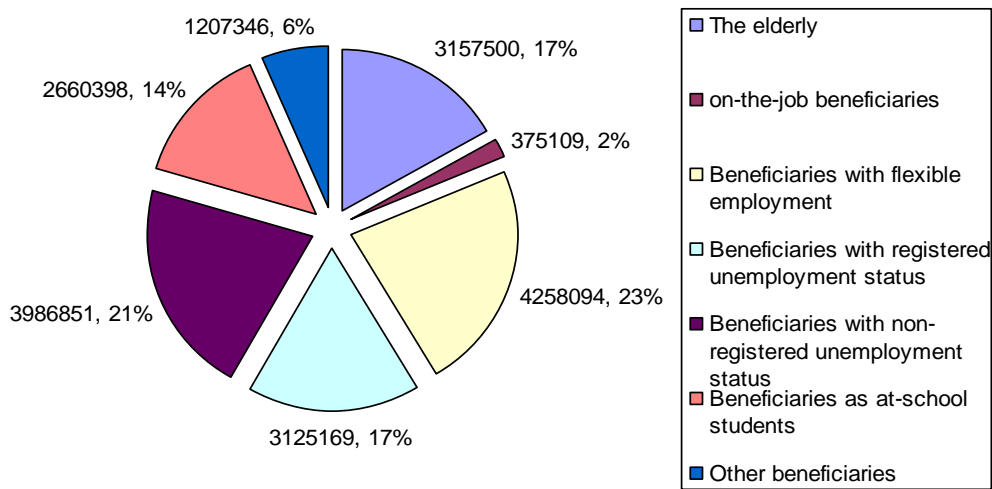
The Dibao recipients, both in urban China and rural China, have changed due to the evolution of social assistance over the years. According to the “*Statistical Yearbook of Civil Affairs in China*” (2015), urban residents covered by Dibao were 18,770,467 in 2014, of whom disabled people are 8.58% and the elderly are 16.82%. People with the capacity to work but outside of the labor market occupy a comparatively high percentage of Dibao beneficiaries. In addition students and adolescents make up 20.6% of Dibao beneficiaries.

Table 1. Urban Dibao Recipients’ profile in 2014

Composition of the urban Dibao Beneficiaries	number	percentage
The elderly	3157500	16.82%
on-the-job beneficiaries	375109	2.00%
Beneficiaries with flexible employment	4258094	22.69%
Beneficiaries with registered unemployment status	3125169	16.65%
Beneficiaries with non-registered unemployment status	3986851	21.24%
Beneficiaries as at-school students	2660398	14.17%
Other beneficiaries	1207346	6.43%
total	18770467	100.00%

Source: The Statistical Yearbook of Civil Affairs in China (2015)

Figure 2. Composition of Urban Dibao recipients in China in 2014



### 2.1.3 Difference and disparity of regional economic development in the context of urban-rural Dualism

Urban-rural dualism in the conditions of Chinese society, its background and the reality under which China’s social assistance system has been established is developing. For a long time in the history of China, the urban and rural areas had been split for the differentiated management of social assistance. Since the Reform and Opening Up to the outside world, especially in the 1990s when the market-oriented economy accelerated, the different economic regions corresponding to different levels of development as the Eastern region, the Western region and the Middle region have gradually emerged, and different categories of cities classified as first-tier cities, second-tier cities and third-tiers cities arose. Each of these has an obvious difference in their economic development. The people’s living standard in different regions differ from each other and the financial capacity as well as the social assistance coverage of the different regions are different. In all cases the socio-economic reality is essential in setting the standard for, and managing, social assistance.

(1) The disparity of regional economic development is the reality under which the management of the Dibao standard needs to keep under consideration. China has been in the process of transition from a planned economy to a market economy after the reforms of the 1990s. China has experienced rapid development due to marketization and urbanization. This has resulted in the disparity of the regional development of the economy and the differences in the social assistance system. According to the *Statistical Yearbook of China, 2014*, the disparity of GDP among the provinces, including state municipalities and autonomous regions in 2013 is wide. GDP per capita of some provinces is equal to or above \$10,000 which is at the level of a middle-developed country. However GDP per capita of other provinces is much lower and they would be considered as economically undeveloped areas.

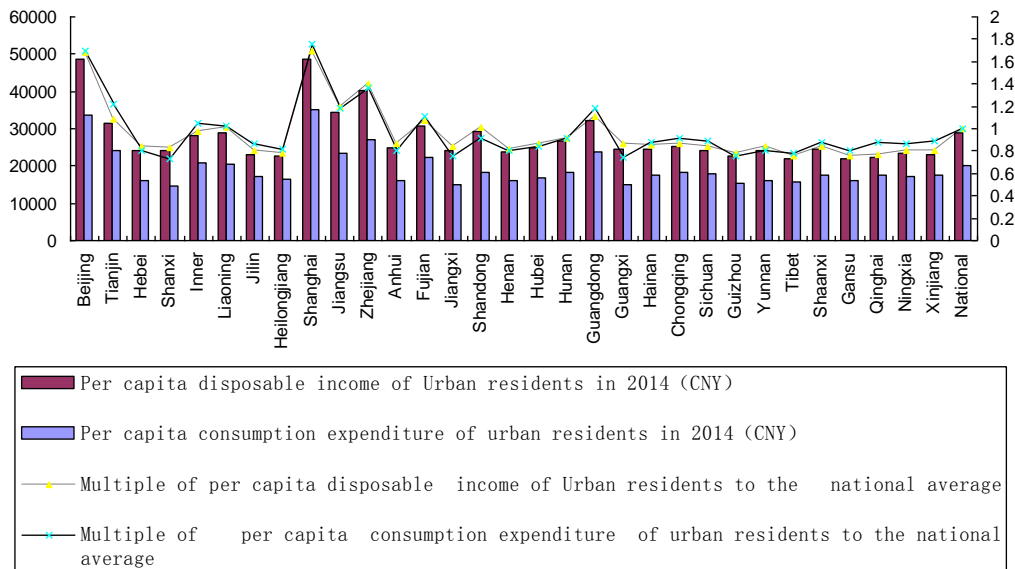
(2) The different average incomes and average consumptions in the different regions in the context of urban-rural dualism also varies in line with regional economic development. In 2014, the urban residents’ income in Shanghai amounted to 48841.4 CNY, which is the highest across China. There is very big income disparity among the different provinces in China. In addition the difference in purchasing power among the different regions is also different.

Table 2. Per Capita Disposable Income and Per Capita Consumption Expenditure of Urban Residents in 2014

	per capita disposable income of Urban residents in 2014 (CNY)	per capita consumption expenditure of urban residents in 2014 (CNY)	Multiple of per capita disposable income of Urban residents to the national average	Multiple of per capita consumption expenditure of urban residents to the national average
Beijing	48531.8	33717.5	1.68	1.69
Tianjin	31506.0	24289.6	1.09	1.22
Hebei	24141.3	16203.8	0.84	0.81
Shanxi	24069.4	14636.9	0.83	0.73
Inner Mongolia	28349.6	20885.2	0.98	1.05
Liaoning	29081.7	20519.6	1.01	1.03
Jilin	23217.8	17156.1	0.80	0.86
Heilongjiang	22609.0	16466.6	0.78	0.82
Shanghai	48841.4	35182.4	1.69	1.76
Jiangsu	34346.3	23476.3	1.19	1.18
Zhejiang	40392.7	27241.7	1.40	1.36
Anhui	24838.5	16107.1	0.86	0.81
Fujian	30722.4	22204.1	1.07	1.11
Jiangxi	24309.2	15141.8	0.84	0.76
Shandong	29221.9	18322.6	1.01	0.92
Henan	23672.1	16184.5	0.82	0.81
Hubei	24852.3	16681.4	0.86	0.84
Hunan	26570.2	18334.7	0.92	0.92
Guangdong	32148.1	23611.7	1.11	1.18
Guangxi	24669.0	15045.4	0.86	0.75
Hainan	24486.5	17513.8	0.85	0.88
Chongqing	25147.2	18279.5	0.87	0.92
Sichuan	24234.4	17759.9	0.84	0.89
Guizhou	22548.2	15254.6	0.78	0.76
Yunnan	24299.0	16268.3	0.84	0.81
Tibet	22015.8	15669.4	0.76	0.78
Shaanxi	24365.8	17546.0	0.84	0.88
Gansu	21803.9	15942.3	0.76	0.80
Qinghai	22306.6	17492.9	0.77	0.88
Ningxia	23284.6	17216.2	0.81	0.86
Xinjiang	23214.0	17684.5	0.80	0.89
National average	28843.9	19968.1	1.00	1.00

Source: Authors' calculation based on the data from the Statistical Yearbook of China (2015).

Figure 3. Per Capita Disposable Income and Per Capita Consumption Expenditure of Urban Residents in 2014



## 2.2 Changes in China's Urban and Rural Dibao Standards under the Economic Reform

The establishment of China's Dibao system was accompanied by the reform and transformation of China's economy. It was the policy innovation for adapting to the transition from a planned economy to a market economy. It is also an institutional innovation targeting the problems raised from the fact that the traditional social relief system had lost its economic basis during the transition. Due to the progress of marketization since 1990s, state-owned enterprises, which used to be the main source of employment and the provider of social protection, experienced enormous changes. Many workers were laid-off or became unemployed. Urban poverty, as a new social phenomenon, caused great concern and had an impact on social stability.

As unemployment and urban poverty appeared, China's economic development and social stability was significantly adversely affected. Therefore, the traditional social relief system, based on work units, was no longer effective for reducing poverty in the context of a market economy where new social demands had already developed. Because the function of social protection in State Owned Enterprises gradually lost efficacy and even didn't work over the course of the economic reform, the traditional social relief system that was not socialized and institutionalized needed to be reformed. As a result, an institutionalized and socialized Minimum Livelihood Guarantee System for Residents (Dibao system) came to be the choice of the new social policy. Therefore, since the mid-1990s, the urban Dibao system has been an important safety net that was gradually established in the urban areas. It has become the social safety mechanism for protecting urban residents with survival problems. As we move into the 21<sup>st</sup> century, China has seen great growth in its economy. This has reinforced the financial capacity supporting its social assistance policy and has continuously increased the standard of social assistance.

### 2.2.1. Changes in the Urban Dibao Standard

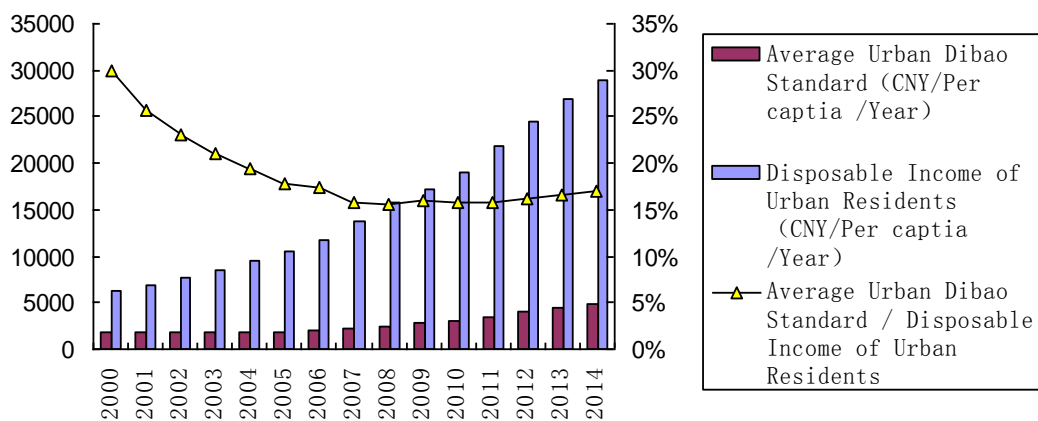
One can see that the trend in the change in the urban Dibao standard has been great. From 2000 to 2014, the Dibao standard has increased from 1884 CNY per capita per year to 4924 CNY per capita per year, and increase of 260%.

Table 3. Change in the relationship between the Dibao standard and the disposable income of urban residents since 2000

Year	Average Urban Dibao Standard (CNY/Per captia /Year)	Disposable Income of Urban Residents(CNY/Per captia /Year)	Average Urban Dibao Standard / Disposable Income of Urban Residents
2000	1884	6280.0	30.00%
2001	1764	6859.6	25.72%
2002	1776	7702.8	23.06%
2003	1788	8472.2	21.10%
2004	1824	9421.6	19.36%
2005	1872	10493.0	17.84%
2006	2035.2	11759.5	17.31%
2007	2188.8	13785.8	15.88%
2008	2463.6	15780.8	15.61%
2009	2733.6	17174.7	15.92%
2010	3014.4	19109.4	15.77%
2011	3451.2	21809.8	15.82%
2012	3961.2	24564.7	16.13%
2013	4479.6	26955.1	16.62%
2014	4926	28844	17.08%

Source: Authors' calculation based on data from the Statistical Yearbook of China (2015).

Figure 4. Change in the relationship between the Dibao standard and disposable income of urban residents since 2000





One can see from the relationship between the urban Dibao standard and the disposable income per capita of urban residents that these two factors do not have the same trend since 2000. As the average income of urban residents grew, the replacement rate between the urban Dibao standard and the average income per capita of urban residents declined in general. In 2000, the replacement rate was 30%. From 2005-2014, the replacement rate remained at around 16%-17%.

### 2.2.2. Changes in the Rural Dibao Standard

In the past, due to the urban-rural dualism, the urban areas and the rural areas have been governed in different ways over a long time. Thus social assistance is characterized by a disparity between the urban and the rural areas. This can be seen through its management, financing, standards, etc. Due to economic growth, China has a conspicuously stronger financial power to implement its social policy on reducing poverty. Because of rapid urbanization and the changes in the structure of rural society, especially its changing demographic structure, for example, more children and elderly remain in rural areas while the young labour force leaves for urban areas as migrant workers, poverty in rural area creates a new situation with new characteristics. The rural area, therefore, is in real need of changing its social relief system which was derived from the planned economy. It is in need of building up an institutionalized social assistance system for the development of rural economy, society and governance, after changing its economic ownership and taxation system.

Following the principle of balancing urban development and rural development, building a socialist new countryside and constructing a harmonious society, the Chinese social assistance under the urban-rural dualism needs institutional innovations. Learning from the lessons of the urban Dibao system, establishing and expanding the rural Dibao system is considered an innovation of the social assistance system in the context of coordinating and keeping urban and rural development in balance and harmony. On account of the “*State Council’s Circular on Establishing Nationwide Minimum Livelihood Guarantee System for Rural Area*” of July 11, 2007, the rural Dibao system has been gradually set up across China and the rural Dibao standard has been increased, following the growth in the economy.

Following the same trend as rural residents’ income, the rural Dibao standard has kept growing since 2006. From 2006 to 2014, the rural Dibao standard increased from 850.0 CNY per capita per year to 2,776.6 CNY per capita per year, which is 326% of the initial rate. It has seen stable growth.

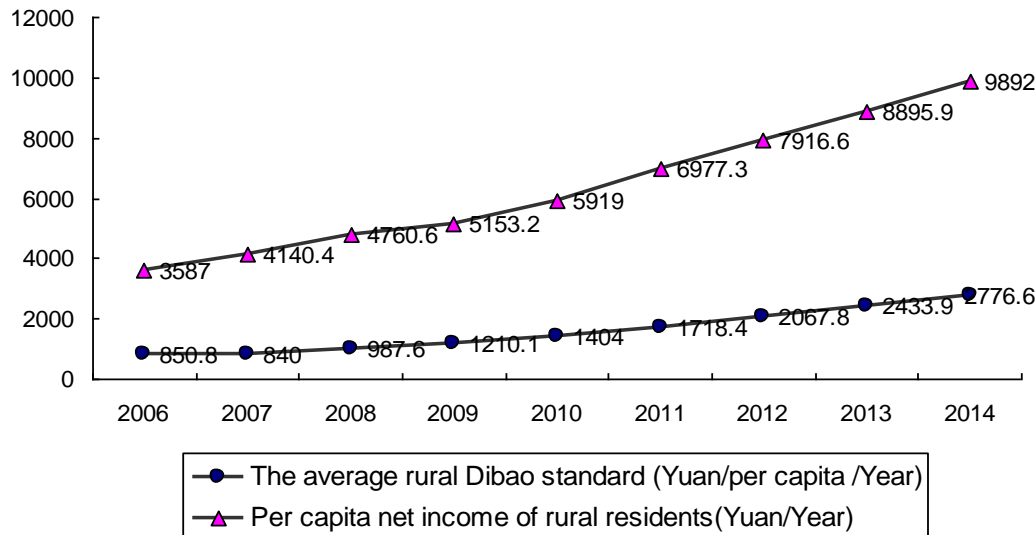
Table 4. Rural Dibao Standard and Rural Resident’s Net Income per Capita in China since 2006

year	The average rural Dibao standard (Yuan/per capita /Month)	The average rural Dibao standard (Yuan/per capita /Year)	Per capita net income of rural residents(Yuan/Year)
2006	70.9	850.8	3587
2007	70	840	4140.4
2008	82.3	987.6	4760.6
2009	100.8	1210.1	5153.2
2010	117	1404	5919
2011	143.2	1718.4	6977.3
2012	172.3	2067.8	7916.6
2013	202.8	2433.9	8895.9

2014	231.4	2776.6	9892
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Source: Author’s calculation based on data from the *Statistical Yearbook of Civil Affairs in China (2015)* and the *China Statistical Yearbook (2015)*.

Figure 5. Rural Dibao Standard and Rural Resident’s Net Income per Capita in China



### 2.2.3. Coordination of the Urban Dibao Standards and the Rural Dibao Standards

The urban Dibao standard and the rural Dibao standard have kept keep growing since 2006. The gap between them is greater – it has larger increased from 1184.4 CNY in 2006 to 2149.4 CNY in 2014 or now it is 82% higher than it was.

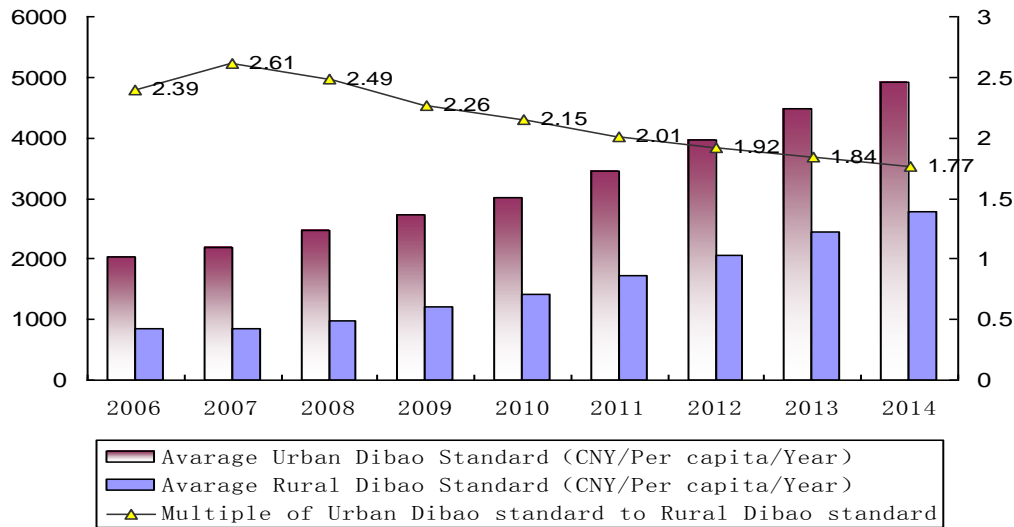
Table 5. Gap Between the Urban Dibao Standards and the Rural Dibao Standards in China

Year	Urban Dibao Standard CNY /Per Capita/ Year	Rural Dibao Standard CNY /Per Capita/ Year	Gap between Urban & Rural	Urban Dibao Standard/ Rural Standard
1999	1788	—	—	—
2000	1884	—	—	—
2001	1764	—	—	—
2002	1776	—	—	—
2003	1788	—	—	—
2004	1824	—	—	—
2005	1872	—	—	—
2006	2035.2	850.8	1184.4	2.39
2007	2188.8	840.0	1348.8	2.61
2008	2463.6	987.6	1476	2.49
2009	2733.6	1210.1	1523.5	2.26
2010	3014.4	1404.0	1610.4	2.15

2011	3451.2	1718.4	1732.8	2.01
2012	3961.2	2067.8	1893.4	1.92
2013	4479.6	2433.9	2045.7	1.84
2014	4926	2776.6	2149.4	1.77

Source: Author's calculation based on data from the *Statistical Yearbook of Civil Affairs in China (2015)*

Figure 6. Gap Between the Urban and Rural Dibao Standards in China



#### 2.2.4. Decentralization and Diversification of the Urban and Rural Dibao Standards

Since the establishment of the Dibao system, the decentralized governance of social assistance has developed gradually. However, in the process of its development, due to China's unbalanced economic and social development as well as the diversity of the targeted groups', living costs and financial capacity in social assistance, the urban and rural Dibao standards became heterogeneous and differed by degrees in different regions and areas.

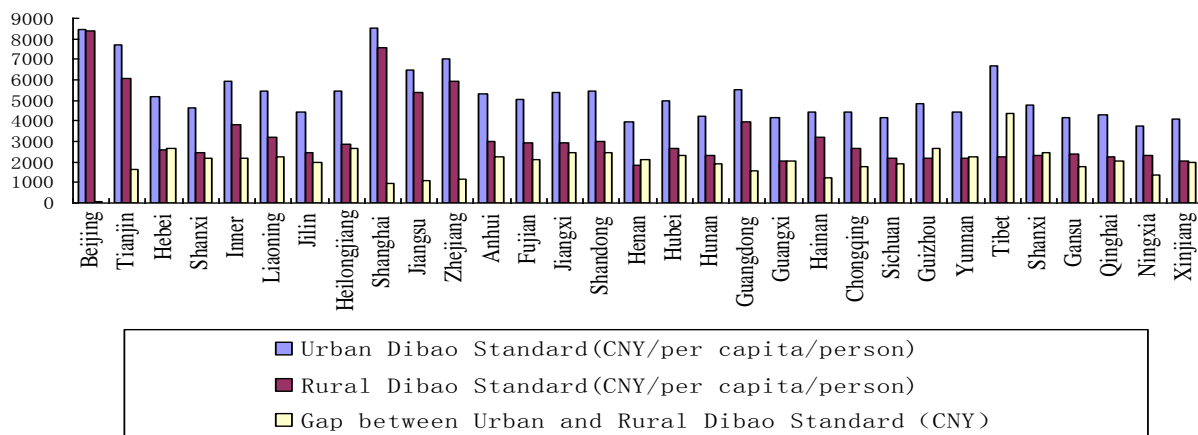
Table 6. Local Urban and Rural Standards, March in 2015

Region	Urban Dibao Standard (CNY/P/Y)	Rural Dibao Standard (CNY/P/Y)	Gap between Urban and Rural Dibao Standard (CNY)	Time of Urban Dibao Standard to Rural Dibao Standard
Beijing	8475	8390.77	84.23	1.01
Tianjin	7680	6074.18	1605.82	1.26
Hebei	5213.64	2567.94	2645.7	2.03
Shanxi	4644.72	2482.59	2162.13	1.87
Inner Mongolia	5960.04	3785.53	2174.51	1.57
Liaoning	5466.36	3206.67	2259.69	1.70
Jilin	4458.48	2466.05	1992.43	1.81
Heilongjiang	5461.92	2835.04	2626.88	1.93

Shanghai	8520	7560.00	960	1.13
Jiangsu	6457.68	5389.21	1068.47	1.20
Zhejiang	7050.6	5911.52	1139.08	1.19
Anhui	5291.04	3015.17	2275.87	1.75
Fujian	5052.6	2947.21	2105.39	1.71
Jiangxi	5413.2	2947.52	2465.68	1.84
Shandong	5470.68	2987.48	2483.2	1.83
Henan	3965.88	1853.03	2112.85	2.14
Hubei	4990.08	2666.44	2323.64	1.87
Hunan	4243.08	2339.23	1903.85	1.81
Guangdong	5521.08	3934.96	1586.12	1.40
Guangxi	4127.76	2056.65	2071.11	2.01
Hainan	4458	3216.00	1242	1.39
Chongqing	4465.56	2691.79	1773.77	1.66
Sichuan	4140.12	2204.67	1935.45	1.88
Guizhou	4842	2166.83	2675.17	2.23
Yunnan	4427.16	2189.01	2238.15	2.02
Tibet	6648.6	2280.55	4368.05	2.92
Shanxi	4796.88	2335.79	2461.09	2.05
Gansu	4171.2	2387.15	1784.05	1.75
Qinghai	4279.56	2261.51	2018.05	1.89
Ningxia	3717.24	2350.50	1366.74	1.58
Xinjiang	4058.76	2067.03	1991.73	1.96

Source: *The website of the Ministry of Civil Affairs, P.R.C (MoCA)*  
<http://files2.mca.gov.cn/cws/201505/2015050509310659.htm>;  
<http://files2.mca.gov.cn/cws/201505/20150505093149792.htm>

Figure 7. Local Urban and Rural Standards, March in 2015



The diversification and localization of the urban-rural Dibao standards are not only seen in different economic regions, but also in different districts of one municipality. Taking Tianjin for example, there are differences in the urban and rural Dibao standards among its districts from 2005 to 2015. (Details see below). For comparative purposes the urban Dibao was 7680 CNY per person per year.

Table 7. Rural Dibao Standard in Tianjin in 2005-2014 Unit: CNY per person per year

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
District	5	6	7	8	9	0	1	2	3	4	5
Tanggu	216	216	288	300	300	300	336	384	480	528	648
Hangu	144	180	180	240	276	276	336	384	480	528	648
Dagang	184	216	216	288	309	333	369	417	513	561	648
Dongli	174	192	240	480	516	516	540	624	720	768	846
Xiqing	210	258	258	295	480	540	576	624	720	768	846
Jinnan	162	162	192	240	276	276	336	384	480	528	846
Beichen	200	200	260	260	312	420	456	504	600	648	768
Wuqing	120	120	150	240	276	300	336	384	480	528	648
Baodi	120	120	150	240	240	300	336	384	480	528	648
Ninghe	950	964	150	240	276	300	336	384	480	528	648
Jinghai	864	950	150	240	276	300	336	384	480	528	648
Ji	108	108	150	240	276	300	336	384	480	528	648
Municipal	—	—	150	240	276	300	336	384	480	528	648

Source: Social Assistance Division, Municipal Bureau of Civil Affairs, Tianjin

## 2.3 The Methodology and Mechanism to Set Urban-Rural Dibao standards in China

### 2.3.1. Evolution of policies on urban-rural Dibao standards

Since the mid-1990s, China has accelerated its reforms aimed at building a market economy. Therefore, the urban Dibao system, originally a local practice, was expanded gradually to become a nationwide social assistance system in order to meet the demands arising from promoting the reform of State Owned Enterprises, guaranteeing the basic living of poor urban households as well as maintaining social stability issues. In 1999, the “*Regulation on Minimum Livelihood Guarantee for Urban Residents*” was promulgated as a fundamental rule of the administration and management of the urban Dibao system. It regulates the composition, the reasons for an adjustment and the procedure for an adjustment of the Dibao standard, etc. According to the regulation: “*The Minimum Livelihood Guarantee Standard for Urban Residents must be set in line with the necessary living costs of clothing, food and housing of the local area, taking into account the costs of water, electricity, gas and coal as well as the cost of compulsory education for adolescents. The Minimum Livelihood Guarantee Standard for Urban Residents of state municipalities and of cities with districts must be set by the department of civil affairs of the municipal People’s Government, in collaboration with departments of finance, statistics and prices etc. It must be reported to, and be approved by the municipal People’s Government at the same level. Then it must be published and implemented after being reported to and registered by the corresponding Government one level*”

higher. When the Minimum Livelihood Guarantee Standard for Urban Residents is in need of adjustment, the procedure is the same as for the former two items”.

While the urban Dibao system was developing and improving, the “State Council Circular on Establishing Nationwide the Minimum Livelihood Guarantee Standard for Rural Area” was issued in 2007, based on the experience of the pilot sites, addressing the change in rural economic structure and ownership as well as its impact on the traditional social relief system established during the planned economy. It addressed the new features of rural poverty and the demand for innovation in rural social assistance in the context of building a new socialist countryside. This is the first time in history that an institutionalized and socialized social assistance system is established nationwide in rural China. It implements the historic social policy of constructing rural society and improving the governance of the fight against rural poverty. According to the Circular, “The Minimum Livelihood Guarantee Standard for Rural Area must be set by local People’s Governments at /or above County level in line with annually necessary costs of clothing, food, housing, water and electricity etc. It should be published and implemented after being reported to corresponding local People’s Government one level higher. The Minimum Livelihood Guarantee Standard for Rural Area must be duly adjusted in accordance with the change of local prices of the basic living necessities and the improvement of local people’s living.

Entering into the 21<sup>st</sup>. century, the climate for policy implementation and the scale of the targeted groups for the Dibao system in China has changed. Regularization, standardization and legalization became basic demands for the development of the social assistance system. Legalization is in particular the fundamental orientation and institutional guarantee for the sustainable development of social assistance. On February 21, 2014, the “Interim Measures on Social Assistance” were enacted, which promoted the legalization of the Dibao standard. According to the “Interim Measures on Social Assistance”, the Minimum Livelihood Guarantee Standard must be respectively set and published by People’s Government of Provinces, Autonomous Regions, State Municipalities and Cities with districts, and it should be duly adjusted in accordance with local socio-economic developments and changes in prices.

### 2.3.2. The Method of Establishing the Urban and Rural Dibao standards

On the administrative basis of the State’s policies and regulations in terms of the social assistance standard, the setting of the urban and rural Dibao standards depends on local governments, in accordance with local living costs, change in prices, financial capacity and economic development. This demonstrates an obvious localization.

In China today, a nationwide and unified method of fixing and adjusting the Dibao standard has not yet been established. The methodology of fixing and adjusting the Dibao standard varies from area to area. This report takes Beijing as an example to make some explanations on how the Dibao standard is calculated and adjusted. Taking Beijing for example, the setting of Dibao standard for urban residents in Beijing is based on Engel's coefficient. This is also the method adopted in an international context, together with some certain coefficients for adjustment. The formula of Beijing’s urban Dibao standard is as follow.

$$S1 = (F1/E1) \pm \delta 1$$

In this formula, S1 represents the urban dibao standard; F1 represents the basic expenditure for food of urban residents determined by Beijing Municipal Bureau of Statistics according to the “Yearly Food and Nutrition Standard” provided by the Chinese Nutrition Society as well as market prices for Beijing; E1 represents Engel's coefficient, which is the average of Engel's coefficient of Urban Dibao Household and Engel's coefficient of Low-Income Household (5%, calculated by the Beijing Municipal Bureau of Statistics) ; and  $\delta 1$  represents an integer, which results from a comprehensive

consideration of the CPI for the basic living of urban residents, relative social security standards, disposable income per capita of urban residents, social average salary and financial capacity, etc.

The formula of Beijing's Rural Dibao Standard is as follows.

$$S2 = F2 / E2$$

In this formula, S2 represents Beijing's rural Dibao standard; F2 represents the basic food expenditure of rural residents, determined by the Beijing Municipal Bureau of Statistics according to the "Yearly Food and Nutrition Standard" provided by the Chinese Nutrition Society as well as market prices of Beijing; E2 represents the Engel Coefficient, which is the average of Engel's coefficient for the rural Dibao household and Engel's coefficient of low-income household (5%, counted by Beijing Municipal Bureau of Statistics).

The formula of rural Dibao standard in counties or districts subordinated to Beijing is:

$$S3 = (S2 \times B) \pm \delta 2$$

In this formula, S3 represents the Dibao standard for rural residents of counties and districts subordinated to Beijing municipalities; S2 represents Beijing's rural Dibao standard; B represents a ratio of net income of rural residents in the counties and districts subordinated to Beijing, the living expenditure per capita of rural residents and the average data for Beijing, which is  $B = [ (RI \div BJRI) + (RE \div BJRE) ] \div 2$ , where RI is the net income of the rural residents in the counties and districts subordinated to Beijing, BJRE is the expenditure per capita of the rural residents; and, finally,  $\delta 2$  represents a coefficient, which is results from a comprehensive consideration of the CPI for the basic living of local residents and financial capacity, etc.

#### 2.4. Management and Adjustment of the Urban and Rural Dibao Standards

(1) A change of political ideas is essential to the adjustment of the urban and rural Dibao standards.

Since the establishment of the Dibao system, China's social assistance system has undergone great change. If China's social assistance system is observed in terms of its institutional function, policy goal and development, we can find some developmental trends of the social assistance system in the process of transition. China's social assistance system has evolved from a non-institutionalized one to an institutionalized one, from a way of splitting urban areas and rural areas to a way of coordinating the two areas, from a system of single assistance to a system of comprehensive assistance, from a system for sustenance to a system for development and from a system aiming to keep society stable to a system aiming to improve social justice. In this process, the change of Chinese Communist Party's idea on social development and the change of Chinese Government's understanding of the relationship between social assistance and social governance are critical factors in the adjustment of the Dibao standards.

In the 21<sup>st</sup> century, China emphasizes the people-oriented way of economic development and focuses on building a harmonious society, balancing the efficiency and equity of society by means of adjusting the big income disparity, sharing the benefits of development, intensifying social construction and improving the coordination and integration of the urban area and rural areas. Social assistance, in particular Dibao, functions as a safety net for the poor people and the mechanism of social security supporting social stability. This is the institutional value of this system. Furthermore, social assistance plays an important role in realizing social stability and social justice. Political concerns are the important factor affecting social assistance. The Dibao standard is to some extent affected by politics.

(2) The Government's goal for social assistance management pushes a rise in the Dibao standard

One can see from the development of China's Dibao system that the development of China's social assistance system is an integrative process of the State's behaviour from top to bottom and the local

practices from bottom to top. When it comes to establishing and adjusting the income threshold for social assistance, governments at different levels play a vital role in the management of the Dibao standards. On the one hand, the government has established the working mechanism for the social assistance system, including Dibao standard management. Currently, a joint-conference on social assistance as an institutional mechanism is set up. This is a mechanism for deliberating and deciding social assistance issues. On the other hand, China’s civil affairs development program has set the long-term objective for the Dibao standard management. In the 12<sup>th</sup> Five Year Development Program, the Ministry of Civil Affairs states that the adjustment of the Dibao standard at local level should be not less than 10% per year in terms of the growth rate. In setting and adjusting the Dibao standards, a local government tends to take other local governments as a benchmark or reference point. This promotes the increase in Dibao standards.

(3) Effective coordination between the social assistance standard and other social protection standards

As a core component of the social assistance system, the urban and rural Dibao standards are related to the livelihoods of the poor people, social equity and labor market policy. Since the establishment of the Dibao system, the replacement rate of the urban Dibao standard to the minimum wage becomes a concern in respect of the important policies on managing the social assistance standard. Taking Beijing for example, the relationship between the social assistance standard and other social protection standards is considered fairly important in the process of setting and adjusting the Dibao standard in Beijing which has a mechanism called the “6-Line Linkage”.

From 1996 to 2015, the replacement rate of the urban Dibao Standard to the minimum wage in Beijing had declined from 62.37% in 1996 to 41.67% in 2014. In the period from 2003 to 2014, the replacement rate in Tianjin city had declined from 62.23% in 2003 to 44.43% in 2014.

Table 8. Replacement Rate of Beijing Urban Dibao Standard and Other Social Protection Standards

Year	a. Urban Dibao Standard(CNY)	b. Minimum Employee Salary (CNY)	c. Minimum Unemployment Insurance (CNY)	d. Minimum Retirement Benefit (CNY)	a/b Urban Dibao Standard/ Minimum Employee Salary	a/c Urban Dibao Standard/ Minimum Unemployment Insurance	a/d Urban Dibao Standard/ Minimum Retirement Benefit
1996	170	270	189	263	62.96%	89.95%	64.64%
1997	190	290	203	293	65.52%	93.60%	64.85%
1998	200	310	217	336	64.52%	92.17%	59.52%
1999	273	400	291	396	68.25%	93.81%	68.94%
2000	280	412	300	421	67.96%	93.33%	66.51%
2001	285	435	305	441	65.52%	93.44%	64.63%
2002	290	465	326	466	62.37%	88.96%	62.23%
2003	290	465	326	466	62.37%	88.96%	62.23%
2004	290	545	347	510	53.21%	83.57%	56.86%
2005	300	580	382	563	51.72%	78.53%	53.29%



2006	310	640	392	620	48.44%	79.08%	50.00%
2007	330	730	422	675	45.21%	78.20%	48.89%
2008	390	800	502	775	48.75%	77.69%	50.32%
2009	410	800	562	900	51.25%	72.95%	45.56%
2010	430	960	632	1000	44.79%	68.04%	43.00%
2011	500	1160	782	1100	43.10%	63.94%	45.45%
2012	520	1260	842	1210	41.27%	61.76%	42.98%
2013	580	1400	892	1330	41.43%	65.02%	43.61%
2014	650	1560	1012	1463	41.67%	64.23%	44.43%

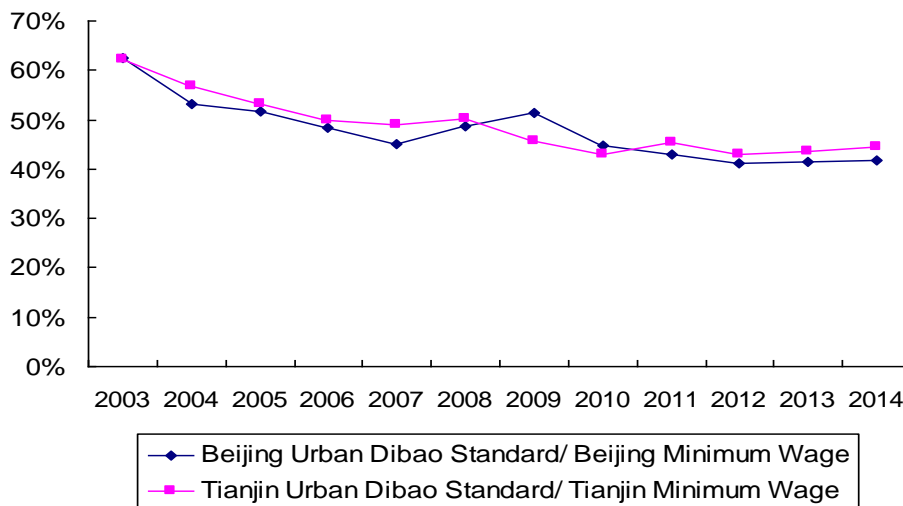
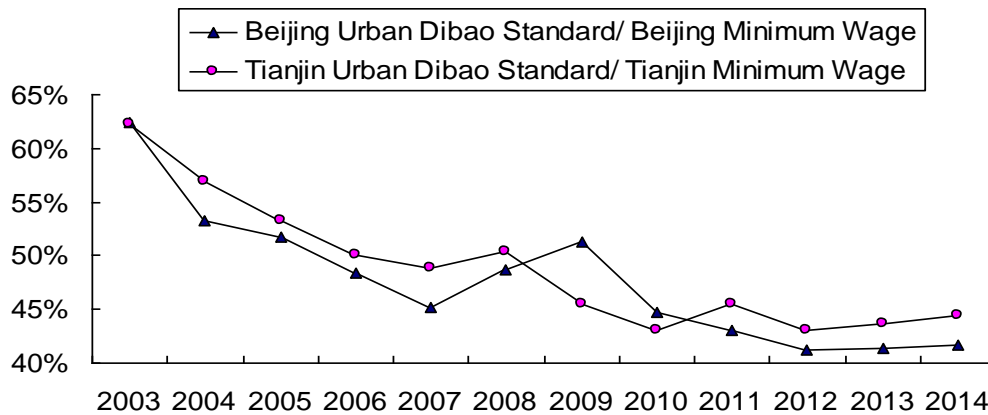
Source: Author's calculation based on data from <http://www.bjstats.gov.cn/nj/main/2015-tjnj/indexch.htm>

Table 9. Relation of Urban Dibao Standard and Minimum Wage in Beijing and Tianjin

Year	Beijing Urban Dibao Standard (CNY/per capita /month)	Beijing Minimum Wage (CNY/per capita /month)	Beijing Urban Dibao Standard/ Beijing Minimum Wage	Tianjin Urban Dibao Standard (CNY/per capita /month)	Tianjin Minimum Wage(CNY/per capita /month)	Tianjin Urban Dibao Standard/ Tianjin Minimum Wage
2003	290	465	62.37%	241	450	62.23%
2004	290	545	53.21%	241	480	56.86%
2005	300	580	51.72%	265	530	53.29%
2006	310	640	48.44%	300	590	50.00%
2007	330	730	45.21%	330	670	48.89%
2008	390	800	48.75%	400	740	50.32%
2009	410	800	51.25%	430	820	45.56%
2010	430	960	44.79%	450	920	43.00%
2011	500	1160	43.10%	480	1160	45.45%
2012	520	1260	41.27%	520	1310	42.98%
2013	580	1400	41.43%	600	1500	43.61%
2014	650	1560	41.67%	640	1680	44.43%

Source :Author's calculation based on data from the Statistical Yearbook of Beijing

Figure 8. Comparisons of the Relation of the Urban Dibao Standard and Minimum Wage in Beijing and Tianjin



(4) Place emphasis on the change in prices and its impact on the Dibao standard and set up a coordination mechanism

While setting the principles and requirements of establishing and adjusting social assistance standards, the “*Interim Measures on Social Assistance*” pay full attention to the change in prices and its influence on the lives of urban and rural Dibao recipients, emphasizing that the urban standards and the rural Dibao standards should be duly adjusted in accordance with the change in prices. In terms of the management of the social assistance standard, it emphasizes the relationship with other social protection standards and the adjustment over time. This has an impact on policy making.

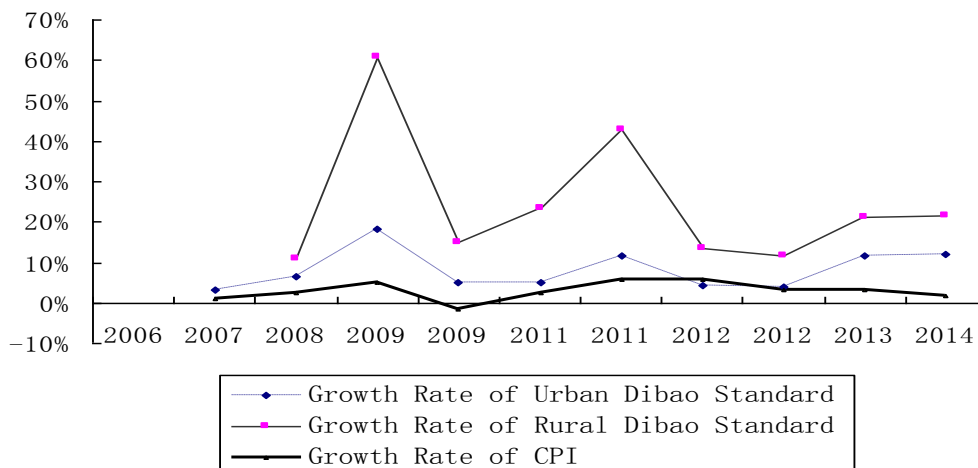
One can see from the history of the change in, and adjustment of, the urban Dibao standards and the rural Dibao standards that, most of the time, the growth rate is higher than that of the CPI. This, means the influence of the change in the CPI on people’s lives, especially the lives of poor households, is confined within a limit. One can see from the relationship between the growth rate of the urban and rural Dibao standards and that of the CPI from 2005 to 2014 that, in most years, growth in the rate of the Dibao standard has been higher than that of the CPI.

Table 10. Comparison of Beijing's Urban and Rural Standards and CPI since 2007

Date of Adjustment	Urban Dibao Standard(CNY/Year)	Growth Rate of Urban Dibao Standard	Rural Dibao Standard(CNY/Year)	Growth Rate of Rural Dibao Standard	Growth Rate of CPI
2005.7	3600				
2006.7	3720	3.33%	1000		0.9%
2007.7	3960	6.45%	1100	10.84%	2.4%
2008.7	4680	18.18%	1780	60.87%	5.1%
2009.1	4920	5.13%	2040	14.86%	-1.5%
2010.7	5160	4.88%	2520	23.53%	2.4%
2011.1	5760	11.63%	3600	42.86%	5.6%
2011.7	6000	4.17%	4080	13.33%	5.6%
2012.1	6240	4.00%	4560	11.76%	3.3%
2013.1	6960	11.54%	5520	21.05%	3.3%
2014.1	7800	12.07%	6720	21.74%	1.6%

Source: Social Assistance Division, Civil Affairs Bureau of Beijing Municipal Government, CPI data comes from the Beijing Statistical Yearbook (2015)

Figure 9. Comparison of Beijing's Urban and Rural Standards and CPI since 2007



However, the adjustment of the Dibao standard sometimes does not function well or does not work over time, which can be seen from the fact that the rapid growth of the CPI has made an impact on the lives of residents, especially Dibao recipients. Therefore, the change in the CPI is an important factor that influences the adjustment of the Dibao system. Take Tianjin for example. In 2007, the price of non-staple foods such as pork increased rapidly. This had an impact on the lives of

residents. In order to ease the impact, the Tianjin government adjusted the urban Dibao standard from 300 CNY to 330 CNY from June 1<sup>st</sup> 2007<sup>1</sup>.

## 2.5 Problems in Setting and Implementing the Dibao Standard

### 2.5.1 The gap between social assistance theory and the national situation where the management of the Dibao standard is taking place

By comparison with some European Union Member States, the history of China's social assistance is shorter and China's social assistance system faces a more complicated reality where it is being implemented. The traditional theories and methodologies on poverty reduction may not be suitable for the Chinese situation on account of the lack of the perfect social credit system, heterogeneity of residents' income resources and the diversity of employment which lead an exact calculation of a resident's income being very difficult. Particularly, in the context of the Chinese traditional culture, family and relatives play important roles in the social assistance of a poor family. This is different from the social assistance programs of European Union countries. For example, in the Scandinavian countries and countries adopting a social market economy, the idea of social assistance policy is much different from that in China and the conditions and the theories have different backgrounds. There is the gap between China and others countries (like European Union Member States) on the conditions for the practice of social assistance policy. The theories on social assistance from foreign countries can not be applied in China directly. For example, the informal and non-institutionalized support from the relatives of Dibao recipients can not be neglected when it comes to the guaranteed livelihood of Dibao recipients. Support in cash and in kind is hard to calculate and estimate.

### 2.5.2 The gap between the theoretical research on social assistance standards and the practice of the policy implementation of social assistance standards

Currently, there are a lot of debates in the field of managing the social assistance standard management. In recent years, more research is being carried out in China as the Dibao system improves. Promotion of, and stimulus for, research by the Ministry of Civil Affairs also gives many chances to conduct research on the Dibao standard. However, on issues such as the as position with respect to, and the goals of, the development of social assistance, the relationship between social assistance and poverty reduction and the inter-connection of social assistance and the other social protection systems, etc, there are still many academic disputes. This is also the case in the field of research on social assistance and the methodology for establishing a Dibao standard. The divergences in the management of the Dibao standard influence directly governments at different levels in the process of managing and administering the Dibao standard.

### 2.5.3 The gap between the legalization of social assistance and the management of the Dibao standards

The legalization of the management of Dibao standard is still not at the expected level. This is a major problem when it comes to managing and implementing the Dibao standard in China. The reality of China's Dibao system, particularly the management of the Dibao standard, is that the legalization of the system can not follow the pace of social assistance's development. The "*Regulation on the Minimum Livelihood Guarantee for Urban Residents*", enacted on September 28<sup>th</sup> 1999, and the regulations on the Dibao standard included in the "*Interim Measure on Social Assistance*", enacted in February, 2014, are just providing social assistance with some principles and some orientation. Therefore there is a lack of detailed instructions on how to implement social assistance, especially at local levels. Currently, with regard to the management of social assistance, the subject, its reasons, governmental level and the methodology and procedures for setting the

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<sup>1</sup> Circular on Adjusting Minimum Livelihood Guarantee Standard for Urban Residents in Our City, <http://www.tjnz.gov.cn/zwgk/system/2015/06/29/010027359.shtml>

Dibao standard are determined in form of political documents. In reality the establishment and adjustment are still determined by the subjective will of the people in charge of social assistance.

**2.5.4 The gap between the performance management of Dibao standard**

The establishment and the adjustment of the Dibao standard will definitely influence the lives of poor people and the financial burden of the governments. It is directly relative to the equity and justice of society and the sustainability of the Dibao system. Following the development and improvement of China’s Dibao system, scientization and legalization becomes fundamental to the policies relating to it. For example, the establishment and implementation of a social assistance standard is taking account of all the social protection benefits and living costs such as the minimum wage, residents’ purchasing power, changes in prices, standard of pension, etc. However China’s social protection system is still in transition, facing problems such as fragmentation of social assistance policies, diversification of the main body for social assistance management, complication of social protection relationship (position), heterogeneity of social assistance’s targeted groups, which lay out the difficulties that social assistance has in promoting employment. This problem will then lead to an additive effect and a cliff effect. This means that it is not an exact reflection of the poverty of a household or a signal of the labor market.

**2.5.5 The gap between the administrative costs of managing the Dibao standard and the current system of social policy governance**

The setting and adjustment of the Dibao standard in China is related to several governmental departments and policies. How to pave a practicable, scientific and regularized way for managing the Dibao standard is an important issue for the social assistance system. However, since there are some factors that influence the setting and adjustment of the Dibao standard, an effective collaboration of governmental departments and policies is necessary to establish a better social assistance program for protecting people and promoting the economy. Due to the high administrative costs in the scientific process of calculating the Dibao standard, particularly in the process of collecting data before carrying out the research on setting the Dibao standard, it is in need of significant funds to conduct research for better reliability and validity of the standard. This will impose a requirement on the Dibao standard to be a scientific and regularized system. Meanwhile, due to the long process of questionnaire surveys and sampling surveys, social assistance standard can not fully reflect the signals from the labor market and meet the change in prices of consumption.

**3. Challenges and Reform Trends**

**3.1 The standard is increasing but it is still low**

**3.1.1 Comparison between CPI growth and the Dibao standards**

The data in chapter 2 shows that the Dibao standards are increasing greatly, however, when a deduction is made for CPI growth, the increasing rates of the Dibao lines are significantly slowed. Moreover, the CPI adjustment method is lagged.

Table 10. Comparison between CPI growth and the Dibao standards

Province	2005	2006	2007	2008	2009	2010	2011	Average growth rate
National	1.03	7.19	2.91	6.52	11.98	6.66	-10.85	3.4
Beijing	1.95	2.42	3.99	12.	6.78	2.27	-0.71	4.14
Tianjin	-1.5	11.69	5.67	15.42	8.63	0.73	-8.26	4.35

Hebei	0.79	8.63	-1.46	17.6	26.46	5.07	-10.92	5.98
Shanxi	-0.79	10.33	5.16	14.82	7.35	5.25	-8.11	4.62
Inner	-0.9	13.24	12.82	7.22	24.14	20.46	-9.53	9.07
Liao Ning	0.36	5.73	-1.08	11.61	21.52	5.66	-14.03	3.74
Jilin	2.4	0.47	1.29	0.35	30.93	3.78	-12.34	3.19
Heilongjiang	0.81	27	4.38	6.98	8.46	6.57	-11.31	5.61
Shanghai	2.45	5.45	6.10	8.17	6.70	2.44	-5.13	3.66
Jiangsu	3.56	4.3	6.55	7.8	11.99	6.24	-6.61	4.69
Zhejiang	0.66	6.56	7.82	8.09	14.06	5.47	-4.97	5.23
Anhui	2.21	7.28	3.38	-1.01	11.57	5.06	-10.02	2.44
Fujian	-2.02	5.45	5.47	1.10	2.92	-1.06	-1.23	1.48
Jiangxi	4.81	6.18	5.86	19.	0.83	22.72	0.64	8.39
Shandong	3.93	7.43	10.32	3.03	11.58	6.37	-13.43	3.86
Henan	-0.45	12.56	-2.45	4.47	11.21	5.21	-11.42	2.44
Hubei	0.66	10.21	-1.92	9.3	14.76	14.71	-10.71	4.9
Hunan	-0.39	7.28	3.05	0.92	8.66	5.9	-12.73	1.58
Guangdong	-1.56	-0.46	1.67	11.	-1.88	0.70	-7.24	0.26
Guangxi	-1.37	5.86	3.02	2.62	24.15	1.74	-18.75	1.8
Hainan	1.41	-2.75	9.27	10.	28.73	-1.96	-4.72	5.3
Chongqing	1.95	5.67	-4.51	23.62	1.74	7.19	-13.25	2.67
Sichuan	-0.84	7.47	7.68	3.14	2.19	3.47	-12.05	1.38
Guizhou	8.43	9.78	-2.38	-6.17	8.82	21.15	-2.13	5
Yunnan	-1.57	3.72	-4.81	10.09	-0.12	-0.49	-13.09	-1.12
Tibet	3.5	7.64	-2.87	7.22	19.34	-3.74	-12.62	2.2
Shaanxi	2.29	8	-2.62	2.61	11.55	43.3	-15.98	5.79
Gansu	8.38	8.99	4.29	-7.98	7.73	5.48	-15.25	1.26
Qinghai	0.67	3.93	-3.72	-2.97	14.57	-2.01	-15.00	-0.99
Ningxia	1.37	4.17	0.53	-5.95	8.73	-0.53	-13.7	-1
Xinjiang	0.73	0.07	0.59	-4.14	20.19	2.27	-16.56	-0.04

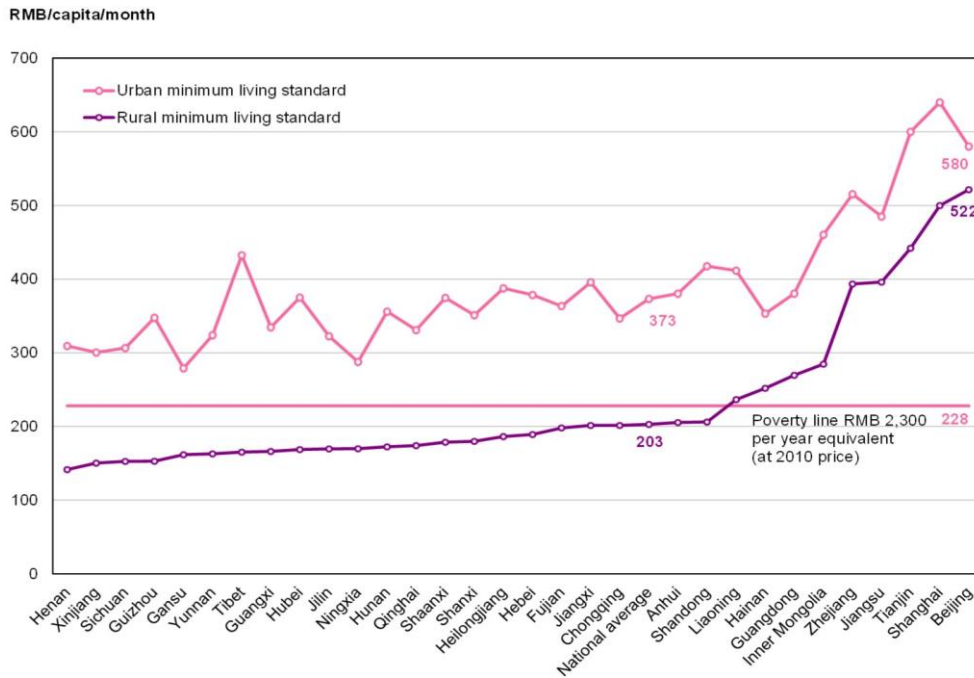
Sources: Ministry of Civil Affairs, 2006-2012; China Statistical Yearbook, 2006-2012.

### 3.1.2 The Comparison between the Rural Dibao Standard and the Urban Dibao Standard

The rural Dibao standards are even lower. As mentioned in Section 1, in some regions, rural standards are adjusted by the rural gross income, but not disposable income. As shown in the figure below, only 9 provinces are higher than the official poverty line of RMB 2,300 (at 2010 prices) per

person per year. The rural Dibao lines of provinces in eastern China are generally higher than those provinces in the other parts of the country.

Figure 10: Urban & rural Dibao standards and national poverty line (2013)



Data source: Ministry of Civil Affairs, 2014

The Challenge: if the Dibao standards are set too low, then citizens’ basic living needs and rights to life cannot be adequately satisfied; in other words, the primary target can not be fulfilled. However, if the standards are relatively high, then the work incentive of social assistance recipients would be discouraged and the financing of social assistance would be over-burdened. Moreover, the rural Dibao standards are even harder to calculate as the household’s assets and income is vague. This would increase the complexity of defining the standards and the beneficiaries.

### 3.1.3 Comparison Between the Poverty Line Estimation (ELES Model To Estimate) and the Dibao Standard

So far, China only has an official rural poverty line as shown in the figure above and has no official urban poverty line or national poverty line. These use the ELES method to calculate the theoretical poverty line and to compare it with the current Dibao standards.

$$p_i x_i = p_i x_i^0 + b_i^* \left( Y - \sum_{j=1}^n p_j x_j^0 \right) \quad i = 1, 2, \dots, n \quad (1)$$

Where  $0 \leq b_i \leq 1$ ,  $\sum_{i=1}^n b_i^* \leq 1$ , Y stands for income. Thus, the Budget expenditure c was no

longer as exogenous variables, but as endogenous variables calculated by  $\sum_{i=1}^n p_i x_i$ .

Coming from the formula(1), we can get formula (2):

$$p_i x_i = (p_i x_i^0 - b_i^* \sum_{j=1}^n p_j x_j^0) + b_i^* Y + \mu_i, \quad (2)$$

$(i = 1, 2, \dots, n)$

Where, we assume  $a_i^* = p_i x_i^0 - b_i^* \sum_{j=1}^n p_j x_j^0$  for the price  $p$  is fixed in the same cross section. Therefore the formula (11) turn into the following form:

$$p_i x_i = a_i^* + b_i^* Y + u_i \quad (i = 1, 2, \dots, n) \quad (3)$$

Where,  $u$  stands for stochastic error. We made use of the least squares (OLS) to get the parameters  $a_i^*$  and  $b_i^*$  of formula (3).

Because we assumed:

$$a_i^* = \left( p_i x_i^0 - b_i^* \sum_{j=1}^n p_j x_j^0 \right) \quad (4)$$

We summate each side of the equation (4), and we got;

$$\sum_{i=1}^n a_i^* = \left( 1 - \sum_{i=1}^n b_i^* \right) \cdot \sum_{i=1}^n p_i x_i^0$$

We summate each side of the equation (4), and we got;

$$\sum_{i=1}^n a_i^* = \left( 1 - \sum_{i=1}^n b_i^* \right) \cdot \sum_{i=1}^n p_i x_i^0$$

Further, we can get the basic consumption expenditure:

$$\sum_{i=1}^n p_i x_i^0 = \sum_{i=1}^n a_i^* / \left( 1 - \sum_{i=1}^n b_i^* \right)$$

Dragging parameter value into formula (4) and summation, we can get the basic consumer spending of  $i$ -th items.

$$p_i x_i^* = a_i^* + b_i^* \sum_{i=1}^n a_i^* / \left( 1 - \sum_{i=1}^n b_i^* \right) \quad (5)$$

At the same time, we also can calculate the income elasticity of demand as follows:

$$\eta_i = \frac{\partial x_i}{\partial Y} \cdot \frac{Y}{x_i} = b_i^* \cdot \frac{Y}{v_i} \quad (6)$$

$v_i$  stands for the average expenditure of  $i$ -th items;  $X_i$  stands for the average demand of the  $i$ -th items of different types of family income.

At the same time, we also can calculate commodities own price elasticity ( $\epsilon_i$ ), which calculation formula is as follows:

$$\epsilon_i = \frac{\partial x_i}{\partial p_i} \cdot \frac{p_i}{x_i} = (1 - b_i^*) \cdot \frac{p_i x_i^0}{c_i} - 1$$

(7) Based on the data from the China Statistical Yearbook, the estimated poverty line calculated by using ELES is shown in the table below:

Table.11. The Estimated Rural Poverty Line and Estimated Urban Poverty Line

Year	Estimated Rural Poverty Line (RMB)	Estimated Urban Poverty Line (RMB)
1997	—	2343
1998	—	2457
1999	—	2565
2000	—	2638
2001	—	2925



2002	414	2770
2003	492	3031
2004	545	3268
2005	1111	3467
2006	1131	3543
2007	1338	4262
2008	1556	4727
2009	1876	5089
2010	1938	5323
2011	3140	6437
2012	3656	6735

Source: Author's calculation

Table: 2002-2012 Estimated Rural Poverty Line (RMB)

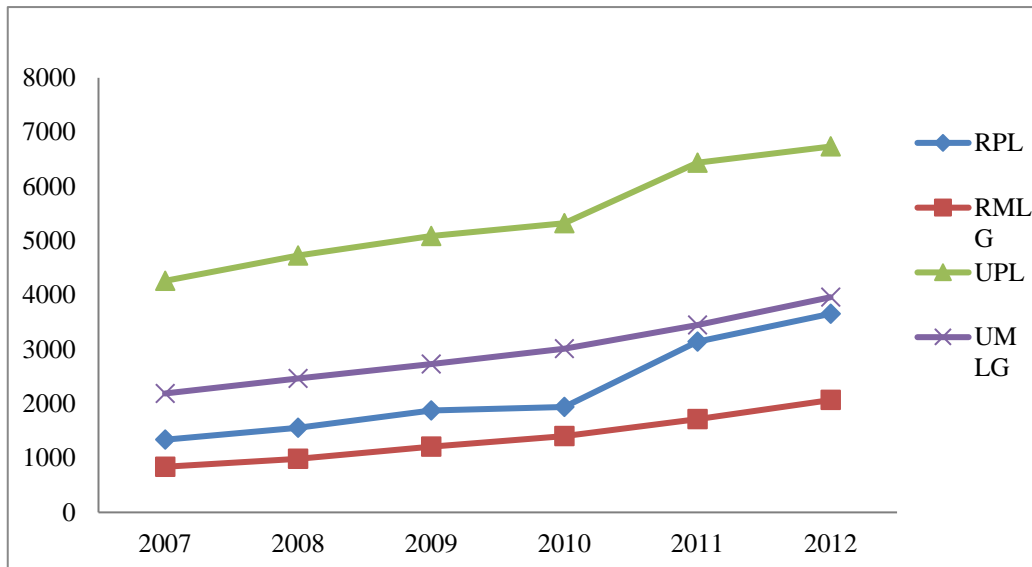
Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Poverty Line	414	492	545	1111	1131	1338	1556	1876	1938	3140	3656

Table: 1997-2012 Estimated Urban Poverty Line (RMB)

Year	1997	1998	1999	2000	2001	2002	2003	2004
Poverty Line	2343	2457	2565	2638	2925	2770	3031	3268
Year	2005	2006	2007	2008	2009	2010	2011	2012
Poverty Line	3467	3543	4262	4727	5089	5323	6437	6735

The following figure shows the comparison between the Estimated Urban and Rural Poverty Line and the urban and rural Dibao Line.

Figure 11. Comparison between the Poverty Lines and the MLG thresholds



Data Source: Author's calculation

The results show that, firstly, there is a huge rural-urban gap in the poverty line and the Dibao standard in China. Secondly, up until now, both the rural and the urban estimated poverty lines are higher than “\$1.25 per day”, so the “old” absolute poverty line is not applicable. Thirdly, as the case with inflation and economic development, the estimated poverty line is increasing sharply, so the Dibao standard should be rising as well.

### 3.2 The Lack of an Unified Standard or Calculation Method

The previous research shows that the average wage is the most significant factor in affecting the Dibao standard and that GDP ranks second. Local fiscal capacity is positively correlated with the spending on Dibao - the correlation efficient is quite high. Last but not least, the gap between the rural and urban standards is considerable.

The urban and rural Dibao cash transfer programs have been rolled out nationally, although the minimum living standards differ widely from province to province, and between rural and urban areas, reflecting local development conditions and the local government's fiscal capacity.

Table 12: Comparison between Urban & Rural Dibao Standard

Year	Urban Dibao Standard /Per Capita/ Year	Rural Dibao Standard /Per Capita/ Year	Gap between Urban & Rural	Urban Dibao Standard/ Rural Standard
1999	1788	—	—	—
2000	1884	—	—	—
2001	1764	—	—	—
2002	1776	—	—	—
2003	1788	—	—	—
2004	1824	—	—	—
2005	1872	—	—	—
2006	2035.2	850.8	1184.4	2.39
2007	2188.8	840.0	1348.8	2.61

2008	2463.6	987.6	1476	2.49
2009	2733.6	1210.1	1523.5	2.26
2010	3014.4	1404.0	1610.4	2.15
2011	3451.2	1718.4	1732.8	2.01
2012	3961.2	2067.8	1893.4	1.92
2013	4479.6	2433.9	2045.7	1.84
2014	4926	2776.6	2149.4	1.77

Data Source: Ministry of Civil Affairs (2000-2015), and the Author's calculation

Based on the study of the present Dibao standard calculation and adjustment mechanism, we found that the separation of the calculation and adjustment mechanisms is the key reason for the large regional differences in the Dibao benefit. Obviously, it is unrealistic to achieve a national Dibao standard in the short term, due to the significant imbalance of the regional social-economic development. In practice, the management of the Dibao standard rests at County level, therefore a number of different standards emerge nationwide. However, the inconsistency of the absolute amount of money does not mean that the actual level of treatment cannot be agreed. The actual level of treatment is generally related to the local residents' living standards, income and consumption. Therefore, it is necessary to establish an evaluation index between the Dibao standard and the factors including the local residents' living standards, income and consumption, to ensure that all regions of the country enjoy roughly the same minimum treatment of beneficiaries. Meanwhile, as the separation of the standard calculation method and the adjustment mechanism is the key reason that causes the standard gap between different regions, it is difficult to guarantee the gap would not extend for a long time if the separation continues to exist.

### 3.3 Conceptual Approach to the Dibao Standard

#### 3.3.1 Absolute poverty or relative poverty

Poverty line calculation methods can be generally divided into two categories: the first category is relative poverty positioning and the second is absolute poverty positioning. Generally speaking, the poverty line calculated by the calculation method of relative poverty positioning will be higher whilst the poverty line will be lower if the calculation method of absolute poverty positioning is used. For instance, the international standard method of poverty uses an average income of 50 to 60% of the median income as the poverty line in a country or region. This method belongs to relative poverty positioning. The poverty line so calculated is usually relatively high, so it is mainly used by developed countries. Developing countries are less likely to adopt this method to implement a social assistance program.

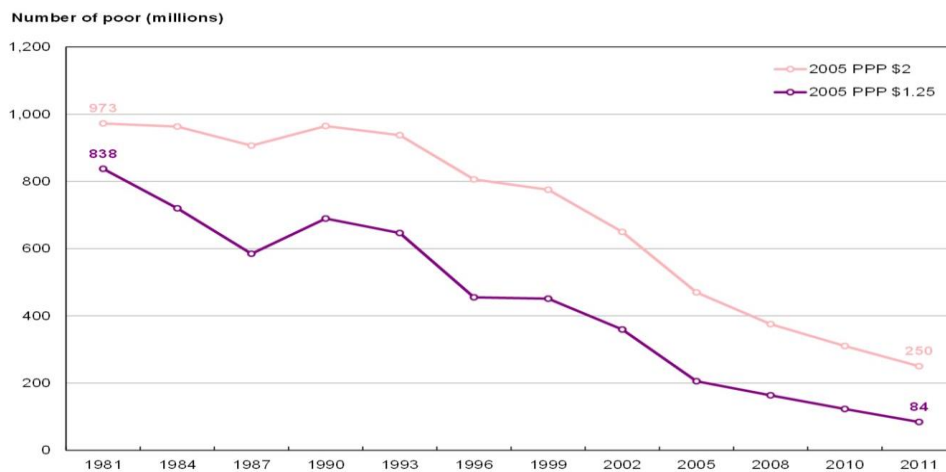
Using the World Bank's international poverty standard as the basis for measurement, the poor population in China has been greatly reduced and the anti-poverty effect is remarkable. Therefore, is the idea of absolute poverty still applicable?

#### 3.3.2 Different Considerations of Income, Assets and Consumption

In the early days of the Dibao system's establishment and operation, the determination of Dibao standards was mainly based on income. At present, in the process of the Dibao qualification review, we have begun to examine family assets to determine whether the Dibao applicants can go through the means-test. The process for setting Dibao standards has not yet proposed how to bring assets into the calculation and the adjustment of the Dibao standards. Some developed regions have begun to use the consumption ratio to measure their Dibao line. Can we promote such thinking?

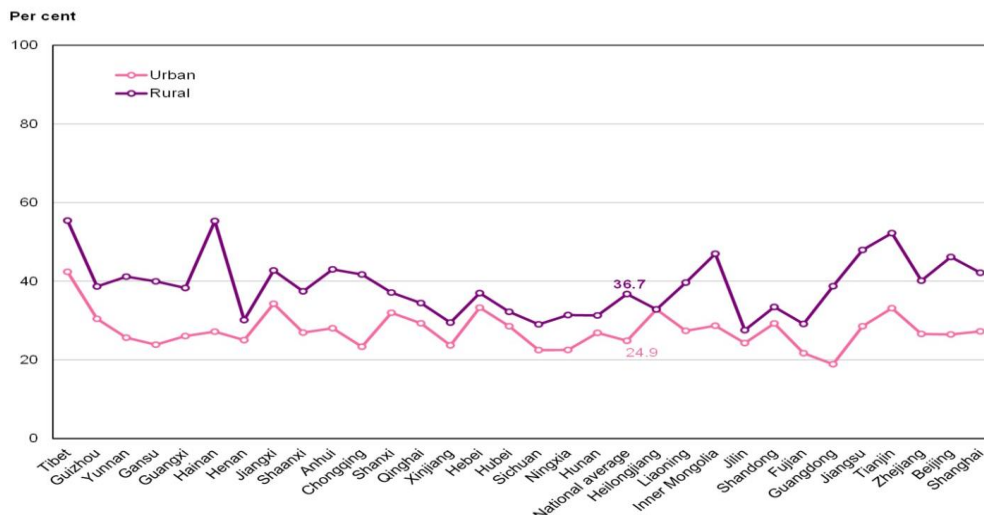
The consumption expenditure ratio method is not a relative poverty positioning in the pure sense, nor is it an absolute poverty positioning in the pure sense. It is a compromise between the two. This is because the poverty line determined by the consumption expenditure ratio method is a certain percentage of the average consumer spending. It is unlike the income ratio method (such as the international poverty line method) which when used to determine the standards are often too high and is also unlike methods such as the market basket method or the Engel's coefficient method that produce results that are too low. In China's current economic development stage which is trying to allow those in the poverty group to share the outcomes of social economic development to some degree, calculating and evaluating the minimum living standard of Dibao residents by adopting the consumption expenditure ratio method is the method of choice. Besides, in considering its operation, when compared to the other methods, its simple calculation, convenient adjustment, intuitive image and easy understanding are the biggest positives for the consumption ratio method. But the consumption ratio method may face financial difficulties in regions that have weak financial capacity or dramatic financial situation changes.

Figure 12: Consumption Poverty in Absolute Numbers, 1981–2011



Sources: Ministry of Civil Affairs, China Civil Affairs' Statistical Yearbook, 2014;  
National Bureau of Statistics, China Statistical Yearbook, 2014

Figure 13: Urban and Rural Minimum Living Standards as a Percentage of Consumption Expenditures, by Province, 2014



Sources: Ministry of Civil Affairs, China Civil Affairs' Statistical Yearbook, 2014;

National Bureau of Statistics, China Statistical Yearbook, 2014

### 3.4 The Lack of a Legal Framework for Social Assistance

Currently the minimum livelihood guarantee system is merely regulated by the “Regulations of the Urban Minimum Livelihood Guarantee Scheme” and the “Interim Measures of Social Assistance”. These have a weak legal effect and can not effectively guide local practice. For example, the current main regulation about adjustment of the Dibao standard is the sixth article in the “Regulations of the Urban Resident’s Minimum Livelihood Guarantee Scheme”. It only introduces way of determining the Dibao standard, without mentioning the Dibao standard adjustment mechanism. “Regulations of the Urban Resident’s Minimum Livelihood Guarantee Scheme” is the main regulation of the minimum livelihood guarantee system in our country. Various regions implement the Dibao standard in accordance with this regulation. This leads to the absence of a reasonable adjustment mechanism in the residents’ Dibao standard. Therefore, relative regulations about the urban and the rural Dibao standard should be established and perfected. Meanwhile, we should modify the relevant regulations and formulate a unified social assistance legal framework, making the time, range and frequency of the adjustment of the Dibao standard, its financing and the various departments’ responsibilities clear, so as to establish a regular adjustment mechanism rather than a passive means of adjusting the Dibao standard.

### 3.5 The Actual Dibao Standard: Family Income Checks and Estimates

It is important to define how to calculate and adjust the Dibao standard. However, in their front-line work, the street-level officials are much more concerned about how to verify and check a family’s income and assets. In so doing, many regions have founded a “Family Economic Status Verification Centre”. This centre can coordinate among around 10 different departments/bureaus such as Industrial and Business Bureau, Housing Department, Vehicle Administration Bureau etc. to obtain the information necessary for family income and assets verification. This is significant achievement as it has made the assessment of family income and assets much more accurate and valid. Moreover, most regions have set up the Normative Procedures to check and ratify a Dibao application. This includes household visits, economic status reports, letters, and public announcement as verification measures.

However, how to calculate a family’s income remains a hard question. Firstly, rural families have flexible and unstable agricultural activities and they obtain income accordingly. Secondly, for those families in difficulty with a disabled family member or one who is severely ill, the problem is how to calculate their income? It is not appropriate to include the patients’, the disabled person’s and the care giver’s income as the current system does not provide a care allowance.

Changsha is taking the lead in family income estimation and calculation. They explore how to calculate the family income in a scientific way. They divide family income into five categories: salary, family business income, property income, cash transfers and other income. The town/street office makes their own family income estimation standard and the county/municipal governments checks and records the estimation standard. This procedure can guarantee the local government’s discretion and simultaneously guarantee that the family income verification standard is authorized. It turns out to be an effective way of conducting front-line work.

### **3.2.1 EU Best Practices Report on Guaranteed Minimum Income Schemes (GMIS)**

*Lacramioara Corches, EU-China SPRP expert*

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**ABBREVIATIONS:**

AT = Austria; BE = Belgium; BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; DE = Germany; DK = Denmark; EE = Estonia; ES = Spain; FI = Finland; FR = France; EL = Greece; HU = Hungary; IE = Ireland; IT = Italy; LT= Lithuania; LU = Luxemburg; LV = Latvia; MT= Malta; NL = The Netherlands; PL = Poland; PT = Portugal; RO = Romania; SE = Sweden; SK = Slovakia; UK= United Kingdom

MIS = Minimum Income Standard

GMIS = Guaranteed Minimum Income Schemes

## 1. General Overview on Poverty

The definition of poverty is one of the most debated issues of the last 20 years. Scholars and governments questioned one another and deliberated over a common understanding of the answer to a “simple” question – “what does it mean to be poor?” The answers are as different as the philosophy, the economics, the psychology, the sociology could be. And, of course, we must take into consideration, apart from “who” is doing the defining, the “when” and “where” the definition is applicable.

A European definition was agreed first by the European Council in 1975: “People are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalised from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted.” This definition is relative to the society and the standard of living in which people live and it recognises the multiple causes of poverty and social exclusion.

In recent years, Amartya Sen has been an important voice urging that poverty needs to be seen more broadly than an inadequacy of income. He argues that poverty is the absence of one or more of the basic capabilities that are needed to achieve minimal functioning in the society in which one lives. This includes not only having enough income to ensure being adequately fed, clothed, or sheltered (income poverty) or being healthy (health poverty), as well as being denied access to education, political participation, or a full role in society. It also recognizes that poverty is sometimes relative to the norms and customs of the society in which someone lives (full participation in a wealthy society may require more money than participation in a poor one).

Combining all those aspects into one measure seems to be an unachievable goal. As well, if we refrain from taking into account issues other than income, we create a trap and are at risk of missing some important features of poverty.

For example, it is possible that a measure taken by a government, meant to reduce poverty in its broader understanding, can at the same time, increase income poverty. The measure is one connected to diminishing the net income of someone, by increasing their taxes (even for a good declared purpose, such as better payment of social services, educational, medical etc., for instance).

Equally, it is sometimes argued that rapid economic growth favours the rich, although not reducing the incomes of the poor. But this may reduce their access to public services that are redirected towards the rich, and perhaps also their democratic rights, if money influences the political process.

International institutions and organisations set up their own preferences for defining poverty, taking into account different aspects of poverty. For example the World Bank and the United Nations measure not only the number of people whose income is low, but they also pay attention to measures of health, such as infant and child mortality rates and life expectancy and participation in education.

Thinking about poverty as the inability to participate in society leads to the two basic concepts: relative poverty and absolute poverty. As the latter one is unanimously accepted, being that situation in which one is not having enough to eat, nor enjoying good health, the relative measures of poverty are often constructed by using poverty lines that are moving with average incomes. In this case the minimum acceptable income is tied to what other people get.

But relative lines are not used much in poor countries, where the main concern seems to be absolute poverty, meaning the ability to meet the basic needs of health and nutrition. In more developed



countries, where meeting basic needs is no longer an issue for the vast majority of households, there is a greater emphasis on relative poverty, bearing in mind the multiple faces of the poverty, as shown above. Thus a much more comprehensive concept was brought into the equation and social inclusion is now the key point in the welfare states.

Social inclusion is a term that can be used to describe a series of positive actions to achieve equality of access to goods and services. It assists all individuals to participate in their community and in society, to encourage the contribution of all persons to social and cultural life and to be aware of, and to challenge, all forms of discrimination. By ensuring that the marginalized and those living in poverty have greater participation in the decision-making which affects their lives, they will be able to improve their standard of living and overall well-being.

The ‘European Union poverty rate’, defined as a relative poverty<sup>1</sup> is primarily a scientific measurement of poverty. It is based on the data gathered according to the methodology adopted and implemented in all the EU countries, and calculated by EUROSTAT. In scientific terms, the relative poverty, as one measurement of poverty<sup>2</sup> among others, is based on a central value of income dispersion. Although there is now a more or less broad consensus among stakeholders to keep a relative poverty measurement in a central position in EU frameworks, there are nevertheless continuous debates on the place of other poverty measurements in the EU portfolio of indicators.

This turns the poverty line into a scientific tool which does not necessarily have the same understanding for the socio-political consensus of society.

A classification of the European Union countries into “richer” or “poorer” relatively compared, is done by other indicators frequently used to assess the wealth of countries, such as the level of GDP or the GDP per inhabitant. At the same time, the relative poverty rates show a picture of poverty in the European Union which are not in exactly the same.

We may extend the picture by adding other indicators, one of the latest appeared in the literature being the index of “Gross National Happiness”. But this is another story...

The relative poverty approach emphasizes more or less similar performances in the enlarged European Union but hides the increased differences in the living standards between the Member States. And this is the limit of this indicator, which is calculated based on income.

So, we have to distinguish among “income poverty”, “material deprivation”, “social participation”, “social rights” and life’s other expectations, when we need a more scientific approach of the concept of “well-being”.

## 2. Definitions and Concepts

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<sup>1</sup> *Relative poverty rate* is an indicator of the relative incidence of poverty, and represents the share in the total population of persons in households with a disposable income per adult equivalent (including or excluding the value of own resources consumption) less than the poverty threshold. This indicator is determined for the threshold of 60% of median disposable income per adult equivalent. The poverty rate is calculated as the ratio between the number of poor (whose income is below the threshold) and the total population. ([http://eur-lex.europa.eu/summary/glossary/open\\_method\\_coordination.html](http://eur-lex.europa.eu/summary/glossary/open_method_coordination.html))

<sup>2</sup> In *estimating of the relative poverty rate indicator*, defined according to EUROSTAT methodology (relative poverty rate is the same with at-risk-poverty-rate, according to definitions from EUROSTAT), some steps are taken: the extension of data from the survey by applying the corresponding expansion coefficients; determining the disposable income per each household; adjustment the available income to the consumer price index (CPI); determining the disposable income per adult equivalent in every household, and award the obtained amount to each person from the concerned household; distribution (sorting) of all persons assigned by size of income in the previous operation, in increasing way; setting the middle point of the distribution of persons by disposable income per assigned adult equivalent; determining the poverty threshold by applying the proportion of 60% over the midpoint value; identifying (counting) of people who have an income below the poverty line, and calculation the relative poverty rate (<http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/at-risk-of-poverty-rate>)

As from the socio-political point of view we may have a lot of understanding and expectations of which indecent/decent living standards or basic needs can be distinguished from secondary needs, and thus, we may have different constructions for the Minimum Income Standard (MIS).

According to Veit-Wilson, a minimum income standard (MIS) has to be understood as an abstraction, a set of qualities for making judgements, in this case on the adequacy of income: A

“Minimum Income Standard (MIS) is a political criterion about the adequacy of income levels for some given minimum real level of living, for a given period of time, of some section or all the population, embodied in, or symbolized, by a formal administrative instrument or other construct”.

A minimum income standard is thus a broader concept than certain specific minimum incomes, such as GMI. It is essentially a policy tool that can be applied as a benchmark of adequacy of various welfare provisions or other socially defined minimums, such as the minimum wage, minimum State pension or minimum social benefits. It is used by policy makers and administrations as a benchmark for the assessment of the level of income which reflects the national or regional political and social consensus on an arbitrary limit under which the income of individuals and/or households is considered as insufficient to live decently according to society’s standards or to meet their basic needs.

The MIS could be used as the direct reference for the level of income of a specific provision or be itself the reference for another provision. For instance, in various countries the level of guaranteed minimum income is set as a fraction of the minimum wage or minimum State pension.

As mentioned above, the MIS is not intended to be a scientific measure of poverty, even if a scientific measurement of poverty may be involved in its definition.

These different approaches to poverty lead to different types of governmental minimum income standards which reflect their values, discourses and assumptions about poverty: Stratification, packages of values, ideas, technical language and power made by those in power to decide the “right” way.

The line between ‘absolute’ and ‘relative’ conceptions of poverty or between ‘meeting basic needs’ and ‘social quality for all’ visions is at the core of the debate on minimal standards in the social field. In fact, meeting the basic needs is just a step, the first one, and not the final aim in the European countries attempting to tackle poverty and social exclusion. Then, after the first objective is set, we may move forward and see the goals of welfare in Europe for all. The European Union is a rich entity and must have ambitious objectives, but it has also to ensure that its weakest members receive adequate support to reach these objectives.

The Member States are free to decide what should be the more pertinent indicator(s) to reflect the minimum level of adequacy, according to national traditions and the respect for subsidiarity. But as the Open Method of Coordination<sup>3</sup> become the tool universally used throughout Europe, currently, there are 3 main indicators defining poverty used at the level of European Commission and at the level of each Member State to define and monitor its performance in minimising the number people

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<sup>3</sup> The open method of coordination (OMC) in the European Union may be described as a form of ‘soft’ law. It is a form of intergovernmental policy-making that does not result in binding EU legislative measures and it does not require EU countries to introduce or amend their laws. The OMC has provided a new framework for cooperation between the EU countries, whose national policies can thus be directed towards certain common objectives. Under this intergovernmental method, the EU countries are evaluated by one another (peer pressure), with the Commission's role being limited to surveillance. The European Parliament and the Court of Justice play virtually no part in the OMC process. The OMC takes place in areas which fall within the competence of EU countries, such as employment, social protection, education, youth and vocational training. ([http://eur-lex.europa.eu/summary/glossary/open\\_method\\_coordination.html](http://eur-lex.europa.eu/summary/glossary/open_method_coordination.html))

living inadequately: At-risk-of-poverty rate (AROP), Severe-Low-Work-Intensity (LWI), Material Deprivation (MD).<sup>4</sup>

These indicators have become the commonly agreed benchmarks for the evaluation of EU Member states on their relative performance to minimise the number of persons living inadequately.

### 3. Guaranteed Minimum Income Schemes in the European Union

All European countries have developed, although under different forms and with different timings, universal and residual non-contributory complementary schemes in order to guarantee to all sufficient resources to 'live with dignity' or meet 'basic needs' (social assistance). They are designed for individuals and/or households 'failing' to ensure themselves a 'decent' standard of living (and/or not belonging to one of the main population/social protection categories mentioned above), and are clearly aimed at the prevention of (severe) poverty.

In countries with a long practice of social assistance these schemes were originally perceived as a residual complement to social protection that will disappear by itself when the results of full-employment and increased wealth would automatically raise all individuals to better living conditions. But the persistence of high structural unemployment, the transition to a market economy that some countries are facing, and relative failures of social policies to eradicate, or at least contain poverty, during the recent decades have demonstrated that on the contrary these schemes are increasingly important and more than ever necessary.

All the 28 Member States of the European Union, as welfare states, are engaged in promoting sustainable economic growth with more and better jobs and a greater social cohesion for their citizens. In 2010, the European Commission issued a 10 year strategy aimed at reinvigorating the economy and making possible an "intelligent, sustainable and inclusive" growth, and the better coordination of National and European policies (Europe 2020). Thus, the Member States have set, differently, from one state to another, a "Minimum Income Standard" which, in one way or another, is guaranteed by the State based on a non-contributory scheme of Social Assistance.

Social assistance minimum income schemes are means-tested in all countries, as individual, or household eligibility, is dependent upon an assessment of current or recent income and/or assets.

Social assistance could take very different forms (guaranteed and/or limited benefits in cash or in-kind, provision of social and integration services, special fares in (public) services, tax-credits, public and/or private social insurances). The means-tested or income-related benefits can be divided into three broad categories:

- General assistance through schemes providing cash benefits for all people below a specified minimum income standard (guaranteed minimum income schemes);

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<sup>4</sup> The AROPE consists of a combination of the three sub-indicators that are derived from EU-SILC data:

- a relative component: the at-risk-of poverty rate / monetary poverty (AROP) = People at risk-of-poverty, who have an equivalised disposable income below the risk-of-poverty threshold, set at 60 % of the national median equivalised disposable income (after social transfers).

- a "kind of" absolute component: material deprivation (MD) - People who suffer from severe material deprivation and have living conditions severely constrained by a lack of resources. They experience at least 4 out of the 9 following deprivations items. They cannot afford: i. to pay rent or utility bills, ii. keep home adequately warm, iii. face unexpected expenses, iv. eat meat, fish or a protein equivalent every second day, v. a week holiday away from home, vi. a car, vii. a washing machine, viii. a colour TV, or ix. a telephone.

- an exclusion of labour market component: severe low work intensity (SLWI) - People living in households with very low work intensity who are those aged 0-59 living in households where adults worked less than 20% of their total work potential during the past year.

This broader "at-risk-of-poverty or social exclusion" indicator is relevant in capturing several dimensions. More precisely it includes people that are at least in one of the 3 a.m. categories (<http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/at-risk-of-poverty-rate>)

- Category specific assistance which provides cash assistance for specified groups (family, disabled, elderly);
- tied assistance which provides access to specific goods or services in either cash or kind (housing assistance is an example) (Guibentif & Bouget, 1997).

Together, these social assistance forms and schemes and their various declinations and combinations at National and sub regional levels, constitute a complex and fragmented web of last-resort protection, the ‘safety nets’ protecting citizens and households from falling into (severe) poverty and social exclusion. These safety nets are the social expression of what each European nation, according to its own social consensus, perceives as being the minimal floor<sup>5</sup> under which poverty and social exclusion are considered as unacceptable and contrary to human dignity.

We will focus on one of these MIS - the ‘guaranteed minimum income’ (GMI). This is of particular relevance in the fight against poverty and social exclusion, or at least its alleviation.

We may see GMI as an income provided by the welfare states to individuals and/or households who are not able to ensure by themselves a sufficient income socially recognised as necessary to live decently or to meet basic needs. It is provided through specific and universal last-resort schemes (safety nets).

The term ‘guaranteed minimum income’, used in this report, has different national understandings in the European Union. The following denominations are present in the specific legislation of each country mentioned in the brackets, but their meaning is almost the same as, GMI:

- ‘guaranteed minimum income’ (FR, LU, ES, PT, LV, RO)
- ‘social assistance’ (AU, DE, NL, DK, SE, CZ, PL, SI, MT)
- ‘integration or insertion income’ (BE, PT)
- ‘public assistance’ (CY)
- ‘income support’ (UK)
- ‘supplementary welfare allowance’ (IE)
- ‘subsistence benefit’ (EE)
- ‘benefit in material need’ (SK), or
- ‘social benefit’ (LT).

In some countries the guaranteed minimum income scheme is the sole existing safety net. In some other countries the guaranteed minimum income is part of a wider safety net including other allowances and associated rights.

- 1) they are ‘guaranteed’ and ‘non-contributory’ as they are granted on a universal basis and are not dependent upon previous contributions to social protection insurance systems (like Dibao);
- 2) they are ‘minimum’ as they are conceived as the ultimate ‘safety nets’ of social protection and are related to national or local perceptions of the minimum living standards or needs (like Dibao);
- 3) they are the expression of a subjective and non-discretionary right to social assistance, meaning that they have to be claimed by individuals and are not granted automatically, (like Dibao);

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<sup>5</sup> Social protection floors are nationally defined sets of basic social security guarantees that should ensure, as a minimum that, over the life cycle, all in need have access to essential health care and to basic income security which together secure effective access to goods and services defined as necessary at the national level – ILO definitio (<http://www.ilo.org/secsoc/areas-of-work/policy-development-and-applied-research/social-protection-floor/lang--en/index.htm>)

- 4) their level is set by law or administrative rules in an equal manner for all (like Dibao);
- 5) they are generally paid as a means-tested, differential cash amount, i.e. their attribution and amount is calculated like the balance between the level established by the law/administrative rule and the income of the family/household/individual (like Dibao);
- 6) the receiving of the benefit is conditional upon an active job search for those able to work
- 7) the amount of the benefits is adjusted according to the composition of households. (like Dibao) ;
- 8) the basis of entitlement is generally the legal residency of either the individual or the household/family (like Dibao);
- 9) a common trend in many countries is the decentralisation of schemes which are fully or partially ruled and managed directly by regional levels with a growing involvement of local levels (like Dibao).

Thus, a general definition of the guaranteed minimum income could be:

A guaranteed minimum income (GMI) is the expression of a universal, non-contributory, subjective and non-discretionary right to social assistance, granted generally under the form of a means-tested differential income. As the main pillar of a dedicated scheme, it acts as (part of) the ultimate safety net of social protection in order to prevent individual or households, which are not covered by other social protection schemes and with insufficient resources to support themselves, from falling into (severe) poverty or under decent living standards as perceived in national societies. From this definition we notice that the basic features of the European Union Members States' GMI Schemes are similar to the ones of the Chinese Dibao program.

In the Mutual Information System on Social Protection (MISSOC) database, established in 1990 to promote a continuous exchange of information on social protection between Member States, the guaranteed minimum income schemes are classified in the broad category 'Guaranteeing of sufficient resources'. At the end of this report, there is a short description of the GMI in the different European Union Member States as they are described in MISSOC (Annex).

But in some Member States, where the level of the general scheme benefit is lower, it is supplemented by specific allowances for housing, health, family benefits or specific allowances to bear the costs of basic services (the costs of education, heating, gas-electricity, transportation).

In certain countries there are also specific guaranteed minimum income schemes for particular groups of the population such as old-age persons or invalids.

And so, as mentioned above, Guaranteed Minimum Income schemes play a specific and crucial role in the fight against poverty and social exclusion in that they are last resort of social protection, a major component of the global safety nets to prevent people from falling into severe poverty.

### 3.1 Typology of GMI Schemes

#### Basic principles

If we look at the basic principles of the structure of GMI schemes we can distinguish between different groups of countries, according to the provisions in their respective laws:

- 1) A sufficient replacement income to maintain or reach the living standards socially recognised as the necessary minimum to live a decent life (DE, AU, FI, SE, MT)
- 2) Replacement income + an objective of social integration (through activation) (DK, BE, LU, NL, FR).
- 3) GMI schemes is a level of minimum subsistence (ES, PT, BG, RO, CZ, SK, EE)
- 4) GMI is targeted towards people or households in need (UK, IE, LV, PL).

Spain and Luxembourg are the only countries referring explicitly to the fight against poverty and social exclusion as the aim of their GMI schemes.

Beyond these characteristics, there are major factors of dissemblance between the schemes.

On the basis of the classification of the European Union Network of Independent Experts on Social Inclusion, we could divide the GMIS into four broad categories:

- 1) countries who have relatively simple and comprehensive schemes which are open to all those with insufficient means to support themselves (AT, BE, CY, CZ, DE, DK, FI, FR, LU, NL, PT, SE)
- 2) countries which have quite simple and non-categorical systems, but have rather restricted eligibility and coverage of people in need, due to the low level at which the means-testing is set (EE, HU, LT, LV, PL, RO, SK)
- 3) the countries which have developed a complex network of different, often categorical, and sometimes overlapping schemes, which cover most people in need of support (ES, IE, MT, UK)
- 4) the countries which have very limited, partial or piecemeal schemes which are restricted to narrow categories of people and fail to cover all those in need of support (BG EL, IT, RS).

### 3.2 Eligibility criteria for the GMIS

The schemes vary widely in terms of eligibility criteria, but all refer to a lack of sufficient resources, age requirements, residence (like Dibao) and a willingness to actively look for work. There are also differences in the governance of the GMIS, both in terms of financing and implementation. Some are governed at national level, others at local and some are mixed.

But for the same country, the level of the threshold/standard is the same when even inside the same country there are regional disparities, and the poverty level is different.

Most countries have eligibility conditions related to a lack of financial resources, age, nationality and residence, and receipt of MI is almost always linked to the conditionality of a willingness to work. This has become a very important issue putting more pressure with regards to the availability for work since the crisis despite the greater difficulty to find paid employment.

Countries differ significantly in the resources that are taken into account to assess the lack of resources of applicants and their households.

A general precondition is that all other means of income and assets, from work or social protection schemes, have been exhausted.

Assets:

In Portugal since the crisis, the income threshold to be eligible for GMI has been reduced and maximum values for property have been introduced, causing a significant decline in the number of beneficiaries.

In Italy, households eligible for the new social card must be of low work intensity or with no-one in employment. The income threshold is defined at a very low level: 566 EUR per month for a single parent with one child and 650 EUR for a couple with two children. In most countries the house occupied by the applicant and his family is not taken into consideration.

However, some countries oblige applicants to sell their house when it is considered to be too big (FI, SE).

Sometimes countries introduced criteria to judge the size of the accommodation (BG, DE, UK).

In Italy, the new social card is only granted to families who rent a home or have to pay a mortgage.

In certain countries (AT, BG, FI, SE, SK), applicants can also be obliged to look for cheaper housing to rent, when the expenses for the rent are seen as too high.

In Malta and the Czech Republic, only the income generated by holiday homes and rented property are taken into account.

In some countries applicants may be asked to sell their cars (FI, SE) or boats to qualify for acceptance.

#### Incomes

However, in many countries GMI can be accumulated with social benefits or income from work when this income is below the GMI threshold.

Certain types of incomes may be excluded from the calculation of the household income: -the case for a part of the income from employment (CY, DE, FI, FR, IE, LU, NL, PT, UK), -for family allowances (AT, BE, ES, HU, IE, LU, RO, SK),

-parents' money (DE),

-maternity allowances (PT, SK),

-disability benefits (DK, EE, ES, FI, FR, HU, IE, LV, NL, SK), student grants (CY, EE, FR, LT, RO, SK),

-care for dependents (AT, BE, HU, LT, LV), -pensions (DE, MT, SK),

-money from maintenance claims (PL, UK), -repayment of debts (HU),

-income from charitable associations (AT, CY, DE, FI, LT, PL).

Countries use very different methods to calculate the adequacy of the resources of applicants and their household, to judge their eligibility for MI.

### 3.3 Special conditions for GMIS

#### i. Age requirements

In terms of age requirements, most countries set the minimum age at 18 years (BE, DE, DK), but have a much lower rate of benefits for those aged 18 to 29 (ES, HU, IS, MT, NL, PL, PT, UK). Other countries refer to the parents' duty to support their children (AT, BG, CY, CZ, EE, FI, IE, LT, LV, SE, SK) which implies that children under 18 years don't have access to GMI when they are living with their parents

FR and LU have set the minimum age limit at 25 years; Germany at 15 years.

As most countries have introduced specific GMI arrangements for old age and minimum pensions, the upper age limit is mostly equal or close to the legal retirement age.

#### ii. Nationality requirements

In all countries, all national citizens, all citizens of another European Union Member State (after a certain period of residence in the host country) and all persons who have been granted refugee status or subsidiary protection, are eligible for GMI.

In some countries, every person who resides legally in the country is eligible for GMI (AT, CY, DK, EE, ES, FI, LU, NL, PT, RO, SE), other countries make permanent residence the criterion (LU, HU).

Homeless people have often great difficulties in accessing MIS, although they may be eligible in theory. This is because, in practice, they face problems with their residence that hampers their capacity to claim their rights.

iii. Time

GMISs are considered by all countries as a benefit unlimited in time, although regular reassessment may be foreseen.

Bulgaria has limited the period of payment to 6 months, after which the benefits are discontinued and can only be resumed after 1 year.

iv. Indexation

There are big differences between countries with regards to the uprating mechanisms that are applied to GMIS:

- Some countries (CY, DE, DK, FI, FR, UK) apply yearly indexation mechanisms;
- in BE, LU and CZ, the level is automatically adapted, once a pivot-based index is reached;
- in LI, BG, LV and RO indexation is done on an irregular basis, when the government decides to do the uprating.
- HU adapts its GMI when pensions are uprated;
- In NL, GMI is revised twice a year in line with the evolution of the minimum wage.

Lithuania and Denmark have reduced (for young people) the amount of the benefit compared to the level it used to be before.

v. Scale

Many countries use equivalence scales to determine the weight of other members of the household. In most countries these equivalence scales are implicit; in others they are explicit (ES, FI, LT, PT, RO).

For instance, the OECD modified equivalence scale of adult equivalent is: first adult = 1, other adults in the household = 0.5; each child in the household = 0.3, while the Romanian scale used for GMI is: first adult = 1, other adults in the household = 0.5; each child in the household = 0.5.

#### 4. Adequacy and Targeting of GMIS

Most countries don't emphasise the issue of adequacy and have no clear definition of what constitutes a decent income. Instead, some countries even use concepts such as subsistence level or subsistence minimum, or see GMIS as instruments to avoid absolute poverty.

The level of payment, uprating and variations in the amounts are the key questions for what countries consider as a sufficient or a minimum standard of living. They are used to determine whether that level can be considered as adequate for living a life in dignity and participating in society.

Most Member States use benchmarks to establish the amount of the minimum income, but in many cases it is not always clear which method has been used to set that amount.

In some countries the benchmark has been set by governmental decision or by law (BG, CZ, DE, EE, ES, FI, FR, IE, LT, LV, PL, RO, SE, UK). Other countries set the GMI as a proportion of pensions (AT, HU, LT, LV), unemployment benefits (DK) or minimum wages (NL, most regional MI schemes in ES).

- Sweden, Lithuania and Austria determine 'decent' living standards on the basis of the cost of a list of certain goods and services.
- In Germany the spending of people with low incomes is used.



- Certain countries refer to the subsistence level (EE), the subsistence minimum (CZ), the guaranteed minimum income (BG, RO) to determine the level of payments. The amounts of these minima differ widely between countries (from 31 EUR in RO to 198 EUR in SK).
- Only Denmark recently passed a law to set the minimum level of GMIS at 50% of the median income threshold. People are considered as poor when their actual income for more than 3 years was below that level. This means that Denmark is using a benchmark of persistent poverty. This benchmark is however not used to determine the level of minimum income.

In some countries reference budgets are used to set the level of GMI, but the baskets often don't cover all the necessary expenses. There are countries where well-conceived reference budgets are developed, but these are seldom used as the benchmark for GMI levels.

The at-risk-of-poverty threshold is seldom used as a determining factor to establish benefit levels.

Also, there are countries where GMIS doesn't allow recipients to live in dignity and where the amounts have not kept up with the increases in the living standard.

When asked to formulate next steps to improve adequacy of GMIS, we may suggest:

- (i) want the 60% AROP threshold to be used to ensure adequacy of GMIS;
- (ii) GMI should be a percentage of the minimum wage.
- (iii) reference budgets should be used to determine the level of GMI, to test the adequacy of GMI and the 60% AROP threshold,
- (iv) stimulate the public debate on GMIS

## **5. Coverage and Generosity of GMIS**

In some countries coverage is reduced through excessive means-testing. Non-take-up is seen as a serious problem that is not adequately addressed. Indications of non-take-up in countries range from 20% to as much as 75%. These figures are much higher than those of over-take-up (which includes fraud) which receives much more policy and media attention.

There are several reasons identified for non-take-up: unknown rights and the lack of communication whereby individuals are not aware of their rights or do not know how to claim GMI. This is increasingly so when the administration does not take a pro-active approach to communication and potential beneficiaries have to find out by themselves.

The complexity of some GMIS also causes higher non-take-ups. Unclaimed rights and offer relevancy by constraint happens when the costs connected to accessing MIS are perceived to exceed the potential benefit (financial costs, too low benefits, complex procedures, distance to the office, humiliation felt when having to rely on relatives first).

Unclaimed rights by 'choice' are linked with the conditions to access GMIS that potential beneficiaries are not ready to accept: conditionality linked to activation, especially where public works can be imposed, severe property census, controls that are seen as humiliating or extra conditions that can be imposed.

Unattained rights and administrative obstacles refer to rights that were claimed but not obtained, because of bad administration or highly discretionary powers, absence of appeal procedures, requests for ID cards (a problem for Roma) or to have an address (difficulties for homeless).

Discarded rights and opinion of social intermediaries is linked to the influence of intermediaries such as social workers, civil servants and others. These may discourage potential users from claiming their rights. On the contrary, some teams point to the potential of using social workers and street workers to improve take-up.

Non-take-up is a big problem for rough sleepers and for people staying at friends, but much less for those who stay at homeless accommodation where social workers help to fill in the files.

Some schemes also serve as top-ups when wages or benefits are too low. The levels of payment show very great differences in their degree of generosity, ranging from 22 EUR in Bulgaria to 1433 EUR per month in Denmark for a single person, and from 100 EUR in Poland to 3808 EUR in Denmark for a couple with two children.

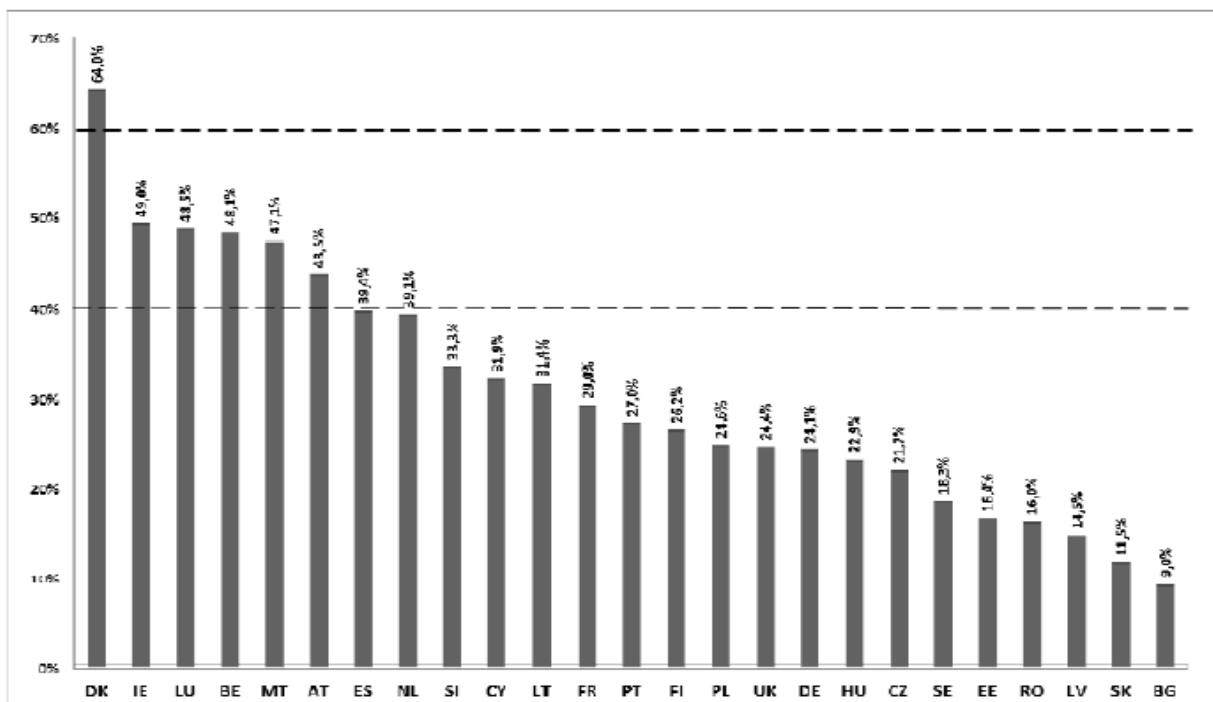
With the economic crisis, the basic amount of 12 Minimum Incomes in Portugal decreased from 189.52 EUR in 2010 to 178.15 EUR in 2013.

In Italy, the new social card is granted to low income families to pay food, medication and utilities, but it is not an enforceable right for the eligible households, since there is only a fixed budget of 50 Million EUR for one year from the National Government. This is to be divided among the 12 cities on the basis of the size of the population and the absolute poverty incidence in the last three year in the territorial area.

When compared to median income in the countries, only Denmark (for single persons) has a GMIS that has a high level of generosity (over 50%); most countries have GMIS that are medium-high or medium-low; but 9 countries, all from Central and Eastern Europe plus Portugal and Sweden, have GMIS with low to very low generosity levels (less than 30%). This means that these countries will have to face considerable additional efforts to bring their MIS to an adequate level.

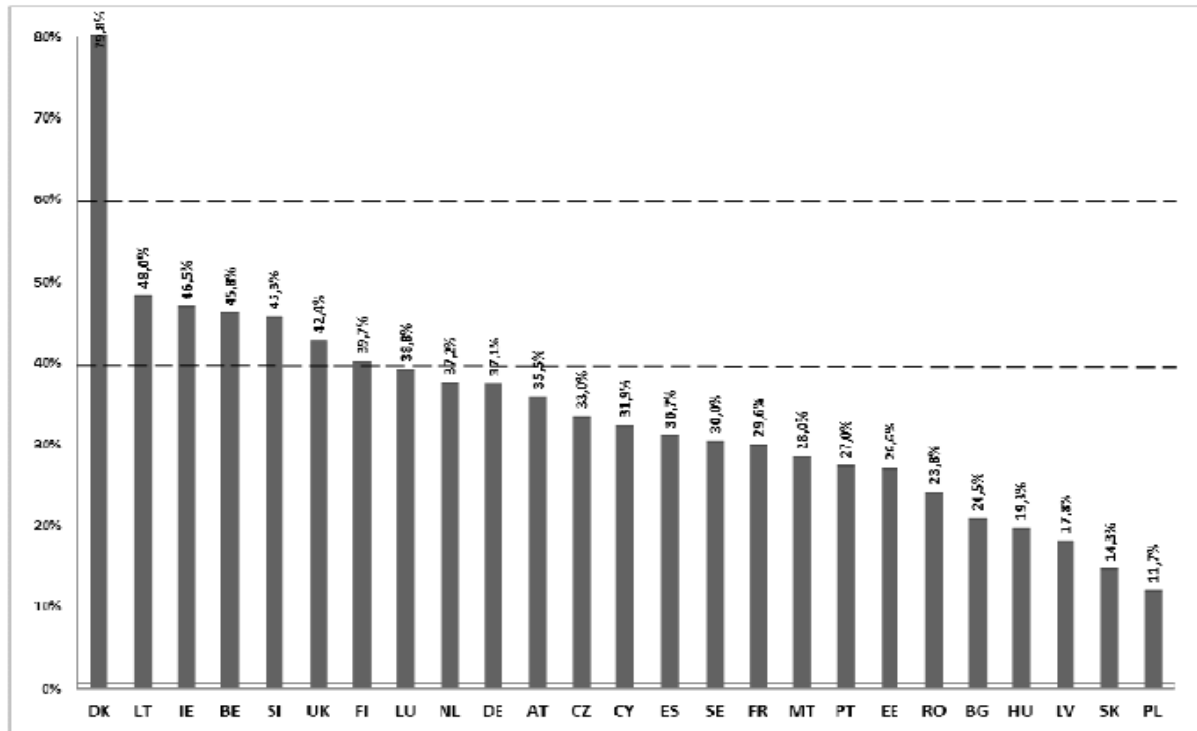
In their report for the European Economic and Social Committee, Pena-Casas et al. have calculated the generosity of national GMIS for the countries in the European Union. Below we reproduce two tables of the report: GMI as a percentage of median equalised income for a single person, and for a couple with two children.

*Figure 1: Maximum gross GMI as a percentage of median equalised income – single person – 2011*



Source: MISSOC data base for MI amounts, EU-SILC data for median equalised income, calculations Pena-Casas et al.

Figure 4: Maximum gross GMI as a percentage of median equivalised income – couple with 2 children – 2011



Source: MISSOC data base for MI amounts, EU-SILC data for median equalised income, calculations Pena-Casas et al.

These calculations clearly show that only Denmark has MI benefits that exceed the 60% of median equalised income, both for single persons and for a couple with two children, where MI reaches even 80% of median income.

No country reaches 50% of median income. IE, LU, BE and MT have MI amounts for single persons between 40 and 50%; ES, NL, CY, and LT have benefits between 30 and 40%. In SE, EE, RO, LV, SK and BG, MI amounts for single persons are even below 20%. For a couple with two children, in LT, IE and BE MI amounts are between 40 and 50%; UK, FI, NL, DE, AT, CZ, CY and ES are between 30 and 40% of median equalised income.

We see from the data presented above that, except for Denmark, no European country guarantees a net income for social assistance recipient households which is above the threshold of 60% of the median income and that even the lower thresholds of 50% and 40% are barely reached by a limited number of countries and then only for specific household configurations. This confirms that social assistance is conceived as a safety net to avoid very severe poverty but not sufficient enough to enjoy decent living standards, at least as expressed under the form of a relative poverty threshold. But it points out also that even when considering severe poverty (=40% threshold) the income of social assistance recipients is insufficient in nearly all European countries. This also indicates that the 60% median income threshold is an ambitious limit that even the richest EU countries do not attain for social assistance recipients.

The current EU relative poverty ‘norm’ is thus increasingly used and acknowledged to define and compare monetary poverty issues in Europe, but the question remains - could it be considered and used as a Minimum Income Standard (or as reference criterion for) and define common EU threshold(s) in a common understanding and expression of what are ‘decent’ living standards?”

Several countries (RO, BG, HU and LV) have MI amounts around the 20% of median equalised income and Slovakia and in particular Poland are far below this threshold. Both countries apply flat rate amounts for MI, irrespective of the household composition. We can categorise the GMIS countries, in terms of the relative generosity of their systems, into 5 groups:

- 1) High level of generosity (over 50%): DK
- 2) Medium-high level of generosity (40-50%): AT, BE, IE, LT, LU, NL
- 3) Medium-low level of generosity (30-40%): CY, DE, ES, FI, FR, MT, UK
- 4) Low level of generosity (20-30%): CZ, EE, HU, PT, RO, SE
- 5) Very low level of generosity (under 20%): BG, LV, PL, SK

It is striking that the countries with low to very low levels of generosity are all countries of Central and Eastern Europe, except Portugal and Sweden. In these countries a considerable effort is needed to bring their GMIS to an adequate level.

To improve coverage of GMIS:

- in countries with a low income threshold they should increase the level.
- Others should insist on reducing administrative discretion and arbitrariness in granting benefits, or on the introduction of appropriate appeal procedures.
- In countries with decentralised GMIS, where local discrepancies are seen as a problem, the solution is the recentralisation of procedures.
- all young people from the age of 18 should have access to MIS.
- the need for equal treatment of all people in need, including migrants and ethnic minorities such as Roma.

As general measures to improve the take-up of MIS, we suggest the following: -

- automatic granting of rights
- simplification of the system,
- outreach work by qualified social workers,
- one-stop-shops and better cooperation between administrations and the separation of social work from control functions
- improve the interaction with other elements of the welfare state and strengthen empirical evidence and research on the take-up of benefits
- create more work in sheltered employment or the social economy, -establish youth guarantee plans
- provide training and job opportunities adapted to the needs of GMI beneficiaries, -set up personalised active inclusion measures.
- increase the ceiling for combining earnings with GMI, to avoid inactivity traps.
- To improve access to quality services, teams call for better cooperation between employment services, social services and NGOs, and the introduction of personalised coaches to accompany people and some specific recommendations on active inclusion of older people.

## **6. Management of GMIS**

The overall management of GMIS must be examined from two perspectives:

a) the way by which the scheme is financed

All countries are financed through taxes, as they are non-contributory schemes of last resort.

- In some countries GMIS is financed at central level (BG, CZ, FR, PT, RO, SK, UK)
- In some countries financing is a shared responsibility between the central level and local level (BE, DE, DK, FI, LU, NL, PL, SE).
- In other countries local or regional authorities who finance the system (AT, ES, LV).

It was identified that local financing contains a greater danger of budgetary instability, increased discretion. This will result in greater disparities between regions and municipalities.

In Spain, the fact that GMIS is not portable across the Autonomous Regions, requires that people have to reapply when they move to another region, where eligibility conditions may be different. In Spain, besides the different minimum income schemes at the level of the Autonomous regions, the central government also has a temporary non-contributory last resort scheme, called PREPARA.

b) the level at which the scheme is implemented.

In regard to the implementation of MIS, in some countries implementation is the competence of the central level (BE, BG, CZ, ES (PREPARA), FR, IE, MT, PT, SK, UK). In others only the local/regional level has competence (AT, CY, DK, EE, ES, (Autonomous regions schemes) FI, HU, LT, LV, PL), while in some countries responsibilities for implementation are shared (DE, LU, NL, RO).

## **7. GMIS and the Labour Market**

In most countries applicants for GMIS, who are of working age, have to register at the employment agency as jobseekers, actively look for work or be ready to take up education and training.

In many countries the inability to find work is an integral part of the definition of the purpose of GMIS for people of working age. A lack of work is a reason for people's inability to guarantee an adequate standard of living through their own effort.

Some countries introduced measures into their GMIS distinguishing people unable to work from those who can work (DE, HU, IE, UK). Others also developed complementary assistance schemes geared specifically towards jobseekers to supplement contribution-based unemployment benefits, particularly near the end of the entitlement period (EE, ES, FR, IE, MT, PT, UK). In many countries MIS benefits are granted also to people with insufficient income from work or social security benefits (AT, BE, CY, CZ, DK, EE, ES, FI, FR, LT, LU, MT, NL, PL, PT, RO, SE, UK).

In many countries there is a hardening of political, media and public attitudes towards MI beneficiaries.

Several countries have introduced the obligation to take up public work as counterpart for receiving GMI, even when there are clear indications that these workfare measures do not increase people's chances to return to the labour market. In many countries, the crisis and austerity measures have had a considerable negative impact on the availability of enabling services such as housing, health care, education and childcare.

In many countries there appears to be a growing emphasis on a willingness to take up work (AT, BG, SE). Bulgaria points to the fact that increased activation has a disciplinary and sanctioning character and is not linked to the availability or quality of jobs.

Social assistance is kept low to avoid long-term dependency, but people on GMI simply have no chance to escape from poverty.

In Portugal, GMI beneficiaries have fewer possibilities than before to reject activation measures that they consider not suitable or that do not encompass the necessary services to accept the offer. Job offers that have to be accepted are extended to include ‘socially necessary work’. The new programme is seen as promoting precarious employment at very low salaries. Austerity measures introduced under the Memorandum have severely compromised expenditure and services for active inclusion, whilst at the same time controls were reinforced and sanctions hardened.

In some countries there is a growing tendency to distinguish the so-called deserving poor from those who are non-deserving (BG, PT, SE).

In several countries, reforms in welfare systems, including that of GMIS, aim at stimulating the take-up of jobs or education through reductions in expenditure in social assistance and benefits.

In Denmark, young people’s benefits were reduced by 50% to get them back into education.

In Portugal and UK, during and after the crisis, the cushion effect of GMI was reduced significantly through austerity measures.

However, the levels of MI are most often not the reason for benefit dependency, since they are much too low to live on. Sometimes income traps appear where earned income through work doesn’t increase disposable income, because earned income is automatically deducted from the GMI benefit (FI, RO), or GMI can only be combined with income from a part-time job (LU) or from low income from work (UK). Low wages are also often mentioned as a disincentive to take up jobs (LT, LV, SK). In Romania, taking up (low-paid) employment results not only in the loss of MI benefits, but also of all related additional benefits. This pushes people into informal employment.

In some countries (AT, BE, DK, SE, SK), the crisis has led to improved access for minimum income beneficiaries to active labour market measures. However this has not led to labour market integration, but rather to the transition of beneficiaries off GMI and onto unemployment benefits. In Denmark, social enterprises increasingly train and employ GMI beneficiaries. In Slovakia, special training programmes have been set up for GMI beneficiaries to improve their skills and give them practical experience. In Sweden, research has shown that those municipalities that developed a broad range of active labour market policies were able to realise shorter periods of social assistance for GMI beneficiaries. In Spain, the Basque country was very successful in reducing poverty through sustained efforts to combine active inclusion policies with a generous minimum income.

However, in many other countries, active labour market measures still are not accessible or effective for MI beneficiaries (CZ speaks of ineffective training programmes, DE points to the problem of measures that do not fit the long-term unemployed, DK find measures not adapted for people with complex problems, FR points to very low numbers exiting out of MIS, PL finds the employment programmes ineffective, RO’s activation measures have limited effect on transition to labour market).

In Slovakia a community service programme gave access to an activation allowance that was considerably higher than the GMI benefit. This attracted many young people that left school after compulsory education and locked them in dependency of the programme. Access to activation allowances has now been restricted.

The majority of active labour market policies are hardly compatible with the profiles of MI beneficiaries, and the existing schemes produce meagre results (PT).

DE, DK, PT and RO often complain about the capacity of job centres or case managers to help GMI recipients with complex problems. Denmark notes that job centres are overburdened and ruled by detailed legislation. Portugal speaks of seriously understaffed mediation services for the reintegration of GMI beneficiaries. Estonia identified the weakness of the coordination between the

national employment services and social services at local levels that deal with debt mediation, social counseling, social housing, personal assistance, child care, transport etc.

In many countries (BG, CZ, EE, ES, HU, LT, LV, NL, PT, RO, SE, SK, MT) the obligation to take up public work has been introduced in a workfare approach, even if there are clear indications that such work doesn't increase people's chances to return to the regular labour market. These public works are often humiliating and give no access to fair employment conditions or social rights. In some cases these obligatory public works are unpaid but are seen as a counterpart for receiving GMI. In other cases the salary is very poor and lower than the minimum wage. Public works include maintenance, cleaning of streets, parks, public places, mostly for local authorities.

Some countries make an exception for people who are unable to work or have a disability (BE, BG, CY, CZ, DE, EE, ES, FI, FR, MT, PL, PT, SE, UK), for people who look after children or dependents (AT, BE, CZ, DE, ES, FI, HU, NL, PT) or people in education (BE, BG, DE, EE, FI, RO).

In some countries the obligation to actively look for work is extended to other members of the family (AT, BG, DE, DK, MT, NL, RO, SE, UK).

In most countries, the type of job that must be accepted is qualified as 'decent' or 'reasonable' (AT, BE, CY, DE, DK, EE, ES, FI, FR, HU, IE, LU, LV, MT, PL, SE, SK). In other countries it can be any job, whatever the conditions are (BG, CZ, LT, PT, RO).

A striking phenomenon is the introduction in many countries of a sort of 'community service'/ public work that MI recipients have to accept in exchange for their MI (BG, CZ, DK, LT, LV, MK, NL, PT, RO, SB, SK) or for some extra money (HU, PL). In Denmark and UK cash benefits for young people have been considerably reduced to stimulate them to undertake education.

In the event that they do not succeed in finding a job, recipients can be assigned an utility job. Some countries offer more comprehensive and tailor-made support programmes and personal assistance for GMI recipients that should help them to access the labour market and facilitate their integration in society (BE, DE, DK, IE, PL, PT, UK).

The main issue with the activation of GMI recipients is the increasing problems for people who are a long distance from the labour market or who want to get a job at the low-skilled end of the labour market, since these jobs become scarcer since the crisis.

At the same time, there is a clear tendency to tighten the conditions with regards to the readiness to work, actively search for jobs or participate in specific labour market programmes.

In all countries, non-compliance with the obligation to actively look for work can result in sanctions, such as denying access, temporary suspension or even exclusion from the GMIS

The European Network of Associations Involved in the Fight against Poverty (EAPN) highlights 12 criteria of what should be a "good" activation:

- 1) Improving personal, social and vocational skills and competencies and enabling to further social integration;
- 2) Individualised and flexible offers taking the whole person into consideration and acknowledging diversity of age, experience etc.;
- 3) Relevance of the offer for the individual person's needs, wishes and priorities;
- 4) Aiming to overcome or compensate for the exclusionary forces in society;
- 5) Wide range networking with relevant actors at local level, such as actors on the labour market, health care services, social services, housing sector, communities etc.;

- 6) Respecting the individual's identity and self-respect;
- 7) Achieving quality compared to ambitious social standards;
- 8) Raising status;
- 9) Building on reciprocity between the individual and the (municipal) agency;
- 10) That the planning, the design and the implementation of the activation is carried out with co-operation and interaction between the claimant and the (municipal) agency;
- 11) Involving the resources and strengths of the claimants;
- 12) Using adequate social income, including minimum income, as a positive tool likely to guarantee the security needed for activation. Benefits should be used also as a positive incentive to face the extra costs and risk when resuming a job after unemployment.

Depending on the purpose and the nature of social benefits, social assistance benefits are granted only after assessing the money income or on the cumulative assessment of cash income, assets and earnings that can be obtained by exploiting or using movable and immovable property owned or in use.

Refusal of employment, rejecting participation in training courses / qualification courses / retraining or other active measures provided by the law may lead, as provided by special laws, to reduction in the amount of social benefit or its termination and prohibition on being granted a new social assistance benefit for a period of time.

## 8. Links with Other Social Benefits

In many countries, beneficiaries of MIS can also receive additional benefits for other needs e.g. housing, energy costs, costs to raise children, health care costs etc.

Because of the considerable impact of housing costs on beneficiaries' income, many countries foresee that MI can be supplemented by a housing allowance (AT, BE at regional level, BG, CY, CZ, DE, DK, EE, ES, FI, FR, IE, LU, LV, MT, NL, PL, SE, SK, UK). In many countries there is also an extra allowance for energy costs, covering heating, electricity, gas, fuel (AT in some provinces, BE, BG, IE, LT, MT, PL, RO, SE, UK).

Certain countries have special benefits to cover extraordinary needs in unexpected circumstances (AT in some provinces, CY, CZ, DE, DK, ES, FI, IE, NL, SK).

In certain countries, extra benefits may be granted to cover the costs of raising children (BE, CY, EE, ES, FI, DE, MT, NL, RO, SK).

Some countries allow a top-up of GMI for people with disabilities (CY, PT, UK) or to cover costs of long-term care (PT).

It should be noted that access to these extra allowances is far from automatic and depends largely on the discretion of the social worker who assesses the needs of potential beneficiaries.

## 9. The Definition and Significance of the GMI Scheme In Romania

### 9.1 Concepts/definition

Currently, the social assistance system in Romania is regulated by Law no.292/2011 on "Social Assistance", the third general legal framework in the last 15 years. Accordingly, the Social Assistance system includes social assistance benefits and social services (which are regulated separately, by other special laws), aiming at:

- creating an unified and coordinated legal and institutional framework for granting the social assistance measures,



- guaranteeing to all Romanian citizens and foreign persons who have residence in Romania, the right to social assistance,
- preventing, limiting or removing the effects of temporary or permanent situations that can lead to marginalization and social exclusion of the person, family, groups or communities
- providing a package of social assistance benefits and social services interrelated and complementary measures;

9.2 Significance/functions

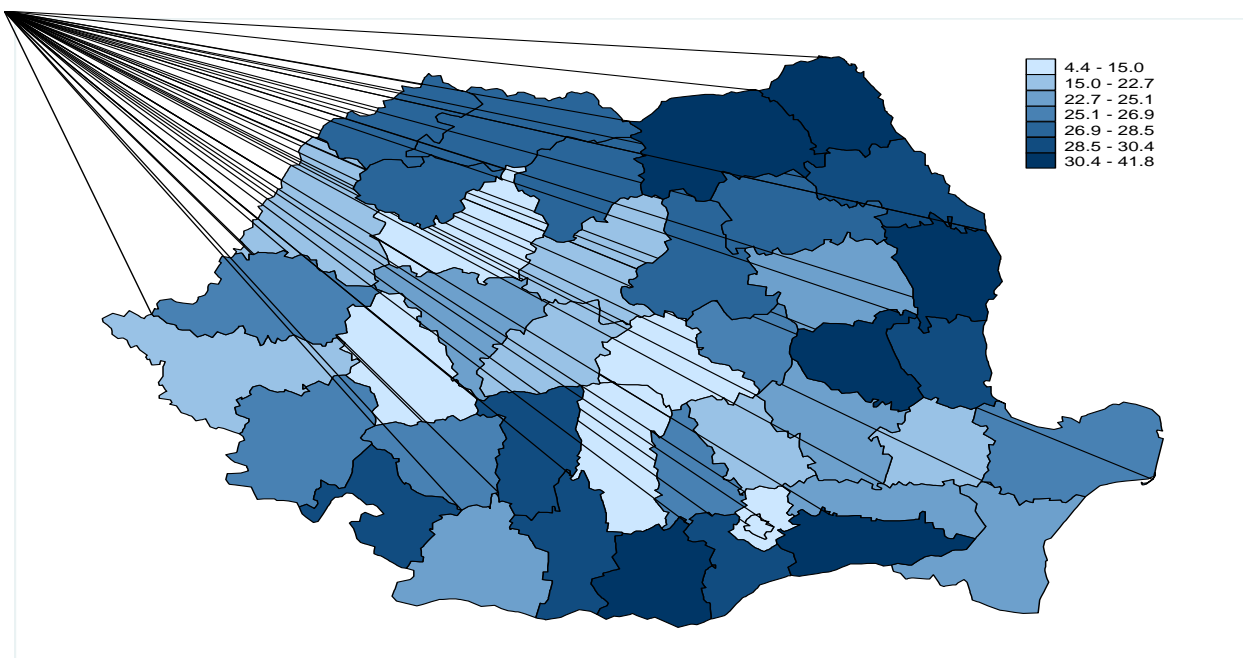
The Guaranteed Minimum Income (GMI) is a form of social assistance which provides monthly financial assistance.

- It has been in operation since 1995
- It is the “last resort” poverty alleviation program
- Its objectives are: income support; activation of beneficiaries contribution to community development.
- It targets the poorest 5% of the population (means-tested)
- Brings up the per capita income of beneficiary to a guaranteed minimum income level
- Complements other social assistance programs, categorical or means-tested (14 major ones)

In Romania there are regional disparities in terms of development (as can be seen on the map below). But, despite the differences between the poorer regions (where poverty is ranking from 30.4% up to 41.8% of the population) and the more developed ones (where poverty is from 4.4% up to 15%), the GMI scheme is unique and uniformly applied. Payment is done from the central level.

Although, as will be shown below, the right for GMI is established at local level and the payment is done from the central level. On the occasion of establishing the entitlement to the GMI, the local authority is performing a social inquiry, assessing the status of each household.

The local authority is empowered by the law (same Law, no 416/1991, governing the GMI) to grant social aid from the local budget to the families/household who are vulnerable whenever they consider it appropriate.



Source: World Bank Poverty Mapping Project

### 9.3 Basic Features of the Guaranteed Minimum Income Program

Entitlements to allowances are made by the mayors, by providing them with the request and supporting documents submitted by the applicant and the social inquiry specialty services. The payment will be approved by the decision of the Director of the Territorial Agency for Social Benefits (subordinated to the Ministry of Labour and Social Protection).

Those that are entitled to the guaranteed minimum income are families and single persons who are Romanian citizens.

The term family means the “husband and wife” or “husband, wife and their unmarried children”, who are domiciled or resident in the community who have been provided with identity cards and who are a household together. Others are treated as a family the following situations:

- A person who lives with the child dependents and is in the following situations:
  - Unmarried;
  - A widow(er);
  - Divorced;
  - Whose husband / wife is said to be declared missing or disappeared under a court order;
  - Has not reached the age of 18 and is in one of the situations mentioned above.
- Siblings without children, that household together and have no domicile or residence communicate with parents.
- An unmarried man and woman, who each have their children living in the household together.

The term “single person” is a person who has reached age 18, who lives alone and manages the household by himself.

### 9.4 How to Set and Adjust the GMI ?

A methodology using the social reference indicator (ISR) is used to calculate the monthly guaranteed minimum income (GMI). ISR is established by law and is set at 500 LEI.

GMI levels are:

- Single persons =  $0.283 \times \text{ISR} = 142 \text{ lei}$  (approximately 32 euros in September 2016)
- A family consisting of 2 persons =  $0.510 \times \text{ISR} = 255 \text{ lei}$  (57 euros) A family of 3 persons =  $0.714 \times \text{ISR} = 357 \text{ lei}$  (80 euros)
- A family of 4 persons =  $0.884 \times \text{ISR} = 442 \text{ lei}$  (100 euros)
- A family of 5 persons =  $1.054 \times \text{ISR} = 527 \text{ lei}$  (118 euros)

For each additional person over the number of 5 people the social support increases by  $0.073 \times \text{ISR}$ .

The amount of social aid actually received by the beneficiary is determined as the difference between the levels mentioned above and the net monthly income of the family or single person.

#### Conditions for granting

The application and affidavit and other documents showing the family structure and revenues, is registered with the mayor in whose jurisdiction the applicant has his domicile or residence.

To settle the claim on social assistance, it will affect the homes or, as the case at the residence of the applicant or the place designated by the applicant in the case of the homeless people.

Granting or not granting the right to welfare is by written order of the Mayor. The right to social aid is granted in the month following the registration of the application. For tracking compliance with the conditions for entitlement to income support, social surveys are carried out at an interval of three months or whenever needed.

The obligations of the beneficiaries:

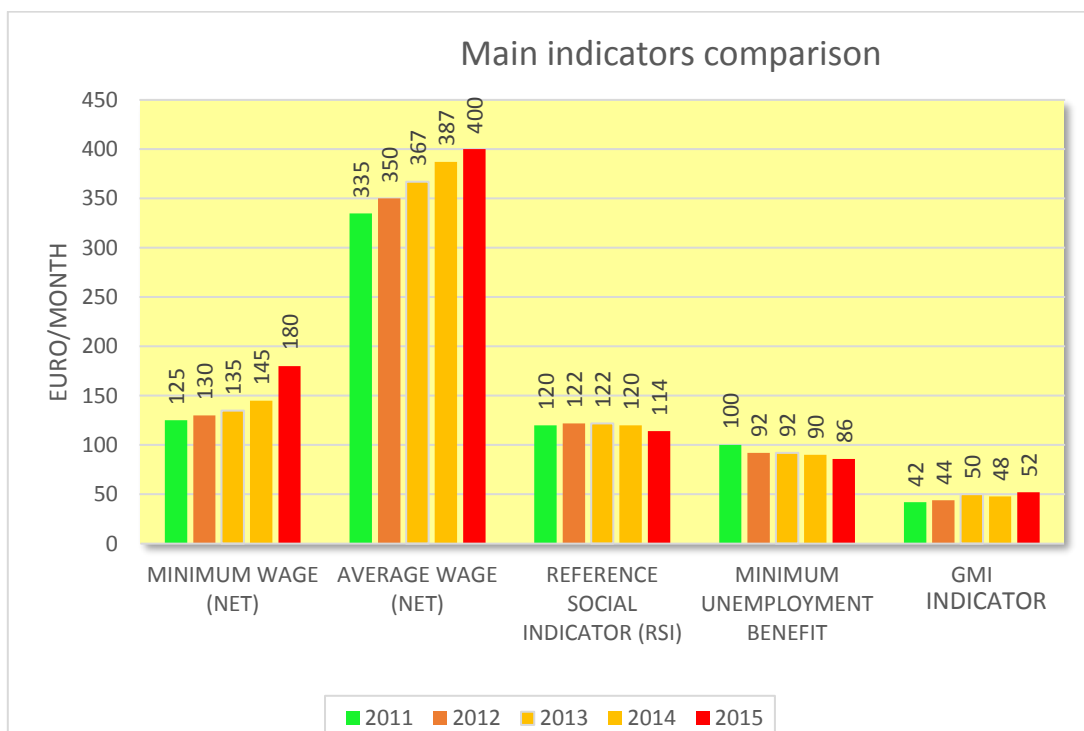
The beneficiary is required to deposit with 3 in 3 months (resubmission application form), the Mayor in whose jurisdiction the applicant is domiciled or resident, an affidavit of his family composition and income earned by the members, accompanied by a certificate issued by the authority competence on revenues subject to income tax.

Also, people of working age who require social assistance and who receive no income from wages or other activities, shall:

- prove, via a certificate from the local employment office, that they are registered as looking for a job.
- perform monthly at the request of the Mayor, actions or works of local interest.

9.5 The problems with and challenges for GMI

- Low level benefit (low generosity)
- Connected with community work
- Centralized
- Will be replaced by the Insertion Minimum Income, starting from July 2017 (as part of the social assistance reform, three existing benefits – Guaranteed Minimum Income, Family Allowance and Heating Benefit – into a single one, named Insertion (or Inclusion) Minimum Income. This new benefit – 3 in 1- will emphasize the role of employment in getting out of poverty, giving an incentive to those going back to work).



For the chart above, all the figures represent the average indicator in Euro, at the official exchange rate for the relevant year. All the indicators are calculated for a single person. The Reference Social Indicator was the same, when expressed in local currency, lei=500 (they differ on the chart due to the different exchange rates valid for different years).

Also, we have to mention that the situation changes when we take into consideration a family with children. The GMI level becomes more attractive because the incentives from work remain the same, while the level of the benefit increases depending upon the family composition.

	Targeting (%)	Coverage (%)		Generosity (%)	
	Poorest 20%	Total Population	Poorest 20%	All beneficiaries	Poorest 20%
Total social assistance programs, of which:	37.7	57.5	82.2	9.3	26.2
Guaranteed Minimum Income	81.5	3.4	14.2	19.4	23.6
Family Allowance	59.5	7.9	23.8	4.0	5.5

We may notice that for 2011 (green bars), we had a GMI level of about 42 Euro per month, while the Unemployment Benefit was about 100 Euro per month, the Minimum Wage was about 125 Euro per month and the Average Wage was about 335 euro per month. It can be argued that the GMI level was not too attractive when compared with the Unemployment Benefit or with the Minimum Wage, representing 33.6% and 12.53% respectively. Similar, for the first semester of 2015, the GMI level for a single person represented 28.89% of the Minimum Wage, 60% of the Unemployment Benefit and 13% of the Average Wage. The last figures lead to the conclusion that in 2015 the GMI had become more attractive instead of work incentives, therefore it is compulsory to change the approach of this benefit, and/or recalibrate the Reference Social Indicator, which has remained at the same level as it was when it was first established in 2008 i.e. 500 lei.

From the table above (World Bank’s calculations) we may conclude that GMI, as anti-poverty policy-tool is very well targeted (getting to 81.5% of the needy population), but the Coverage and Generosity are small. The 14.2% coverage of the poorest quintile is significant in that it shows that there are some beneficiaries from the richer quintiles receiving the benefit, too. The Generosity for the first quintile of 23.6% means only 23.6% of their needs are satisfied by the social aid they get from the State. That means this tool, the GMI, cannot really take this population out of poverty. That is why, in order to solve the problem of the social exclusion, poverty and/or marginalization of these vulnerable groups, it is necessary that the State intervene with more help, either by other different benefits (for instance: the family allowance benefit for the families with children, or with services provided inside the community, at the city level).

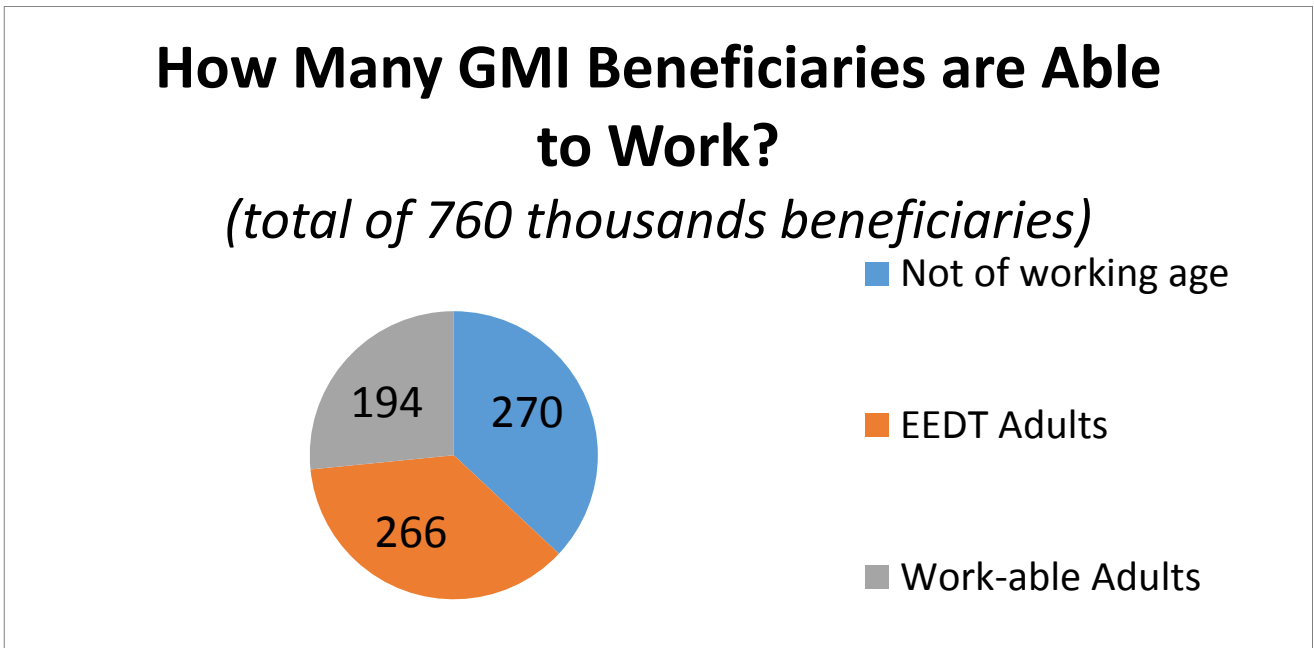
The general labor market challenges the GMI program contributes to address are that it:

- Reduces the “in-work risk of poverty” rate;

- Reduces the number of work capable adults on social assistance that are not in employment, education, training or disabled. This is estimated at about 1.8 million people (22 percent of the working age population);
- Increases the overall employment rate;
- Brings down the number of unemployed people.

The scope for addressing the challenges and failures in a broader context of development:

- Developing proper skills according to the market’s requirements;
- Having access to technical education and training;
- Having access to education and having incentives to stay in the education system.



EEDT = either in Education, or Employed, or Disabled or in Training

Beneficiaries able to work = 42% of the number of adults

The generosity of the benefits under the GMI Program? Moderate

For many subgroups of adults that are able to work, the program contributes to more than a quarter of their household income (high generosity that might create dependence) for example lone parents; 25-34 years old; those with no formal schooling or primary education; the unemployed; those working as family help in agriculture

The implicit marginal tax on earnings is high. The GMI formula has a 100% marginal tax rate on earnings (MTRE), which creates disincentives to work

Guaranteed Minimum Income (GMI) program & Work Incentives

Disincentives are mitigated by three measures:

- access to work supports (ALMPs), via registration to the PES
- subject to work requirements (adult beneficiaries who do not have a permanent employment are required to work in exchange of benefits)
- “employment bonus” if working age beneficiaries switches from unemployment to work (GMI threshold increased by 15%)

Guaranteed Minimum Income (GMI) program & Hard-to-Serve Beneficiaries;

A large share of the work capable beneficiaries are hard to serve:

- three-quarters of them are in rural areas, where labour demand is thin and distance to the urban labour market is high
- 35% of them have no education or only primary education
- about 40% are women with children, many of them with young children

An issue is how to improve the employment prospects for this group of beneficiaries? There is a need for tailored Active Labour Market Policies/services.

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### **3.2.1 Management Information Systems (M.I.S.) Uses for Social Assistance Benefits Romania's System Report**

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**ABREVIATIONS**

MoLFPSE = Ministry of Labour, Family, Social Protection and Elderly

NAPSI = National Agency for Payments and Social Inspection

CAPSI = County Agency for Payments and Social Inspection

PES – Public Employment Services

MIS = Management Information System

GMI = Guaranteed Minimum Income

FSA = Family Allowance

HB = Heating Benefit

CRB = Child Raising Benefit

SCA = State Child Allowance



## 1. The Romanian Social Assistance System and its MIS

The Romanian social protection system is regulated by the Ministry of Labor, Family, Social Protection and the Elderly (MoLFSPE). It has the competence for elaborating and coordinating the application of the Government's strategies and policies in the areas of labour, family, social protection and the elderly.

These tasks are implemented through the following institutions under its supervision:

- National Agency for Payments and Social Inspection;
- National Authority for Child Protection and Adoptions;
- National Authority for People with Disabilities;
- National Agency for Equal Opportunities between Men and Women;
- Labour Inspection

And the following institutions under its authority:

- National House of Public Pensions;
- National Agency for Employment.

The social protection system consists of the social assistance system and the social insurance system. The social assistance system is formed by the social assistance benefits sub-system and the social services sub-system. It is regulated by Law 292/2011 which stipulates that it represents the set of institutions, measures and actions through which the State, and civil society as well, intervenes to prevent, limit or remove the temporary or permanent effects of the situations which can generate marginalization or social exclusion.

### 1.1. The Social Assistance Benefits Sub-system

The present social assistance benefits sub-system of Romania includes three different types of benefits: means-tested, universal, and categorical. The main benefits are:

- Child State allowance - CSA (universal)
- Child raising allowance – CRA (categorical)
- Family support allowance - FSA (means-tested)
- Placement child allowance – PCA (categorical)
- Social aid for ensuring minimum guaranteed income – GMI (means-tested)
- Home heating benefit – HB (means-tested)
- Allowance for people with disabilities - DPA (categorical)

The current management information system for social assistance (SAFIR) contains the records of every beneficiary of most of the country's social assistance programs and their families/households.

However, SAFIR does not record the details of the beneficiaries of two major benefits – the Disability Allowance (categorical) and the Heating Benefit (means-tested) <sup>1</sup>.

Means-tested benefits are mainly processed at the Town Hall level, while universal and categorical benefits (except the Disability Allowance) are processed at the county level within the CAPSI offices.

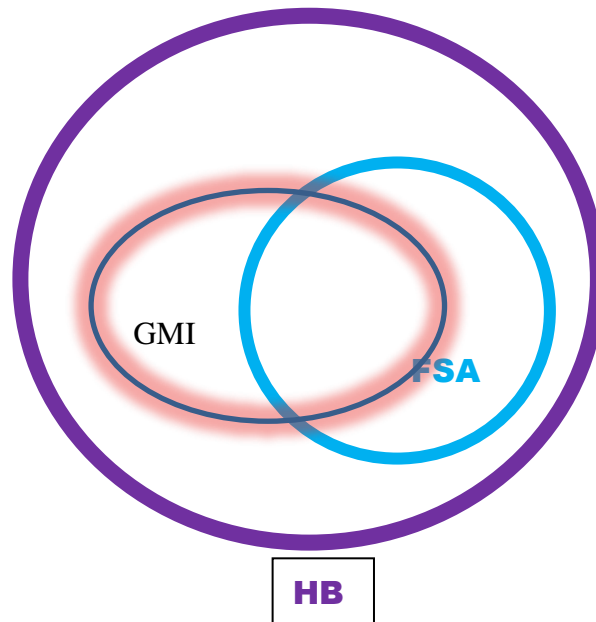
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<sup>1</sup>[http://www.worldbank.org/content/dam/Worldbank/Event/ECA/Turkey/Presentations\\_Istanbul\\_May%202014/The%20Management%20Information%20System%20of%20the%20Social%20Assistance%20System\\_Past,%20Present%20and%20Future\\_Romania.pdf](http://www.worldbank.org/content/dam/Worldbank/Event/ECA/Turkey/Presentations_Istanbul_May%202014/The%20Management%20Information%20System%20of%20the%20Social%20Assistance%20System_Past,%20Present%20and%20Future_Romania.pdf)

The Disability Allowance is also processed at the county level in the Social Assistance Directorates of the County Councils, but the allowance is funded from the national social assistance budget and the payments are distributed by NAPS/CASPI.

### 1.1.1. Means-tested benefits

Figure 1: Means Tested Benefits



#### 1.1.1.1 Guaranteed Minimum Income (GMI)

The Guaranteed Minimum Income (GMI) is a form of social assistance and ensures the monthly financial assistance.

- It has been in operation since 1995
- It is the “last resort” poverty alleviation program
- Its objectives are:
  - income support
  - activation of beneficiaries
  - contribution to community development
- It targets the poorest 5% of the population (means-tested)
- Brings up the per capita income of beneficiary to a guaranteed minimum income level
- Complements other social assistance programs, categorical or means-tested (14 major ones)

In Romania there are regional disparities in terms of development (as can be seen on the map below). But, despite the differences between the poorer regions (where poverty is ranking from 30.4% up to 41.8% of the population) and the more developed ones (where poverty is from 4.4% up to 15%), the GMI scheme is unique and uniformly applied. Payment is done from the central level.

Although, as will be shown below, the right for GMI is established at local level and the payment is done from the central level. On the occasion of establishing the entitlement to the GMI, the local authority is performing a social inquiry, assessing the status of each household.

The local authority is empowered by the law (same Law, no 416/1991, governing the GMI) to grant social aid from the local budget to the families/household who are vulnerable whenever they consider it appropriate.

#### 1.1.1.2 Family Support Allowance (FSA)

The Family Support Allowance (FSA) is payable to families with at least one child under the age of 18 who attends school. The benefit amount is determined by a means-test similar with the one applied to GMI, and also on the number of eligible children in the household. Single parent families can qualify for the FSA. Notwithstanding the fact that the benefit is a family-based benefit, the income of other children above 18 years who reside in the household is taken into account in assessing the family's means.

The FSA application process is similar to that of the GMI benefit: The applicant completes an application form proving their children's school enrollment and attendance and indicating their income, property ownership, and their payment of the local tax. The local social worker checks the application for correctness and completeness, and then conducts a social enquiry to verify the details. The social worker then recommends that the Mayor either grants the FSA to the family or rejects the request. The Mayor's official decision (clearance) and the application form are sent to CAPSI for approval and for the calculation of the amount of benefit to be paid, using SAFIR.

In cases where CAPSI detects an error or has a follow-up enquiry, the agency contacts the Town Hall to request a clarification. Once CAPSI has finally approved and calculated the benefit to be awarded to the family, the Town Hall is notified of the decision and the payments are processed through the benefit payments system and paid to the beneficiary family via the payment channel of their choice (usually the post office).

#### Benefit Recertification

The main recertification is carried out by the Town Hall every three months using the same process as for GMI.

CAPSI offices carry out other recertifications. For example, CAPSI obtains a school attendance certificate from the education authorities every six months to ensure that the family is complying with the condition on school attendance. If CAPSI discovers that the child(ren) are not attending school, then it cancels the benefit and informs the Town Hall - though not electronically as neither SAFIR nor any other ICT system within CAPSI is capable of automatically sending emails yet.

Social Inspection teams within the CAPSI offices carry out checks, mostly based on suspicions raised by data matching (crosschecking) activities either at the national level (planned campaign) or at the local level and arising from either internal or external referrals.

#### 1.1.1.3 Heating Benefit (HB)

The Heating Benefit is paid during the winter months (November until March) and is intended to cover the cost of fuel for heating purposes.

GMI beneficiaries automatically qualify for the Heating Benefit.

Even though FSA beneficiaries very often qualify for HB<sup>2</sup>, they must make a formal application for HB. This means that they must produce all of the same documents again and fill out an HB application form (the same form that is used for GMI and FSA).

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<sup>2</sup> The FSA is a benefit for a *family* (parents and children). The HB is a benefit *per household* that may include more members than immediate family (for example, grandparents). The income per member limit for the HB is higher than for the FSA, making the HB more generous than the FSA and the GMI. However, because in the HB the income per member is computed by adding together the income of *all household members*, it is possible that some FSA beneficiaries may not be eligible for the HB.

The Town Hall conducts a social enquiry for all households where electricity<sup>3</sup> companies provide the heating and conducts random social enquiries in respect of the applications from households using other sources<sup>4</sup> of fuel. Town Halls award the HB and provide CAPSI with the information about cumulative numbers of beneficiaries and the benefit amounts per type of fuel but not with a detailed list of individual HB beneficiaries.

The payment system for HB differs from those of other benefits insofar as CAPSI does not make payments to the beneficiaries, but instead it directly pays the fuel suppliers on presentation of a fuel invoice for the relevant month of consumption<sup>5</sup>. In cases where the benefit amount is higher than the fuel invoice, then only the invoice amount is paid. Any unpaid or unused HB is not carried over to the next month.

The payments made by the CAPSI to each Town Hall (for beneficiary households that use wood or coal), and to each electricity, gas, and district-heating supplier are based on the amount of benefit awarded to each beneficiary household by the Town Hall.

There is no uniform or national beneficiary management system for the HB, as it is managed at the local level by each Town Hall. The HB amount paid for gas and wood-fired heating is a fixed amount depending where the average income per household member falls within nine ranges. For district heating, the HB is a percentage of the total invoiced amount computed from the range of the average income per family member. Therefore, the value of the HB depends on the central heating costs, and these costs vary from one Town Hall to another. There is no national uniform price of district heating.

#### 1.1.2 Social Assistance Categorical and Universal Benefits

Romania's categorical and universal benefits are not means-tested. They are paid to all qualified people who either fulfil the specific criteria (for example, the State Child Allowance) or have specific needs (for example, the Disability Allowance). These benefits are either fully processed by CAPSI offices (for example, the Child Raising Benefit) or are processed jointly by CAPSI offices and other institutions (for example, the Disability Allowance). The processing of some of these benefits involves the SAFIR ICT system, whereas for others it does not.

##### 1.1.2.1 State Child Allowance (SCA)

This is a universal benefit payable to the parents of children up to 18 years old (or older if they remain in school<sup>6</sup>). The SCA is the largest social assistance program in Romania in terms of both the number of beneficiaries and the budget.

Those applying for SCA must bring their application form and back-up documentation to the Town Hall. Town Hall staff ensure that the application form has been signed and all required documents are included but do not verify any of the information in the application form or evidential documents. They then send the original application form and the back-up documents to CAPSI.

CAPSI staff check the application form and documents for completeness and accuracy. If they are correct, the staff then enter the data from the form and documents into SAFIR. The SAFIR system then checks to see if the applicant is eligible for the SCA based on the eligibility rules for the benefit. If the application is successful, CAPSI awards the benefit and it is automatically placed into the payment processing system. In cases where CAPSI staff detect an error or have a follow-up enquiry, they contact the parent or legal representative directly or through Town Hall and request clarification.

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<sup>3</sup> This is because electricity is the most expensive form of heating supply

<sup>4</sup> For district heating, gas, and electricity

<sup>5</sup> The heating "season" starts in November and ends in March, so, there are 5 months of subsidies

<sup>6</sup> Primary schools and secondary schools (lyceum/college) only, but not universities. There is no age limit – the only condition is that the parent or guardian must be able to produce a school attendance certificate for their child.

The benefit is paid in respect of children aged up to 2 years old and/or with children with disabilities up to 3 years old.

Payments are made to one of the parent via whichever payment channel they choose (mainly into their bank accounts in the big cities and mainly through the post office in villages). In the case of children living in residential centres and state-owned orphanages, the SCA payments are usually deposited in a bank account until the child reaches 18 years of age (or older if they remain in school).

#### 1.1.2.2 Child Raising Benefit

The Child Raising Benefit (CRB) is a social assistance benefit that is paid to the parent of a child under the age of 2 years (or 3 years of age for a child with a disability) when that parent stays at home to care for the child. Only those parents who have been working for at least 12 months prior to the birth of the child are eligible for the CRB.

Similar to SCA, the parent (either the mother or the father), completes an application form and brings to the Town Hall the relevant documents: copies of the ID's and Birth Certificates, and documents proving the incomes they received in the 12 months prior to the child's birth. The file is then delivered to the CAPSI offices and introduced into the SAFIR system after checking and crosschecking. Then, the payment follows, via the channel chosen by the entitled parent.

### 1.2. The Social Assistance Services Sub-system

Social services providers can be:

- Public (at public local authorities level),
- Private (NGOs: associations and foundations, Authorised persons, cults, economic agents/companies)

Social services providers are accredited by MoLFSPE according to the existing legislation. Social services are licensed after being evaluated for meeting the minimum quality standards

Social services are financed from:

- State budget (National Interest Programs, Subventions etc);
- Local budgets;
- Donations, sponsorship;
- External reimbursable or non-reimbursable funds;
- Beneficiaries' contributions

For the entire management of the sub-system of Social Services, the responsibility is shared as follows:

Central public authorities:

- Drafting public policies, strategies and programs in this area,
- Regulating, coordinating and controlling their implementation,
- Evaluating and monitoring social services' quality.

Local public authorities:

- Organizing, managing and providing social services,
- Financing social services through local budget, beneficiary's contribution and /or his/her family.

## 2. The Management Information System (MIS) SAFIR<sup>7</sup>

Romania's social assistance programs (with the exception of DA -the disability benefits) are supported by three main ICT technologies:

- 1) local customer relationship management (CRM) software at the Town Hall level;
- 2) a centralized relational database management system or RDBMS (SAFIR) at CAPSI and NAPSI levels;
- 3) ad hoc software and technology (such as e-mail, Excel, Word, and PDF) at all levels.

### 2.1 ICT Systems Involved in Social Assistance Benefit Administration

The ICT systems used by each of the current social assistance programs in Romania are listed in Table 1 below.

Table 1: ICT Systems Used in Current Social Assistance Programs

Social benefit	ICT system
Guaranteed Minimum Income (GMI)	SAFIR
Family Support Allowance (FSA)	SAFIR
State Child Allowance (SCA)	SAFIR
Child Raising Benefit, Child Raising Back to Work Bonus, Child (with Disability) Raising Benefit (CRB)	SAFIR
Child Maintenance (Foster Care) Allowance	SAFIR
Monthly food indemnity for people with HIV/AIDS	SAFIR
Heating Benefit (HB) (wood and coal, electricity, gas, and central heating)	Town Hall software (if any)
Disability Allowance	County Council software
Financial and urgent aid (one-off)	Excel files
Refugee Benefit	Excel files

### 2.2 The ICT System used by NAPSI and CAPSI

SAFIR is the main ICT database system used by CAPSI offices and NAPSI to process and manage the main social assistance cash benefits:

- 1) Means-tested: Guaranteed Minimum Income (GMI) and Family Support Allowance (FSA)
- 2) Universal: State Child Allowance (SCA) and Child Raising Benefit (CRB)
- 3) Categorical: Foster Care (child maintenance) Allowance and the HIV/AIDS Food Allowance.

<sup>7</sup> World Bank, 2015 – „Romania Advisory Services Agreement on Provision of Inputs for the Preparation of a Draft National Strategy and Action Plan on Social Inclusion and Poverty Reduction (2014-2020) - Social Assistance Management Information System Strategy (Implementation Plan for the e-services flagship initiative 2015-2017) „

The SAFIR system processes around 70 per cent of all social assistance payments (the system does not process the Heating Benefit and the Disability Allowances, which, together, account for approximately 30 percent of total social assistance expenditure).

The SAFIR system is available to CAPSI offices and to NAPSI. Although SAFIR is a centralized system, it can be accessed through the Internet by all CAPSI offices.

### **2.3 SAFIR Functionality**

SAFIR's main functions involve:

- 1) registering clients;
- 2) maintaining the social assistance beneficiaries' register;
- 3) recording benefit decisions;
- 4) calculating benefits;
- 5) calculating arrears;
- 6) deducting any debts owed by the beneficiary;
- 7) checking benefit eligibility;
- 8) re-certifying beneficiaries.

Data in the system are also data-warehoused and are used for reporting and ex-post crosschecking functions, but only to the extent that NAPSI programming development capacity allows. This is confined to very simple programming tasks.

SAFIR contains data on:

- 1) beneficiaries and their family members;
- 2) family and beneficiary income;
- 3) decisions made by the Town Hall Mayor (for the GMI and FSA);
- 4) benefit payment decisions made by the CAPSI;
- 5) details of the house (mainly for the GMI).

The application forms for most social assistance benefits include optional fields for advanced statistics (such as those on education level and type of housing), but these data are not currently entered into SAFIR. The only data of this kind that are collected are details about the beneficiary's house. This is because it is mandatory for every GMI beneficiary to insure their house, and, if the beneficiary has not arranged direct insurance, then NAPSI must deduct the insurance premium and pay it to the default nominated insurance company.

In the existing SAFIR monthly recertification process, the system automatically suspends or cancels benefits if the recipient no longer fulfils the eligibility requirements (for example, they have exceeded the age limit, have not been attending school, or cannot produce a disability certificate).

The SAFIR system also contains data from educational authorities (regarding, for example, school attendances and absences, and lists of children over 18 years) These data are used for the monthly recertification and computation of benefits.

During the eligibility-checking step of the enrollment process, SAFIR (if the benefit is managed by SAFIR) verifies continued eligibility, calculates the amount of benefit to which the applicant is eligible and issues the payment decision that includes the benefit amount. The payment

decision is printed and signed by the CAPSI manager, and submitted by post to the beneficiary or to the Town Hall.

Within the monthly payments process, SAFIR must take into account: the applicant’s current rights and obligations within the context of program conditionality; any arrears they may have accumulated due to late payments; any re-payments due to them because of undelivered payments; and any debts they may have incurred because of overpayments and/or mandatory house insurance.

The delivery and reconciliation of payments is largely managed using the SAFIR system.

Because SAFIR is a national, centralized database, eligibility checking is easier and the same beneficiary or family member could not receive the same benefits more than once at a time (e.g. if a person is a member in a family with active GMI, the GMI eligibility checks fail for another family that includes the same person).

The SAFIR system is not linked to any other ICT systems. Therefore, all ex-ante crosschecking of applicant data with other databases (such as those of the Pension House or Tax Administration) has to be done manually or by comparing data in stand-alone (Excel or Word) documents.

SAFIR operation/transactional data (see below SAFIR subsystems) are transferred and loaded to the Data Warehouse (DW) on a regular basis (usually monthly). Other data in electronic file format (for example, from the Civil Register, the Pension House, the Tax Administration, disability register and unemployment records) are also loaded into the DW. The DW data (SAFIR and external) are then used to carry out ex-post bulk crosschecking for errors, non-compliance, and fraud.

#### **2.4 SAFIR Design and Development**

The SAFIR system was designed and developed by an international ICT company (BULL), in partnership with a Romanian software company (SIVECO). The procurement process lasted for two years between 2005 and 2007. The first version of SAFIR was developed between 2007 and 2009 and was implemented during 2009 to 2010. Since then, SAFIR has had a number of minor enhancements, mainly related to updated benefits legislation, with the most recent update having partially been made in 2014. As mentioned already, NAFSI has since taken some steps to add value to SAFIR by building its limited reporting and bulk crosschecking functionalities with help from the World Bank.

#### **2.5 SAFIR – Technical Overview**

Table 2: Technical Overview of SAFIR major component

Architecture	CENTRALIZED three tiered architecture with web interfaces Client tier: Web browser Middle tier: Java EE application servers Back-end tier: Oracle Database Server
Operating System	LINUX RED HAT
Database Engine	Oracle Database Enterprise Edition and ORACLE Real Application Cluster (RAC)

#### **2.6 SAFIR System Architecture**

The SAFIR system is comprised of two main sub-systems:



- 1) the operational system and
- 2) the data warehousing system.

**2.6.1 SAFIR Operational Sub-system**

The operational (transactional) sub-system is the main day-to-day sub-system and is used for daily operational tasks (enrollment, benefit decisions, calculation of payments, suspension or cancelation of payments, and recertification of beneficiaries). This sub-system has been patched (updated) many times, mainly to comply with new rules resulting from legislative changes.

SAFIR’s operational sub-system has the capability to import small volumes of data (tens of thousands of records) at the CAPSI level. The main kinds of data that are imported into the sub-system are school attendance records (as required by the FSA), school attendance by those over 18 years old (as required by the SCA), and house insurance lists from the Town Halls (as required by the GMI). Bulk data at the national level is imported from the Public Employment Service (PES). SAFIR’s operational sub-system is used mainly by CAPSI (and rarely by NAPSI) to produce large reports such as monthly fiscal statements and budgets, payment lists for the benefit programs supported by SAFIR, calculations and statements of social contributions (pension and health) for GMI and CRB beneficiaries, and a list of house insurance records to be confirmed by Town Halls. On occasions, NAPSI extracts other bulk data from the operational sub-system using SQL statements. SAFIR’s operational sub-system is also used by NAPSI for ad-hoc queries and reports (for accounting or social inspection).

Large files are often split into smaller files to make it possible to import them.

The operational sub-system is connected to every NAPSI and CAPSI office. In total there are approximately 1,500 users, many of whom (particularly those in the CAPSI offices) report that the system frequently freezes and that response times are very slow. Whenever large volumes of data are being simultaneously manipulated, many users are locked out of the system.

Table 3: SAFIR’s key statistics

Number of Users	<p>1,500 users with an average of 600 to 700 simultaneous connections</p> <p>There is an average of 12 clerks in each AJPIS payment department, 1-2 debt specialists in each AJPIS, 1-2 ICT specialists in each AJPIS, and 5 ICT specialists working on SAFIR in ANPIS. That means SAFIR is their main daily working "tool" for more than 600 users in ANPIS and the 42 AJPIS offices.</p> <p>Number</p>
Number of Monthly Payments	<p>4.5 million: The SCA has 3.8 million beneficiaries</p> <p>The FSA, the GMI, and the CRB each have around 200,000 beneficiaries</p>

**2.6.2 SAFIR Data Warehousing Sub-system**

SAFIR’s data warehousing sub-system is regularly (usually monthly) updated with data from SAFIR’s operational sub-system.

SAFIR’s data warehousing sub-system produces reports (in Excel format) on suspected non-compliance, fraud, or award errors. These reports are based on risk profiling and ranking and are generated by users’ SQL queries and procedures (Oracle PL/SQL).

The reports are used by NAPSI and CAPSI back office staff and by social inspection staff, to investigate and decide if a benefit decision needs to be revised. The results of these investigations (such as cancelling the benefit or recovering any overpayments) are then entered manually into SAFIR's operational sub-system as part of its overpayment and debt management function.

Notwithstanding the limitations of the data warehousing sub-system, its Oracle operating system allows it to be used to import and export data periodically (usually once per month). The main ways in which these data are used are for crosschecking, statutory statistical reports, and other reports. This involves the SAFIR operational database being imported onto the SAFIR data warehousing sub-system.

Data from other institutions such as the Tax Administration, the Civil Register, the PES, the Pension House, and, since 2015, the National Disability Register are also periodically imported into SAFIR's data warehousing sub-system. The sub-system is also used for periodic large-scale data-matching exercises in which data related to each social assistance program are cross-matched to ensure there are no overlaps or multiple payments, for example.

### 3. The Guaranteed Minimum Income (GMI) Scheme

#### 3.1. Benefit's Description

The Guaranteed Minimum Income benefit is payable to households<sup>8</sup> (not just families)<sup>9</sup> whose income, as established by a means test, is lower than a certain threshold. Able-bodied household members who are between 16 and 65 years of age and are not employed must also submit evidence that they are job seeking (with exemptions given to certain groups such as single mothers with children). This evidence consists of a registration certificate from a Public Employment Service (PES) office<sup>10</sup>.

Applicants for the GMI must complete an application form and submit it to the social worker at the local Town Hall. In some cases, the social worker takes the initiative and seeks out those who are likely to qualify and/or helps them to complete the application form. The application form must be accompanied by identification documents (either an ID card or a birth certificate for children under the age of 14<sup>11</sup>) for every person named on the application form, and other documents related to the applicant's marital status, income, assets, and other forms of capital that are taken into account in the means test. The applicants' national ID cards prove their identity, and these can be crosschecked with the Civil Registry records (though they are very rarely checked in practice). An applicant's address, property ownership, local tax payments, and land use can partially be crosschecked with local Town Hall records.

This crosscheck can only be partial because the applicant might also own assets in another jurisdiction, and as yet there is no national database of all Town Hall data, though some groups of Town Halls share their data using locally developed software applications. The next stage is the social enquiry undertaken at the applicant's home by the social worker from the Town Hall. While in the applicant's home, the social worker assesses the household's means as a basis for calculating the amount of benefit for which the applicant might be eligible. Particular attention is paid to identifying items that are on the exclusion list (items that would disqualify an application). If the application is successful the social worker then calculates the benefit amount and recommends that the Mayor grant the benefit, after which, the Mayor sends the application form, summary

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<sup>8</sup> A household can be a family, several families, or people sharing the same accommodation.

<sup>9</sup> In fact, the Law states 'family', but if parents are not married then this could be also classified as a 'household'. The use of 'family' and 'household' terms needs to be very carefully recertificated and defined throughout the Law.

<sup>10</sup> 3 The PES issues a certificate for each able-bodied member of the household certifying that he or she has been registered as a jobseeker, after which the PES will send them offers of employment or training.

<sup>11</sup> A National ID Card is only issued when a child reaches 14 years of age.

calculation document, and his or her official decision to the CAPSI office (the county-level branch of NAPSI).

CAPSI verifies (re-checks the benefit award calculation) the Mayor's decision and inputs the data on the application form into the SAFIR ICT system. CAPSI carry out crosschecking with the income and pension data sent from NAPSI. CAPSI then approves the award of the benefit and calculates the amount to be paid using the SAFIR ICT system. If CAPSI detects an error or needs to make a follow-up enquiry, it contacts the Town Hall and requests clarification. Depending on the error, it is possible that the Mayor may have to issue a new decision and new summary calculation document. In order for the CAPSI to approve the payment, the amount calculated by the SAFIR ICT system should be the same as the amount stated on the Town Hall's summary calculation document. Once the application is finally approved, it is processed through the benefits payments system (see below).

Payments are made to the beneficiary via the payment channel nominated by the beneficiary (usually the post office). In the case of some beneficiaries, their (mandatory) house insurance is deducted from their GMI monthly benefit.

#### Benefit Recertification

Every three months the beneficiary must complete a fresh application form, together with fresh copies of all evidential documents regardless of whether their circumstances have changed or not. The most important evidence is the individual certificate from the PES to prove that able-bodied members of the household have not refused a job offer or training from the PES.

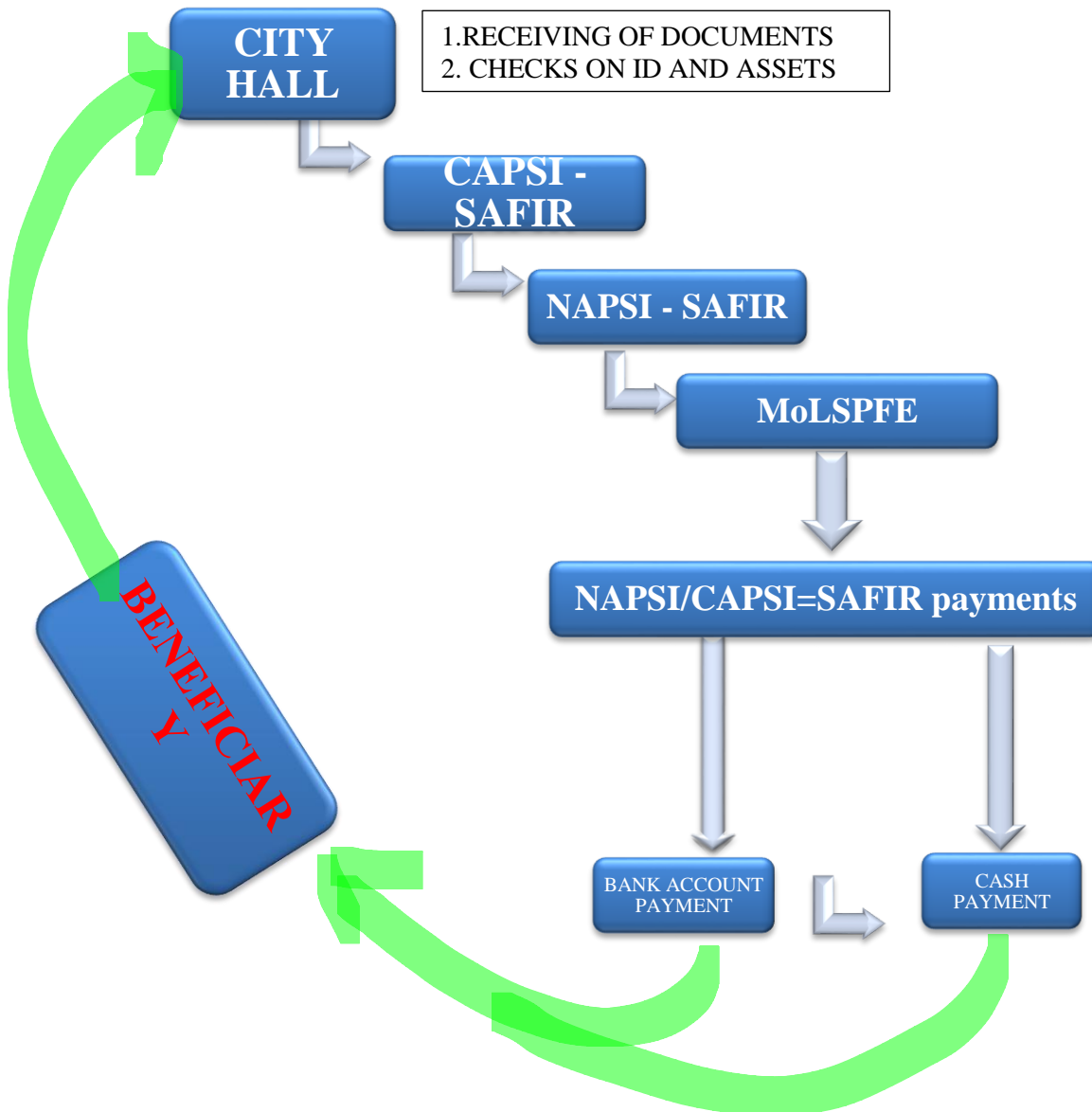
In Town Halls with their own IT systems, if there have been no changes in the beneficiary's circumstances, then the social worker often prints the old application and asks the beneficiary to sign it. The next stage of the recertification process involves another social enquiry undertaken by the social worker at the beneficiary's house to assess whether there have been any changes in his or her circumstances in the previous three months. Only when there has been a material change in benefit eligibility does the Town Hall send CAPSI a new summary calculation document and a new official decision by the Mayor changing the benefit amount. In all other cases, the GMI benefit continues to be paid. All recertification documentation is archived in the Town Hall. In between these recertifications every three months, if the Town Hall finds out that an applicant's circumstances have changed (for example, the household has less or more income, its composition has changed, or it has not paid the mandatory house insurance), the Town Hall sends a recommendation to CAPSI to either alter the amount of benefit paid to the household or cease paying the benefit altogether.

Each month the Town Hall emails the list of able-bodied members within beneficiary households to the PES. The PES then emails to the Town Hall the list of people who have refused a job offer or an offer of training from the PES. CAPSI are copied on the email, but it is up to the Town Hall to formally recertify the benefit award and notify CAPSI of the outcome. In all cases where able-bodied members of beneficiary households have refused offers of jobs or training, the Town Hall cancels the household's benefit and notifies CAPSI to stop making payments.

As a condition of receiving the GMI, beneficiary households must carry out community work for the Town Hall, if requested. When beneficiaries refuse to do this work, the Town Hall cancels their benefit and notifies CAPSI to stop making payments.

Social inspection teams from CAPSI offices carry out checks in all of the country's social assistance programs, mostly based on suspicions raised by data matching (crosschecking) activities either at the national level (planned campaign) or at the local level, and arising from either internal or external referrals.

### 3.2 Procedures for Payment Through SAFIR



Circuit of Documents for GMI - Law. 416/2001 On Minimum Wage

#### 3.2.1 Beneficiary submits to City Hall

- Application form
- Documentary evidence attesting family structure, domicile or residence and
- Incomes
- Certificates issued by the Local Employment Agency for people of working age from welfare beneficiary's family

After the establishing of the right:

- 3 in 3 months resubmission application form
- Announce within a maximum of 15 days any changes in family structure and / or income
- Shows documents requested on social inquiries

### 3.2.2 City Hall

- Performs social inquiry
- Issues document for granting / rejection of the right and sends it to the beneficiary (“Mayor’s Clearance”)
- Submits to CAPSI: - summary document with the beneficiaries who are exercising new rights
- Mayor’s Clearance granting rights
- Copy of the application form
- Copy of the sheet account
- Centralized situation on social aid with beneficiaries and payment amounts
- Monthly situation with the activities developed in the action plan or works of local interest
- Submit to CAPSI plan actions or works of local interest for the distribution of working hours from the people of working age in families receiving social assistance once it has been approved by decision of the local council

After the establishing of the right:

- establish clearances for amendment, suspension, termination or resumption of payment - in the cases provided by the law
- Submit to CAPSI: - memorandums centralizing provisions amendment, suspension, termination or resuming payment rights
- Copy application form or social inquiry and calculation sheet - as appropriate

### 3.2.3 CAPSI

- Receives, checks, centralizes and enters details of the documents received from the municipality for entitlement
- Correlates GMI with other rights already granted
- Verifies eligibility under the law
- Issue a decision granting / rejecting a provider transfer
- Initiates steps for issuing compulsory insurance policy

After the establishing of the right:

- Receives, checks and drafts the amendment, suspension, termination or resumption of the payment made by mayors
- Retaining the value of the insurance,
- Periodic cross-checks with external databases to verify the accuracy and / or alteration of information declared by the beneficiary in the application form that can lead to suspension / termination of rights and / or formation flow (check declared income, cars in possession, bank deposits larger than 3,000 lei, collected subsidies).
- Consolidates debts, collects these debts or seeks their recovery mode

In order to achieve effective payments to beneficiaries, on monthly basis:

- Schedules, performs calculations and checks payments
- Creates lists of payments

- Generates and prints reports required to justify the necessary credits requested by grounding (vision report, reports creditors, debtors reports - including file total amount, report correction amounts, amounts withheld report for consideration of the payment of insurance policy)
- Generation and transmission substantiation by NAPSI

### 3.2.4 NAPSI

- Checks the data transmitted by CAPSI
- Centralizes substantiation received from all CAPSI sites
- Forward substantiation for centralized approval by the Ministry
- Performs opening credits per CAPSI

## 4. The Chinese Context and a Possible Management Information System for DIBAO

### 4.1 Actual Context <sup>12</sup>

China is the world's largest developing country, with a very large population, and a large number of groups with difficulties, coupled with an unbalanced economic development among regions and between urban and rural areas.

The subsistence allowance is an income supplementary assistance system, which makes sure that the income of the population with difficulties can be kept at a rational level from the degree of income, so that they have the ability to purchase basic living consumables. Local governments shall formulate and announce the subsistence allowance standard according to the expense required to maintain the basic living standard, and then investigate and assess the average family income of the applicant.

If the average family income of the applicant is higher than the subsistence allowance standard, the applicant will not get access to the subsistence allowance from the Government. If the average family income of the applicant is lower than the local subsistence allowance standard, the applicant can get access to the subsistence allowance from the Government.

The amount of the subsistence allowance for poor people is the difference between the average family income and the local subsistence allowance standard.

People who enjoy the subsistence allowance are known as the allowance recipients. When their average family income changes, they will report to the Government in time and the governmental staff will decide to increase, decrease or stop the distribution of the subsistence allowance according to the change in their average family income.

Any Chinese citizen whose average family income is lower than local subsistence allowance standard can apply for the subsistence allowance from the Government.

Currently, Chinese social assistance policies have the following basic characteristics:

First, the benefit is free of charge. An application for a social assistance benefit requires no performance of payment duty in advance, no special contribution to the country or society, no offer of any labor, no limit on age, sex or social position, etc. The only condition required to be decided on whether the applicant can enjoy social assistance is the actual living condition of the applicant, that is, whether the difficulty of the applicant is lower than the social assistance standard. Therefore, for a poor family, social assistance is provided by the government for free of charge.

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<sup>12</sup> Gang Shuge, Guo Yu, Zuo Ting – "Social Assistance for Specific Vulnerable Groups (SASVG)- services for children, elderly, people with disabilities, with a special focus on poor rural people", Assessment Report for SPRP EU - CHINA, 2015

Second, cash transfer. The vast majority of Chinese social assistance programs are direct cash transfers. The subsidy is directly transferred from the governmental finance into the personal account of the recipient. Take the subsistence allowance as an example. When the social assistance staff confirm that some family can enjoy the subsidy, they will open a personal account in the bank in the name of some of the family member according to the will of the subsidized family. The governmental social assistance will be transferred into this special personal account by each month or quarter (in remote rural areas), and the beneficiary can directly draw the subsidy from the bank.

Third, family application. The application for Chinese social assistance is generally sought in respect of the family. The subsistence allowance and housing subsidy are provided to all family members. Although medical assistance, education assistance, etc. are sought in the person's name, the precondition is that the family must be a poor family. Such system design guarantees the mutual guarantee responsibility of the family members. Only when the family has no guarantee ability, the family can submit an assistance application to the government.

Fourth, government responsibility. The Chinese government bears the main assistance responsibility for social assistance. At present, all assistance programs are basically sponsored and implemented by the Government. Although citizens are not forbidden but are encouraged to participate in social assistance according to Chinese laws, the participation method is mainly reflected in the specific assistance program organized and implemented by non-governmental organizations. The assistance programs implemented by non-government organisations are generally regional and short-term programs, as important supplements to the Government's social assistance program. The most typical example is the "millions of childless elder assistance activity", "migrant worker caring plan", etc. implemented by China Social Assistance Foundation.

Fifth, assets examination (means-tested). This is an important feature of Chinese social assistance policy, similar to Romania's. In China, social assistance applicants have to accept a family property and income examination, so as to confirm whether the applicant and the family's economy have difficulties and whether they conform to the local requirement on family property and income. The asset examination can ensure that the social assistance provided by the Government can be used only for really poor families.

With regards to the basic livelihood, the Chinese government has established a minimum living standard program. The program is a direct cash transfer. It is based on an income subsidy, with the aim to help the poor population with food, clothing and other utilities. The government sends money through the financial means of payment.

The Minimum Subsistence Allowance System (Dibao) was established and implemented for the rural poor, who meet the requirements, in 2007. It aims to solve the subsistence problem of the rural poor population steadily, permanently and effectively.

The target population of Dibao are those rural residents whose household per capita net income is below the prescribed local minimum living standard. Unlike the requirement of development capacity for targeted population of Rural Development Oriented Poverty Reduction Program (RDOPRP), the coverage range of population of Dibao is wider and it takes a direct financial support approach. Therefore, Dibao has become the mainstay of social assistance programs in China's rural areas and attracted widespread attention.

The target population of Dibao are those poor people whose household per capita net income is below the defined local minimum living standard. According to the actual situation of different places, it is stressed that the focus should be on those who are in perennial difficulties because of illness, disability, poor health, no ability to work and poor living conditions.

The standard of Dibao is determined and executed by the different local governments above county level. The following aspects are mainly considered: (1) to maintain the local rural resident's basic necessities for food, clothing, water, electricity and other costs; (2) the local economic development level and financial situation; (3) the local price level.

The Minimum Livelihood Guarantee Scheme<sup>13</sup> (MLGS, Dibao, or subsistence allowance) is the core content in China's social assistance policy, as well as the most important assistance program. MLGS is an income supplementary assistance system, which makes sure that the income of the population in poverty can be kept at a certain level (Dibao standard), so that they have the capacity to purchase basic living consumables. Therefore the Dibao Standard (dibao line) basically determines people's eligibility for assistance (can/cannot) and the benefit level (how much).

In order to have a fair and unified standard for social welfare, the Dibao scheme must be set to provide consistent assistance. It is a basic allowance which aims to meet poor people's basic living rights within a certain period of time. The Dibao allowance for families will not cease until people's income can satisfy their own living demands. With the development of the economy and the improvement of people's living standards and the national fiscal capacity, the dynamic standard will also make a relevant adjustment in order to ensure that poor people can enjoy the achievements of economic development and live have a civilized and decent living.

The Dibao standard has certain features:

- 1) it defines which people can receive the benefit so it must be "strong" and clearly identify the families in the most difficult situation.
- 2) the standard could not be so high that the working population would be discouraged.
- 3) it should be scientifically calculated, say, with a set of indicators to ensure its validity and reliability.
- 4) currently it is mainly based on a household's income (cash oriented).
- 5) it takes the family as whole, and does not measures individuals' income separately.
- 6) it is different from the actual welfare amount received by the recipients (see figure below)

## 4.2 A Possible Information System for Dibao

Taking into account all of the above, the Chinese context and the social assistance system's characteristics that have developed up to now, mainly the Dibao benefit, informational asymmetry, (as we will develop further) and combined with the fact that China has a very good evolution of the corruption control and Government Effectiveness<sup>14</sup> according to the Global Indicators of Governance (the Worldwide Governance Indicators - WGI), allow us to suggest that China should apply an expert system for its Management Information System for Social Assistance.

### 4.2.1 Informational Asymmetry

The beneficiaries are persons selected by the different mechanisms for targeting which imply that decision-makers are aware of the actual status of that person. The more centralised is the granting of the benefit (e.g. the state), the social programme will not have all the necessary data. Therefore it reveals the sensitivity of the social programmes towards social controls or penalties, and, by making them more predictable, they show a stabilizing effect on the economic crisis.

<sup>13</sup> Gang Shuge, Guo Yu - „An analysis of the calculation and adjustment of Dibao standards" – Assessment report – SPRP EU-China, 2015

<sup>14</sup> <http://info.worldbank.org/governance/wgi/index.aspx#countryReports>



The mechanism proposed below represents the possibility to design social programmes in circumstances of asymmetric information.

The need for state intervention is defined in a view to secure a minimum level of social protection by promoting the concept of “welfare state”, where the state provides for the maximising of social welfare.

The role of the state regarding protecting individuals against social risks first brings to attention the problem of redistributing public resources having the affect of increasing the welfare of a certain consumer without reducing the welfare of another individual – this goal is expressed by the notion of “Pareto Optimality”. In practice, the state provides help to support people who failed in their own responsible behaviour, by collecting certain amounts from other individuals. The redistribution of such amounts may raise controversies arising from the very definition of the “support”, which requires reallocation of monies collected from other persons. Individuals may create safety nets to support themselves, by means of money savings.

This first finding is a premise for an informational asymmetry in granting social programmes, the entity granting such benefit not being aware of the precise situation of the aid beneficiary.

This flawed knowledge is reflected by the fact that an applicant may submit an incorrect application (thus leading to an error generated by over-inclusion) and also in the sense that a potential beneficiary may not submit an application at all (error of sub-inclusion).

A second preliminary finding is that we can consider a hierarchy of safety nets where informational asymmetry exists.

We introduce below a scheme of the hierarchy of the safety nets together with their financing sources and the labelling method of the beneficiary of the social aid/support.<sup>15</sup>

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<sup>15</sup> Corches L and coauthors - "Designing Social Programs in Circumstances of Informational Asymmetry"- Economics World, ISSN 2328-7144



One can see that the prerequisite for obtaining the aid is the qualification, firstly performed by the individual itself, and then, in circumstances of informational asymmetry, by the family, the community, the church, the doctor and finally by the State.

If we want a centralized system, then measures must be taken to overcome the informational asymmetry on other safety nets.

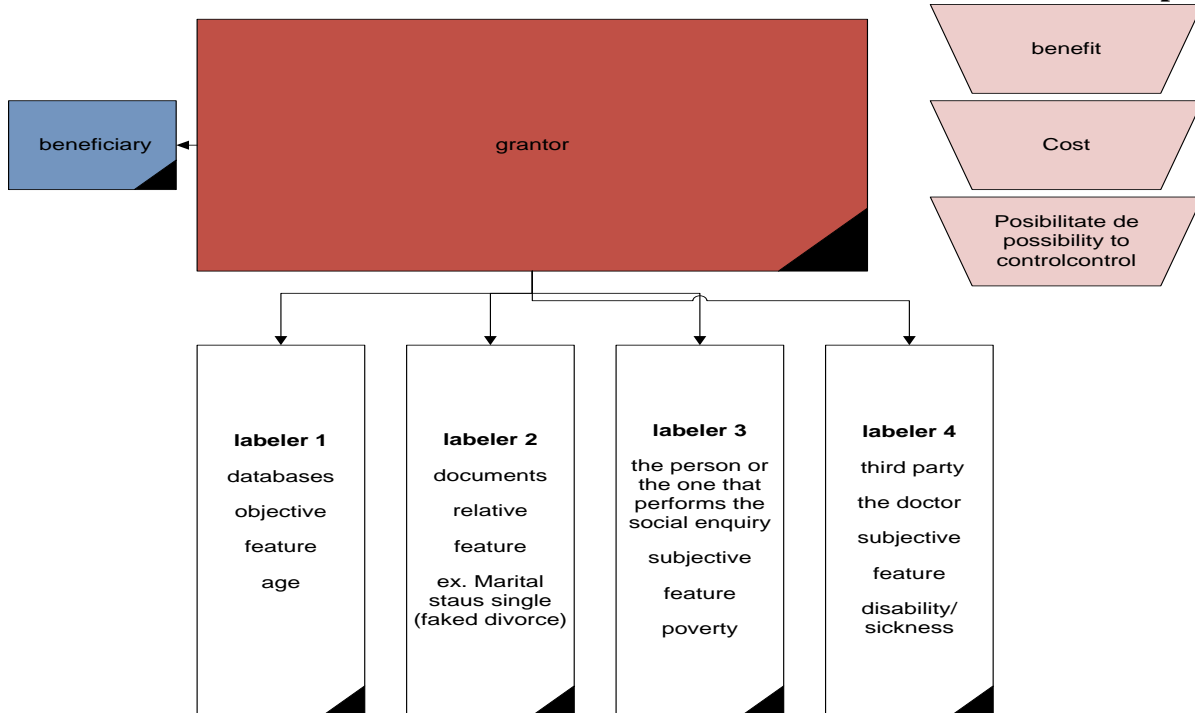
We shall then define the “labeler” as being the person performing the assessment based on an attribute/eligibility criterion and based on such assessment, they perform the categorization in the respective class/category of social aid. Such “labeler” may be the beneficiary of the aid, or the doctor, or the social worker).

Another process stakeholder is the entity that actually provides the payments for the respective social programme, or the granter (the family, the community by its representatives, or the State by its representatives).

First, we may see a quasi-concentric architecture of social allocations and of those who have the capacity to decide if a certain individual is to be included in the aid category (the labellers).

Thus, reciprocal to the individual's capabilities to cover their needs, it will be assessed by a new labeller supposed to also provide protective measures for another need.

A simplified model is submitted to your attention below:



The labelling process, allowing a certain degree of protection, is only known by some members of society and, based on the increase of the labelling level, there is a possibility for informational asymmetry to appear.

In other words, the more limited the capacity of the labeller to know the actual status of the potential beneficiary, the larger the error margin in the labelling process.

Error may be defined with two components: first degree error, supposing that the person is in need but it cannot be identified even if they complied with the eligibility criteria (sub-exclusion error) and second degree error which presupposes fraud (over-inclusion error).

Accurate information proves to be difficult to acquire for a better labelling level - that is why obtaining assurances of accuracy implies control, and therefore involves costs.

The cost of labelling control consists of the cost of obtaining the information concealed by the person providing the social benefit, respectively the cost of labelling the person applying for a social benefit.

By definition, the agency theory states that a contract is a secure promise made by two parties. Such promise provides the obligations of the parties in whatever circumstances. The party who proposed the contract is called a decision-making entity or the principal, and the party who accepted the contract is called the agent.

The starting point of agency theory is that an entity enters into a transaction with another entity with the sole purpose to obtain maximum gains while observing certain rules.

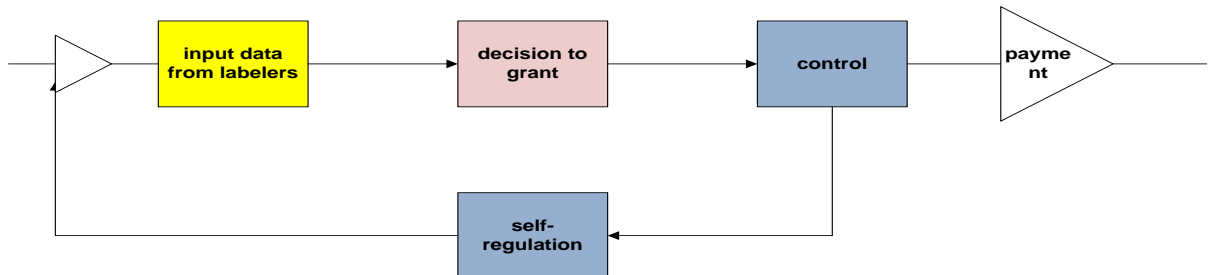
A procedure allowing the principal to be more in control is, for example, to develop the control procedure and/or to increase the impact of the sanction. An aspect that is worth mentioning is that on many occasions the individual is erroneously punished instead of the labeller.

The asymmetry and the imperfection of information may generate two types of risks:

- the risk of adverse selection, that may be reduced by means of signals or filters, and
- the moral risk, studied within the agency theory with the model of “principal – agent”

The “principal – agent” model refers to the conflicts between the principal who hires an agent in order to act in its interest. The moral risk models suggest also a very important idea stating that, for the principal, the costs incurred by control decrease when the contract provides for a high level of penalties.

The below scheme shows a new way of designing the allocation of budgetary resources by means of social benefits, based on self-regulation.



Mentioning all the above, we consider that introducing a payment system based on an artificial intelligence has the potential to reduce the costs associated with the initial verification and recertification processes associated with the social assistance payments to the beneficiaries.

#### 4.2.2 Expert System

Since the initial processes for beneficiary targeting and approval involves massive data capture and some expert evaluation, we admit that an EXPERT SYSTEM can be applied to reduce the need for manual labour in the beneficiary verification and recertification process. The very brief SWOT analysis done below, can help us to make a decision:

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
China's IT industry capacity	-Insufficient data related to complete processes for data matching -Uneven development in various areas of information society
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Big Data Development Era (time)	The transition from one payment system to another based on artificial intelligence

We emphasize that an expert system (SE) is a complex application of artificial intelligence aiming to explore a large base of knowledge to reach new conclusions about activities that are difficult to observe using similar methods, e.g. human experts and it has the following features:

- A database represented by all the documents submitted and external data, and
- A deduction algorithm specific to the respective reasoning method.

**The potential beneficiary submits an application by means of a secured web portal**  
**The application shall compulsorily include the reasons for which the respective person labels himself as assisted, the revenues it declares as well as the reasons for the failure of the other safety nets, and the amount it states as needed**

**The application is received by the national agency**

**Automatically, the church, the school shall be notified by means of the web portal – there shall be found the results of the enquiries regarding the testing of means and revenues, the failure of the other safety nets, the revenues, and the amount needed.**

**The data regarding revenues and goods are analyzed in real time, using information and data from other services.**



**At central level, an expert system (SE) analyzes the preliminary data and decides upon the following:**

- the necessary amount
- the need to control a certain labeler
- the possibility to use distribution channels due to too much beneficiaries
- the workload (number of working hours)

**At territorial level there is an office in charge with analyzing the local market using for example the Porter model, and decides on the opportunity of setting social companies to take over the efforts of the state using the workforce consisting of the potential beneficiaries**

**The amounts are allocated from local level, controls are performed, the possibility to use labor force is scrutinized.**

The application of the beneficiary shall be submitted by a call center system, starting with a dialogue between the potential beneficiary that may call from any location, and a government representative or civil servant.

The potential beneficiary shall be asked about their needs and about the failure of the other safety nets, but also about the amount he believes is necessary.

The social enquiry shall be performed online, through the data transferred by different labellers at the level of the city hall and data shall be automatically processed by an expert system<sup>16</sup>, together with information received from the other institutions.

<sup>16</sup>An expert system (SE) is a complex application (a software programme) which explores many input data in order to provide new conclusions about activities that otherwise are difficult to scan, using methods similar to the methods used by human experts. An expert system may succeed in problems without a deterministic algorithm solution. The main features of the expert systems are a database (a knowledge base), together with a deduction algorithm specific to the reasoning method. The expert systems are a field of the artificial intelligence, branch of informatics having as main purpose the development of programs and “intelligent applications”.

Data from all the above institutions shall be received through a securitized web portal to ensure informational completion.

In artificial intelligence, an expert system is a computer system that emulates the decision-making ability of a human expert. Expert systems are designed to solve complex problems by reasoning about knowledge, represented primarily as if-then rules rather than through conventional procedural code.<sup>17</sup>

An expert system is divided into two sub-systems: the inference engine and the knowledge base

#### A. Knowledge Base

Into the database server enter the following minimal data

- 1) Data related demand beneficiaries
- 2) Data related to response of Labeler
- 3) Data from matching processes of institutions at the central level

The application contains minimal information about that person's family

- 1) identification of family
- 2) disability data and health status
- 3) source of their income and,
- 4) data on property owned
- 5) completion of a table which calls for an estimated family needs, food, health or other needs

The application is processed automatically and electronic system transmits this data for electronic labeller reference in the area of the applicant.

The labellers area (independently), validation then submit form in application data with predefined options.

This process expressing opinions of the labeller about income, assets, but also on the needs as defined in the claim.

This operation is made from personal computer of a labeller directly into the knowledge database. Applicants and labellers must reconfirm the application periodically.

At the central level processes are performed on data matching with institutions that hold m.i.s (management information system) in the labeling (eg on wealth, health, income)

#### B. Inference Engine

An Inference Engine is a tool from artificial intelligence. The inference engine applies logical rules to the knowledge base and deduces new knowledge.

This process would iterate as each new fact in the knowledge base could trigger additional rules in the inference engine.

Inference engines work primarily in one of two modes either special rule or facts: forward chaining and backward chaining.

Forward chaining starts with the known facts and asserts new facts. Backward chaining starts with goals and works backward to determine what facts must be asserted so that the goals can be achieved.

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<sup>17</sup> [https://en.wikipedia.org/wiki/Expert\\_system](https://en.wikipedia.org/wiki/Expert_system)

We have the following examples of rules (which will be periodically revised) in laws and procedures)

- Specific rules at person specific for each applicant (disability, child, assets, income)
- Specific rules of region including Dibao, other regional indicators
- Macroeconomic rules including economic growth for example

Analysis of the expert system will determine each determined period

- Amount granted which are revised periodically
- Additional verification
- Reject the application
- Other constraint (courses, labour )
- Penalty

### **3.2.1 Unified Standards for the Calculation and Adjustment of Social Assistance Benefits - Policy Recommendations**

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## 1. Introduction

Since the introduction of the Minimum of Living Security System (Chinese Dibao) in mid-1990s, the Dibao system has undergone great changes. It functions as an important institutional arrangement of social policy and the social safety net for the rural-urban vulnerable group of the poor. As the key element of social assistance policy, the Dibao standard has a direct bearing on the guarantee for vulnerable groups of the poor, the mobility of the social assistance policy and the sustainable development of the social assistance system. Therefore China needs to implement an active policy relating to the social assistance standard which is characterized by promoting equality, development, mobility and sustainability.

## 2. The Change in the Dibao Standard under the Backdrop of Economic Development

### 2.1 Economic development and the improving capacity of the Chinese Government to implement social assistance policy

As the important social policy, the expansion of the social assistance system is closely associated with China's economic growth. Since the "Reform and Opening Up" to the outside world, the Chinese economy has been growing. China's GDP and the state revenue made great achievements, which provide the Chinese government with the financial support to guarantee people's livelihoods and the implementation of a large-scale of social assistance policy. From 1978 to 2014, China's GDP has increased from 365.05 billion CNY to 63,646.27 billion CNY; per capita GDP has increased from 382 CNY to 46,652 CNY and State Revenue has grown from 113.23 billion CNY to 14,034.97 billion CNY.

China's GDP and State Revenue from 1978-2014

Year	GDP(100 million Yuan)	Per capita GDP(Yuan)	State revenue (100 million Yuan)	State fiscal expenditure (100 million Yuan)
1978	3650.2	382	1132.3	1122.1
1979	4067.7	420	1146.4	1281.8
1980	4551.6	464	1159.9	1228.8
1981	4898.1	493	1175.8	1138.4
1982	5333	529	1212.3	1230
1983	5975.6	584	1367	1409.5
1984	7226.3	697	1642.9	1701
1985	9039.9	860	2004.8	2004.3
1986	10308.8	966	2122	2204.9
1987	12102.2	1116	2199.4	2262.2

1988	15101.1	1371	2357.2	2491.2
1989	17090.3	1528	2664.9	2823.8
1990	18774.3	1654	2937.1	3083.6
1991	21895.5	1903	3149.5	3386.6
1992	27068.3	2324	3483.4	3742.2
1993	35524.3	3015	4349	4642.3
1994	48459.6	4066	5218.1	5792.6
1995	61129.8	5074	6242.2	6823.7
1996	71572.3	5878	7408	7937.6
1997	79429.5	6457	8651.1	9233.6
1998	84883.7	6835	9876	10798.2
1999	90187.7	7199	11444.1	13187.7
2000	99776.3	7902	13395.2	15886.5
2001	110270.4	8670	16386	18902.6
2002	121002	9450	18903.6	22053.2
2003	136564.6	10600	21715.3	24650
2004	160714.4	12400	26396.5	28486.9
2005	185895.8	14259	31649.3	33930.3
2006	217656.6	16602	38760.2	40422.7
2007	268019.4	20337	51321.8	49781.4
2008	316751.7	23912	61330.4	62592.7
2009	345629.2	25963	68518.3	76299.9
2010	408903	30567	83101.5	89874.2
2011	484123.5	36018	103874.4	109247.8

2012	534123	39544	117253.5	125953
2013	588018.8	43320	129209.6	140212.1
2014	636462.7	46652	140349.7	151661.5

Source China Statistical Yearbook of Health and Family Planning, 2015.

## 2.2 The increase in income for rural-urban residents

In the process of economic development, especially the coordination of rural-urban development, the importance of social construction is increasing. Shared development has been the orientation of social policy, increasing the income of urban-rural residents is the goal of social policy. The more than three decades of development has witnessed the increasing of urban-rural residents' income and people's livelihood. In the period from 1978-2014, the absolute value of the disposable income of urban residents increased from 343.4CNY to 29,381CNY; the absolute value of the net income of rural residents increased from 133.6 CNY to 9,892 CNY, and these changes have been the factors for establishment and adjustment of the social assistance standard.

Income of rural-urban residents and the index in China in 1978-2014

Year	Disposable income of urban residents			Net income of rural residents		
	Absolute Value(CNY)	Index Last year as 100	Index The year 1978 as 100	Absolute Value(CNY)	Index Last year as 100	Index The year 1978 as 100
1978	343.4		100	133.6		100
1979	405	115.7	115.7	160.2	119.2	119.2
1980	477.6	109.7	127	191.3	116.6	139
1981	500.4	102.2	129.9	223.4	115.4	160.4
1982	535.3	104.9	136.3	270.1	119.9	192.3
1983	564.6	103.9	141.5	309.8	114.2	219.6
1984	652.1	112.2	158.7	355.3	113.6	249.5
1985	739.1	101.1	160.4	397.6	107.8	268.9
1986	900.9	113.9	182.7	423.8	103.2	277.6
1987	1002.1	102.2	186.8	462.6	105.2	292
1988	1180.2	97.6	182.3	544.9	106.4	310.7

1989	1373.9	100.1	182.5	601.5	98.4	305.7
1990	1510.2	108.5	198.1	686.3	101.8	311.2
1991	1700.6	107.1	212.4	708.6	102	317.4
1992	2026.6	109.7	232.9	784	105.9	336.2
1993	2577.4	109.5	255.1	921.6	103.2	346.9
1994	3496.2	108.5	276.8	1221	105	364.3
1995	4283	104.9	290.3	1577.7	105.3	383.6
1996	4838.9	103.8	301.6	1926.1	109	418.1
1997	5160.3	103.4	311.9	2090.1	104.6	437.3
1998	5425.1	105.8	329.9	2162	104.3	456.1
1999	5854	109.3	360.6	2210.3	103.8	473.5
2000	6280	106.4	383.7	2253.4	102.1	483.4
2001	6859.6	108.5	416.3	2366.4	104.2	503.7
2002	7702.8	113.4	472.1	2475.6	104.8	527.9
2003	8472.2	109	514.6	2622.2	104.3	550.6
2004	9421.6	107.7	554.2	2936.4	106.8	588
2005	10493	109.6	607.4	3254.9	106.2	624.5
2006	11759.5	110.4	670.7	3587	107.4	670.7
2007	13785.8	112.2	752.5	4140.4	109.5	734.4
2008	15780.8	108.4	815.7	4760.6	108	793.2
2009	17174.7	109.8	895.4	5153.2	108.5	860.6
2010	19109.4	107.8	965.2	5919	110.9	954.4
2011	21809.8	108.4	1046.3	6977.3	111.4	1063.2
2012	24564.7	109.6	1146.7	7916.6	110.7	1176.9

2013	26955.1	-	1227.0	8895.9	-	1286.4
2014	29381.0	-	1310.5	9892.0	-	1404.7

Source: data for 1978-2012 are cited from China Statistical Abstract (2015) and data from 2013-2014 are cited from China Statistical Yearbook (2015).

### 2.3 Change of rural-urban Dibao standard

Since the mid-1990s, the urban Dibao system has been established progressively in urban areas across China. The eligible population living in poverty were covered by the urban Dibao. After 2007, the rural Dibao system has been formally introduced in rural China, and the rural Dibao system has been expanded to all of rural China under the guidance of the Central Government and implementation by Local Government. From 1999 until 2014, the average of the urban Dibao standard increased from 1,1788 CNY per person per annum year to 4,926 CNY per person per annum. From 2006 to 2014, the average of the rural Dibao standard increased from 850.8 CNY per person per annum to 2776.6 CNY per person per annum.

#### The Change in the Dibao Standard since 1999

Year	The average of urban Dibao standard (CNY/per month/per person)	The average of urban Dibao standard (CNY/per year /per person)	The average of rural Dibao standard (CNY/per month/per person)	The average of rural Dibao standard (CNY/per year /per person)
1999	149	1788	-	-
2000	157	1884	-	-
2001	147	1764	-	-
2002	148	1776	-	-
2003	149	1788	-	-
2004	152	1824	-	-
2005	156	1872	-	-
2006	169.6	2035.2	70.9	850.8
2007	182.4	2188.8	70.0	840
2008	205.3	2463.6	82.3	987.6
2009	227.8	2733.6	100.8	1210.1
2010	251.2	3014.4	117.0	1404
2011	287.6	3451.2	143.2	1718.4
2012	330.1	3961.2	172.3	2067.8
2013	373.3	4479.6	202.8	2433.9
2014	410.5	4926	231.4	2776.6

Source: author's calculation based on the data from China Civil Affairs' Statistical Yearbook, 2015.

### 3. China's Dibao Standard: A Comparative Perspective

#### 3.1 Comparison of the Dibao standard between the rural Dibao and the urban Dibao

The rural-urban difference of the Dibao system is not only in the year of the introduction of the system but also in the Dibao standard. Although the rural-urban Dibao standard has achieved growth of varying degrees, there are still some big differences in terms of the Dibao standard. In recent years, with the acceleration of the integrated development of rural-urban China, the gap between the rural-urban Dibao standard tends to be smaller. In some areas, for example in Beijing, the rural Dibao standard and the urban Dibao standard have turned into the same since the second half of 2015.

The Change of Dibao Standard in China since 1999

Year	The average of urban Dibao standard (CNY/per year /per person)	The average of rural Dibao standard (CNY/per year /per person)	Times of the average of urban Dibao standard to the average of rural Dibao standard
2000	1884	-	-
2001	1764	-	-
2002	1776	-	-
2003	1788	-	-
2004	1824	-	-
2005	1872	-	-
2006	2035.2	850.8	2.39
2007	2188.8	840	2.61
2008	2463.6	987.6	2.49
2009	2733.6	1210.1	2.26
2010	3014.4	1404	2.15
2011	3451.2	1718.4	2.01
2012	3961.2	2067.8	1.92
2013	4479.6	2433.9	1.84
2014	4926	2776.6	1.77

Source: Author's calculation based on data from the China Civil Affairs' Statistical Yearbook, 2015.

#### Regional Differences in the Dibao Standard

The regional differences in the Dibao standard originated from the difference of social policy based on the unequal development of economy among the different regions in China. The imbalance of socio-economic development leads to big differences in the social assistance standard. On the one hand, there are big differences in the Dibao standard in the different provincial units in China even in the different cities; on the other hand, a big difference in Dibao standards exists in the eastern region, central region and western region. Among the regions, the average of the Dibao standard is

the highest in the eastern region, the coastal region of China, followed by the central region and the western region. For example, in 2010 the average of the Dibao standard in the eastern region of China is 3975.8 CNY per person per annum whereas the average of the Dibao standard in the central region of China is 2795.8 CNY per person per annum.

The comparison of the residents' consumer spending and the urban Dibao standard in 2013

Region	Per capita CDP (CNY)	The average consumer spending in cash by urban residents (CNY)	The average urban Dibao standard (CNY/per year /per person)
Beijing	93213	26274.89	6960
Tianjin	99607	21711.86	7200
Hebei	38716	13640.58	4542
Shanxi	34813	13166.19	4213.2
Inner Mongolia	67498	19249.06	5523.6
Liaoning	61686	18029.65	4938
Jilin	47191	15932.31	3870
Heilongjiang	37509	14161.71	4652.4
Shanghai	90092	28155.00	7680
Jiangsu	74607	20371.48	5821.2
Zhejiang	68462	23257.19	6186
Anhui	31684	16285.17	4566
Fujian	57856	20092.72	4359.6
Jiangxi	31771	13850.51	4748.4

Shandong	56323	17112.24	5012.4
Henan	34174	14821.98	3710.4
Hubei	42613	15749.50	4501.2
Hunan	36763	15887.11	4273.2
Guangdong	58540	24133.26	4564.8
Guangxi	30588	15417.62	4016.4
Hainan	35317	15593.04	4239.6
Chongqing	42795	17813.86	4161.6
Sichuan	32454	16343.45	3676.8
Guizhou	22922	13702.87	4171.2
Yunnan	25083	15156.15	3886.8
Tibet	26068	12231.86	5188.8
Shan'xi	42692	16679.69	4496.4

### 3.3 Comparing Urban Dibao Standard and the Consumer Spending of Urban Residents

As the last resort for the poor population to deal with social risks, social assistance functions as the last safety net. The guarantee of living is the primary function and goal of the social assistance policy, and when it comes to the fixing of Dibao standard and the adjustment of Diao standard it is needed to take economic development, consumer prices and living standards in the specific area into consideration. However, due to the complexity of the establishing the Dibao standard and the higher cost of collecting the relevant data to perform the calculation of the Dibao standard for a specific area, it is inevitable that there is some randomness when doing the adjustment of the Dibao standard. By doing the comparison between the average Dibao standard and the average consumer spending in cash, it can be seen as to how suitable the replacement rate is suitable, and how the Dibao standard is feasible for the poor residents to guarantee their basic needs of living. By doing statistical analysis, the replacement rates vary from one provincial unit to another, but it is clear that



the replacement rates of the average Dibao standard to the average consumer spending in cash keep between the range of interval between one-quarter to one-third.

The relationship between consumer spending and urban Dibao standard by provinces in 2013

Province	Average consumer spending in cash by urban residents (CNY)	Average urban Dibao standard (CNY/per Year /per person)	The percentage of Urban Dibao standard to the average consumer spending in cash by urban residents
Beijing	26274.89	6960	26.49%
Tianjin	21711.86	7200	33.16%
Hebei	13640.58	4542	33.30%
Shanxi	13166.19	4213.2	32.00%
Inner Mongolia	19249.06	5523.6	28.70%
Liaoning	18029.65	4938	27.39%
Jilin	15932.31	3870	24.29%
Heilongjiang	14161.71	4652.4	32.85%
Shanghai	28155.00	7680	27.28%
Jiangsu	20371.48	5821.2	28.58%
Zhejiang	23257.19	6186	26.60%
Anhui	16285.17	4566	28.04%
Fujian	20092.72	4359.6	21.70%
Jiangxi	13850.51	4748.4	34.28%

Shandong	17112.24	5012.4	29.29%
Henan	14821.98	3710.4	25.03%
Hubei	15749.50	4501.2	28.58%
Hunan	15887.11	4273.2	26.90%
Guangdong	24133.26	4564.8	18.91%
Guangxi	15417.62	4016.4	26.05%
Hainan	15593.04	4239.6	27.19%
Chongqing	17813.86	4161.6	23.36%
Sichuan	16343.45	3676.8	22.50%
Guizhou	13702.87	4171.2	30.44%
Yunnan	15156.15	3886.8	25.65%
Tibet	12231.86	5188.8	42.42%
Shan'xi	16679.69	4496.4	26.96%
Gansu	14020.72	3348	23.88%
Qinghai	13539.50	3969.6	29.32%

### 3.4 The Comparison between the Urban Dibao Standard and the Minimum Wage (MW)

The adjustment of the Dibao standard needs to effectively plan the guaranteeing of a person's livelihood and promoting employment as a whole and keep them consistent with each other. This will realize the mobility and sustainability of the social assistance system. In this regard, the relationship between the Dibao standard and the minimum wage is of great importance when it

comes the setting and adjusting the Dibao standard. To activate employment, the ratio of the Dibao standard to the minimum wage tends to decrease over the period of time from the 2003 to 2014. Take Beijing city as an example. The ratio of the urban Dibao standard to the minimum wage decreased from 62.37% in 2003 to 41.67% in 2014.

Relationship between the Urban Dibao Standard and the Minimum Wage in Beijing

Year	Urban Dibao standard (CNY/per person /per month)	Minimum wage (CNY/per month)	Ratio of Dibao standard to the minimum wage
2003	290	465	62.37%
2004	290	545	53.21%
2005	300	580	51.72%
2006	310	640	48.44%
2007	330	730	45.21%
2008	390	800	48.75%
2009	410	800	51.25%
2010	430	960	44.79%
2011	500	1160	43.10%
2012	520	1260	41.27%
2013	580	1400	41.43%
2014	650	1560	41.67%

Source: <http://www.bjstats.gov.cn/nj/main/2015-tjnj/indexch.htm>

#### 4. Policy recommendations

##### 4.1 To formulate a unified methodology of calculating and adjusting the Dibao standard.

We need to see regulating and improving the methodology for calculating and adjusting the Dibao standard, and adopting the formulation of an unified method of adjusting the Dibao standard as a policy orientation. At present, the formulation and management of the Dibao standard at local levels are diverse. Aiming at the goal of establishing a regulated, evidence-based and standardized social assistance system, using the local lessons on the calculation and the adjustment of the Dibao standard, it is necessary to push further forward on formulating an unified methodology for calculating and adjusting the Dibao standard as the guidance for the policy implementation at local level in order to regulate the management of social assistance. Meanwhile, it is also necessary to further enhance the coordination of the management of social assistance between the central government and local governments.

##### 4.2 To implement the active policy of Dibao standard

The Dibao standard policy needs to achieve the policy equilibrium between guaranteeing the basic living of Dibao recipients and promoting employment. To guarantee the living of the Dibao

recipients and to promote the mobility of the social assistance system are important goals of social assistance policy. First, aiming at guaranteeing the livelihood of the urban Dibao recipients it is necessary to link the urban Dibao standard with the average living standard of the residents. Second, as for policy improvements, it is also necessary to link the urban Dibao standard with the minimum wage and set a suitable replacement rate of the Dibao standard to the minimum wage to coordinate the relationship between the increasing of the urban Dibao benefit and the encouragement of employment. Taking heed of the international experience of social assistance, social assistance policy should embrace an active market policy, promote the mobility of the Dibao system and realize the sustainable development of the social assistance system.

#### 4.3 To adjust the Dibao standard gradually

In this regard, gradualism should be the basic principle to be adhered to. Since the 21st century, along with economic development and the increasing expenditure on social protection, including social assistance, the urban-rural Dibao standard has been increased with varying degrees. This plays a significant role in guaranteeing of the poor residents in the rural-urban areas of China. However, with a view to the comparison between the increase of the average income of urban residents and the increase in the urban Dibao standard under the backdrop of economic development, there is no consistency between the urban Dibao standard and the average disposable income of urban residents. The ratio of the Dibao standard to the average disposable income of urban residents tends to decrease. From the 2002 to 2014, the average of the disposable income of Chinese urban residents increased from 7,702.8 CNY to 29,381CNY, but in the same period the ratio of urban Dibao standard to the average disposable income of urban residents went down from 23.06% to 16.76%. With the view of the idea of shared development and the principle of shared development, it is necessary to gradually improve and conduct an evidence-based adjustment of the Dibao standard.

#### 4.4 To enhance the coordination and cooperation among the relevant branches of government

According to the “Interim Measures on Social Assistance”, the Ministry of Civil Affairs, National Health and Family Planning Commission, Ministry of Education, Ministry of Housing and Urban-Rural Development and the Ministry of Human Resources and Social Security are responsible for the corresponding work of managing Dibao according to their respective duties. At present, the “System of Joint Conference for Social Assistance” has been established in some areas in order to coordinate the social assistance policy including the policy for the social assistance standard in a comprehensive and coordinated way. However cooperation and coordination among the governments and social organizations are not enough. It is essential to enhance cooperation among the governmental departments responsible for civil affairs, statistics, prices, agriculture, social security and trade unions so that the scientificity of the setting and adjusting the Dibao standard fixing can be improved.

#### 4.5 To enhance the categorized management of social assistance.

By comparison, the composition of the Dibao recipients has changed a lot since the new type of social assistance was established in China in the late 1990s. Social assistance recipients now consist of the disabled, the unemployed, children, adolescents and the poor with chronic diseases. Aiming to establish a social assistance program with social justice, mobility, sustainability and humanistic development, the classified management of social assistance should be reinforced. For those Dibao recipients with the ability to work, the social assistance standard should be decreased. For those Dibao recipients who have their own houses (apartments), the social assistance standard should be greatly lowered, For those children of Dibao recipients living in a poor Dibao family, the Dibao standard should be increased in an appropriate way. A subsidy system or development account for poor children needs to be established with the goal of breaking the poverty trap and breaking down the vicious cycle of inter-generational poverty.

4.6 To coordinate the liability of the social assistance fund between central government and local government

In the implementation of a social assistance policy, financial support from the central government plays an important role in the sustainability of the social assistance system. The relationship between central government and the local government on the allocation of social assistance funding has undergone some changes in recent years. Some policies should be taken to further scientization and rationalization. One is that the ratio between the central governance and local government on the Dibao funding allocation should be adjusted yearly in a suitable way to be consistent with local economic development and local economic performance. The other is that when fixing the ratio of social assistance funding between the central government and local government, three factors including rural-urban Dibao coverage rate, Dibao standard and per capita GDP should be taken into considerations. There should be a division of the whole country into four areas –those which are totally funded by the central government, those mostly funded by the central government, those mostly funded by local government and those totally funded by local government.

### **3.2.1 Experiences on Unified Standards for Calculating Social Assistance Benefits - EU experience and policy recommendations**

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## Introduction

This report forms part of topic 3.2.1 of Component 3 of the EU China Social Protection Reform Project: An analysis of the calculation and adjustment of Dibao standards.<sup>1</sup> Dibao is the Chinese means-tested minimum income payment and is the responsibility of the Ministry of Civil Affairs (MoCA) which plays the leading policy role in the development and implementation of this important benefit. The Dibao standard or line is the locally set income threshold below which a household is considered to be entitled to Dibao.

The structure of the report is as follows: Section 1 briefly outlines the position concerning minimum income payments in the European Union. More detailed discussion on the situation in European Union countries is contained in subsequent sections of the report.

Section 2 looks at issues concerning setting a standard for Dibao including European Union practices concerning the methodology involved.

Section 3 then looks at the issues which should be considered in setting a particular level for a minimum income payment.

Targeting is a key issue in the implementation of any minimum income payment. If Dibao is to achieve its objectives it must be appropriately targeted. For example, it is important to know the extent to which Dibao currently has an impact on reducing poverty (however defined). This issue is closely linked to setting the appropriate standard because it will inform the debate as to the relative importance of raising the Dibao standard as opposed, for example, to broadening the reach of the Dibao payment.

Section 4 looks at issues concerning the targeting of Dibao drawing again on best international practice.

Assessment of income and assets is also a key issue in the successful implementation of a minimum income payment. Unless the implementing agencies are able to assess means in a credible manner, it will be difficult to target the payment successfully.

Section 5 looks at the improvements which might be made in the assessment of income in China drawing on best practice in parts of China and in European Union countries.

Finally, section 6 summarizes key policy recommendations,

### 1. Minimum income payments in the EU

#### 1.1 Minimum income payment in European Union countries

As is well known, the European Union itself has only limited powers in relation to social protection and responsibility for social protection (including minimum income payments similar to Dibao) remains a national competence. As described in more detail in the previous EU Report under 3.2.1., EU Member States have adopted a wide range of different approaches to securing a minimum income for their citizens.<sup>2</sup> There is a wide variation in the type of minimum income schemes which exist in each country.

MISSOC (2011) categorises minimum income schemes in the EU as follows depending on whether they are:

- general (applying to all or most persons), specific or categorical (applying only to certain categories), or a combination of both; and

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<sup>1</sup> Dibao is short for *zuidi shenghuo baozhang* [Minimum life guarantee]. The operation of Dibao is described in detail in the assessment reports under 3.1.1 and 3.2.1.

<sup>2</sup> See *Best Practice in EU on Guaranteed Minimum Income Schemes (GMIS)*, 2015 and MISSOC (2011).



- organised at a national level, local or regional level, or both.

This categorisation is set out below in Table 1 (the country codes for EU Member States are set out in an Annex to this report).

Table 1: Statutory and structural organisation of the minimum income schemes in the EU

Classification		Member States
General scheme(s)	Legislation at central level	CZ, RO, SE, SK, MT
	Legislation at local or regional level	-
	Both	LV
Specific/categorical scheme(s)	Legislation at central level	EL, HU, UK, PL, FR, DE
	Legislation at local or regional level	AT
	Both	ES
Combination of general and specific scheme(s)	Legislation at central level	BG, CY, DK, EE, FI, LT, SI, IE, LU, PT, LI
	Legislation at local or regional level	IT
	Both	BE, NL

Source: MISSOC, 2011 (modified by author)

For example, in Ireland, the minimum income scheme (Supplementary Welfare Allowance) plays only a residual role as there are a range of categorical schemes for people who are unemployed, disabled, lone parents, over retirement age, etc. In contrast, in the UK, there has been a broad minimum income scheme – known as Income Support – for people of working age which currently supports over 700,000 beneficiaries out of a total British population of over 60 million.<sup>3</sup> Lone Parents make up 61% of the Income Support caseload, with people with incapacity accounting for 11%; and carers and others for 28%.

The national legislation generally sets out the type of person who is entitled to the minimum income payment or the objective of the benefit (see MISSOC, 2011).

Table 2: Overview of minimum income definitions in EU Countries

EU Member State	Description of ‘insufficient living standard’ in national law
BG	Those unable to satisfy a basic standard of living
CY	“poor” or “no decent standard of living”

<sup>3</sup> The UK is current introducing a ‘Universal Credit’ scheme which will replace Income Support and a range of other benefits.

CZ	Low income and impossibility to improve by own effort
BE	Persons without sufficient resources and unable to procure them by personal effort or other means / persons in need
DK	Persons, due to particular circumstances, who are without sufficient means to meet requirements
EE	To assure means up to a minimum subsistence level
FI	Persons without sufficient means to meet the necessary costs of living
EL	No scheme(s), no definition(s)
HU	Persons without sufficient resources of living
IT	Individuals or families who are in need of socio-economic support
LT	<i>“sufficient resources for living”</i>
LV	Needy households
RO	Basic needs
SE	A person or family who is temporarily without sufficient means to meet the necessary costs of living (or else: who is in need of support)
SK	Those unable to maintain their basic living conditions
MT	Those unable to maintain themselves due to sickness or unemployment
UK	Those whose income is below a minimum level / low income
NL	Those who cannot provide the necessary costs of supporting themselves or their family, or cannot do so adequately, or who are threatened by such a situation
SI	Individuals and families who are temporarily unable to secure sufficient funds for basic subsistence
IE	People whose means are insufficient to meet their needs
PL	Problems which people of families are not able to overcome
ES	Persons in determined situations of need
AT	People who are not able to cover costs of living
LU	Social exclusion; the scheme aims at the providence of sufficient means for a decent standard of living and measures for professional and social integration
PT	Situation of socio-economic deficiency

FR	The scheme aims at a decent amount of income, as well as to promote professional activity and to fight social exclusion
DE	Persons in need who are (in)capable of working and who do not earn a sufficient income in order to meet the needs of the domestic unit

Source: MISSOC, 2011 (modified by author)

### 1.2 Approaches to benchmarking and indexation

Unlike China, EU countries generally distinguish between the minimum income standard or line (i.e. the equivalent of the Dibao standard) and the rate of minimum income payment. In some countries, the minimum income payment may be payable in full to persons who have income well above the basic rate of payment. The minimum income standard generally varies according to household circumstances but certain types of income and assets may be disregarded. For example, there may be a disregard for

- certain income from employment to encourage people to take up work (e.g. SE, IE, NL) certain social protection benefits (such as family or disability benefits) (most countries); some level of savings or property (e.g. BG, IE, UK), and,
- ownership of a family home (e.g. CY, UK, SI, IE, DE, MT).

The MISSOC database indicates that all EU countries exempt some income and/or assets from the means assessment..<sup>4</sup>

The exact level of the minimum income standard in EU countries – which is normally set in law – has developed over time to meet different political objectives and there is rarely a clear scientific basis. It is perhaps more relevant to focus on the basic level of payment as this is the amount which a person with no income or assets will receive and is generally the amount considered to be ‘adequate’ by the relevant authorities in each European Union country. In general the benefit rate is set by the national authorities but in some countries it is set at regional level.

MISSOC (2011) describes the approach adopted by those EU countries which set a specific benchmark for minimum income cash benefits.

Table 3: Member States’ approach to benchmarking minimum income

Classification		Member States	
Income-related approach: a numeric ceiling or standard as a benchmark in order to determine if someone is considered ‘in need’	Fixed ‘minimum standard’	Linked to the amount of unemployment benefits	DK
		Linked to the amount of old-age pension benefits	HU, LT, LV
		Linked to the amount of minimum wages	NL, EE

<sup>4</sup> See <http://www.missoc.org/>

		Other fixed standard (poverty line, minimum subsistence level)	AU, BG, CY, CZ, BE, EE, FI, LT, LV, RO, SK, MT, UK, SI, IE, PL, PT, DE, LU
	Other or variable minimum	Local variation	IT
		Categorical variation	FR
		Local and categorical variation	ES

Source: MISSOC, 2011 (modified by author)

First, a number of Member States set the minimum income as a percentage of another social protection benefit (unemployment benefit or old age pension).

Second, in a number of countries, the minimum income is set as a percentage of the minimum wage either directly (NL) or indirectly (EE).<sup>5</sup> In other countries, the minimum income is linked (directly or indirectly) to average wages. For example, in Ireland, although the precise level of minimum income is decided by the Government, the rate is informed by an official study which recommended that the minimum income be set as a percentage of the average wage (Ireland, 2001) although this is not required by law.

In a third group of countries, the amount of the minimum income is set by reference to the cost of basic needs, i.e. by establishing the cost of a minimum ‘basket’ of essential goods (food, clothing, hygiene, health, housing costs, etc.). For example, in Austria ‘minimum standards’ are fixed for food, clothes, personal hygiene, household items, heating and electricity as well as personal needs for an appropriate participation in social life. In Germany, the law provides that the rate of benefit is based on the ‘normal requirements’ of a person. The statistical base for determining the normal requirements is the national survey of income and consumption. The amount of the normal requirements is based on the actual expenditure of households in the lower income range. In Estonia, the subsistence level is set on the basis of the minimum expenses associated with consumption of food, clothing, footwear and other goods and services which satisfy the primary needs. In Sweden, the benefit is set to cover expenditures on food, clothing and footwear, play and leisure, disposable articles, health and hygiene, daily newspaper, telephone and television fee.

There is no EU standard or guideline for the rate of the minimum income payment but national standards are monitored under the Open Method of Co-ordination (OMC, discussed below in section 1.5).

### 1.3 Indexation

There are two issues in relation to indexation. The first, is the question of how the minimum income payment should be updated and, the second, how often or at what time frequency this should occur (e.g. annually).

For those countries, which link the minimum income to a specific benchmark (as discussed above), there is no need for a further indexation mechanism. For example, the minimum income in The

<sup>5</sup> In Estonia the income threshold for the minimum income payment must not be less than 35% of the minimum monthly wage on 1 July of the previous year.

Netherlands is linked to the minimum wage and updated twice a year. A number of countries do not have any specific legal mechanism for uprating the minimum income and this is a matter of political decision (e.g. BG, HR). However, in other countries a variety of approaches are taken. These include:

- Linking to increases in other social protection benefits (AU) or pensions (HU, PT) or the index of national pensions (FI)
- Increases in consumer prices (in some case subject to a minimum increase in the cost of living)<sup>6</sup> (BE, CZ, FR, LU, RO, SE, SK, UK).

A number of countries take into account a combination of wage and price increases (e.g. ES).<sup>7</sup> Germany does this in a specific manner. In years in which no new results of a sample survey of income and consumption are available for a renewed determination of the normal requirements, the minimum income payment is updated in line with the German (federal) average of the prices of goods and services which are taken into account for the purposes of establishing the normal requirements as well as the German (federal) average development of net wages. In this mixed index, the rate of change of the development in prices accounts for 70% and that of the development of net wages for 30%.

In most countries, financial resources are taken into account and sometimes this is specified in law.

In general, indexation (where required) takes place annually although in some cases it is biennial (BE).

#### 1.4 Issues in choosing a particular benchmark or index

Based on European Union practice, a critical issue in relation to setting a benchmark of indexation mechanism is practicality. Any benchmarking or indexation process requires that a suitable data series exist. In addition, the data must be *accurate*, *timely* and *well understood*. The data should not be *volatile*, i.e. that it would not be liable to fluctuate severely from year to year.

Ideally, this data should be available as part of a general data collection process so that local administrations do not have to carry out extensive studies in order to set the minimum income threshold.

#### 1.5 Open Method of Coordination

Given its limited competence in the area of social protection, the European Union has introduced a non-binding system known as the “Open Method of Co-ordination” (OMC). OMC is used by Member States to support the definition, implementation and evaluation of their social policies and to develop their mutual cooperation. It is based on common objectives (for pensions: adequacy, sustainability and modernisation) and indicators. It forms part of the implementation of the process of coordination of social policies

This involves a sharing of experiences between the Member States, the setting of guidelines, national reports, peer review, etc. OMC involves ‘soft’ (legally non-binding) measures through which Member States’ policies in areas such as pensions and social inclusion are benchmarked and compared.

#### 1.6 EU poverty and minimum income targets

Under “*Europe 2020*” (the European Union’s growth strategy) targets are set both at the EU level and for Member States in relation to poverty reduction. The implementation of these targets is

<sup>6</sup> In CZ, for example, prices must rise by at least 5% to trigger indexation. In BE, this is only 2%.

<sup>7</sup> Spain also looks at the general trend of the economy and the economic possibilities of the system.

monitored by the European Union Commission as part of its overall monitoring of the implementation of the strategy. The Commission issues country-specific recommendations to individual Member States in relation to proposed actions but there are no sanctions for failure to meet the targets.

No specific targets are set for the levels of minimum income payments (or social protection payments generally) as this is a matter of Member State competence. However, indicators have been set in relation to the effectiveness and efficiency of social protection in the Member States and these are monitored by the European Union Commission and the Social Protection Committee (2015). For example, these indicators include the impact of social transfers (excluding pensions) on poverty reduction.<sup>8</sup> This issue is discussed in more detail in section 4.

## 2. Dibao standard – methodology for setting standard & indexation

This section looks at issues concerning setting a standard for Dibao including EU practices concerning the methodology involved.

### 2.1 Setting a benchmark

As can be seen from the 3.2.1 assessment report, at present there are very significant variations in the level of the Dibao standard according to the geographic areas of China (see also Umapathi et al., 2013). There is also no standard methodology which is adopted in setting the Dibao standard. Due to the significant variations in living standards and wages across China, it is only to be expected that there should be comparable variations in the level of the Dibao standard.

However, the current variations in the methodological approach tend to a situation whereby the Dibao standard is lower (as a percentage of average consumer spending) in poorer provinces such as Qinghai and Ningxia, leading to a situation where support is lowest in the poorest areas. The variations in approach may also tend to increase income gaps between richer and poorer provinces. The variation in methodology also reduces the ability of MoCA to set appropriate standards. Therefore, it is arguable that there should be a *standard methodology* which would be followed by all areas. This would ensure a consistent approach to the measurement of need across China and would ensure that the needs of the Chinese people were assessed in a standardised manner no matter where they live.

It is also arguable that a *benchmark* (i.e. a target figure) might be set for the level of Dibao relative to local standards. This might be a set figure or might provide a range within which local authorities would set their local Dibao standard. Having such a benchmark would further ensure a greater level of consistency across China and would also allow MoCA to vary the level of Dibao over time in response to social and economic developments. This might be set by MoCA at a national level or, initially, MoCA might require that a provincial benchmark would be set as a first step towards a greater standardisation.

There are, of course, a wide range of possibilities in terms of how binding the benchmark might be. It could, for example, be allowed that the local governments could vary to some extent from the benchmark based on (exceptional) local factors such as the state of the labour market or financial capacity. This could be higher or lower than the national standard. For example, in Latvia, the minimum income rate is set by the national government but municipalities are allowed to establish a higher benefit up to a pre-determined limit.

Presumably, if a benchmark was set, local governments would be given a period of time to implement the new methodology and align their Dibao standard to the benchmark.

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<sup>8</sup> Note that this includes all social protection spending (except pensions) and is not specific to minimum income payments.

Under such an approach, the actual rates of Dibao would still vary by local area and urban/rural areas according to local standards but the degree of variation which currently exists would be reduced and MoCA would be in a better position to direct policy in line with central policy objectives.

## 2.2 Absolute relative standards

In principle, there is a clear difference between setting a relative standard for Dibao as opposed to an absolute standard. If an absolute approach is adopted, the cost necessary for minimum living is calculated, e.g. for adequate nutrition. In contrast with a relative approach, the standard is linked as a percentage of consumption, for example to consumption by a low income group. In theory the absolute standard will change only with changes in the cost of living while the relative standard will reflect changes in overall living standards.

However, in practice, there is generally less difference between the two approaches. Other than in very underdeveloped countries, an absolute approach rarely adopts a ‘survival’ standard and countries generally take into account what are considered to be appropriate standards and necessities in their own social, economic and cultural context. For example, in Austria, the basket of goods is intended to allow ‘an appropriate participation in social life’. Even the ‘absolute’ approach tends to be relative to the context.

## 2.3 Which benchmark?

There are a number of different options in terms of the data measures which could be used to set the Dibao standard. In part, this should be informed by the objective of Dibao, e.g. whether it is intended to provide an income which reflects a certain proportion of the average income in the area or whether it is intended to meet basic living requirements. Based on European Union practice, the options might include

- Wage-related thresholds (minimum wage or average wage)
- Minimum living costs (basket of goods).
- Average consumption expenditure

Based on European Union and national experiences (see 3.2.1 assessment report and Umapathi et al., 2013), there would appear to be a number of different specific options for a benchmark in China. These include:

*Minimum wage* – while the minimum wage is used in a number of EU countries, this is generally set at a national level. It is understood that in China the minimum wage is set more locally and that the methodology may also vary to some extent. Insofar as this is the case, the minimum wage would not appear to offer a potential benchmark for the Dibao standard as it would not lead to a more standardised approach.

*Average wage* – Data should be available for average wages at a local level. However, given the nature of Dibao as a minimum living guarantee, wages may not be seen as an appropriate benchmark for Dibao. Linking to average wages would imply that the standards would move in line with wage trends rather than the cost of living and this may not be appropriate given the nature of the payment.

*Basket of goods/budget standard* – This method uses a “typical” basket of goods and services which may be required to have a minimally adequate standard of living. It costs the items in the basket to arrive at a minimum income. It may be possible to do this in European Union countries. However, given the size of China and the variation from one area to another, it would appear difficult to establish a standard basket of goods for China. The minimal basket required in, for example,

Heilongjiang, will be very different to that in Yunnan. This would also not appear to be a practical option.

*Consumption expenditure* – Average consumption expenditure (in the local area) is one of the factors currently taken into account in setting the Dibao standard. It appears that this data is available at a local level at reasonably regular intervals. In order to be focussed on the minimum needs, the benchmark might be set as a percentage of consumption spending of the low income group within the overall population.

On this basis, the use of consumption expenditure would appear to offer the best option as a benchmark for the Dibao standard. Further studies will be required to assess the data and to focus on the particular methodology to be adopted.

#### **2.4 Indexation**

Based on European Union practice, where a benchmark is set as a percentage of, for example, the minimum wage or consumption expenditure, it is not strictly necessary to have a separate means of indexation, as the benchmark will be updated automatically.

Where, however, the benchmark is not such a percentage or where there is a gap before data may be available to update the benchmark (as in Germany), it is necessary to have some form of indexation. In most European Union countries which set a specific mechanism, indexation is in line with changes in the consumer price index (although in some countries this may be a baseline and governments can provide higher increases if resources are available). In most countries in recent years, wages have tended to rise more rapidly than prices and indexation to prices alone gives rise to a widening gap between the Dibao standard and average earnings. In order to counteract this trend, some countries (e.g. Germany) also take into account changes in earnings in indexing the Dibao standard (see above for details).

In China, it seems likely that there may be regional variations in consumer prices but as Dibao standards are being set locally this can be taken into account even with a standard methodology.

Finally, there is the issue of how often the Dibao standard should be indexed. In most EU countries this is done annually. Unless one has a situation where prices are rising rapidly, annual indexation is probably sufficient to ensure that the Dibao standard stays in line with minimum living standards and avoids the administrative costs of more frequent updates.

#### **2.5 Categorical approach**

One approach which is adopted in a number of European Union countries is to establish different Dibao standards for different categories of beneficiaries (e.g. older people, people with disabilities etc.). In general, somewhat higher standards are often set for people who have limited work capacity or who are assumed to be outside the labour market. This may be because they are assumed to have some additional costs (e.g. people with disabilities) or because it is assumed that they will not have access to any income from casual employment (e.g. older people). Value judgments are often implied in these standards and they are often related to a desire to avoid creating disincentives to work for those who are considered to have capacity for work.

In principle, there may be advantages in this approach but setting different standards for different categories does create the need for the administrators of Dibao to distinguish between the different categories in a consistent and coherent manner. This is relatively easy in the case of age where it is simple for the local administration to establish if one member of a Dibao household is over the age of, say, 65 and to allocate a higher Dibao standard to that person. However, it is considerably more difficult for the administrators to decide whether a person has (significantly) reduced work capacity due to disability.



In the case of children, the fact that the Chinese Dibao system does not apply an equivalence scale already means that children are treated more favourably than under most (if not all) European Union minimum income systems as children are allocated 100% of the adult standard compared to 50% in some European Union countries (or less in some) (see below).

In terms of adopting policies to focus on children (as recommended in the 3.2.1 assessment report), European Union experience would suggest that it may be more important to invest in services to improve the life opportunities of such children. For example, it has been shown that investment in high quality early childhood education can show a very high return over time and can significantly improve the opportunities of children from poor families. Investment in such services is likely to show a better return than the same amount of money paid by way of an increase in cash Dibao.

**2.6 Support for households and equivalence scales**

At present, China calculates the needs of households based only on the number of persons in the household. So a household with three persons is assessed as having three times the needs of a single person and no difference is made between adults and children. This is in contrast to most European Union countries which use equivalence scales to calculate the needs of a household. The argument for the use of equivalence scales is that the needs of a household grow with each additional member but, due to economies of scale in consumption, it is assumed that this does not occur in a proportional way. For example, needs for housing space, electricity, etc. will not be three times as high for a household with three members than for a single person. With the help of equivalence scales each household type in the population is assigned a value in proportion to its assumed needs. The factors commonly taken into account to assign these values are the size of the household and the age of its members (whether they are adults or children). A wide range of equivalence scales exist both for research purposes and in use in social protection systems. For example, the OECD scale assigns a value of 0.7 to each additional adult and 0.5 to each child. A number of scales for the minimum income payments in EU countries are set out below:

Country	First adult	Additional adults	Child
Ireland	1	0.67	0.16 <sup>9</sup>
Romania	1	0.5	0.5
United Kingdom	1	0.57	0.92

As can be seen, the scales vary greatly and this is, in part, explained by the fact that these payments must be seen in the context of other social schemes in each country.

In order to calculate the appropriate equivalence scale for Dibao one would need to consider which costs Dibao is supposed to cover. One might then carry out empirical research based, for example, on Chinese household budget surveys, to assess whether and to what extent economies of scale do exist in China in relation to these costs. In principle, the use of equivalence scales should ensure that the Dibao standard is more closely tailored to the needs of a household. On the other hand, in most countries equivalence scales used in social protection systems as based on unscientific assumptions rather than research. It may (or may not) be the case that the current Chinese approach is broadly in line with actual patterns of need.

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<sup>9</sup> This payment is in addition to a universal payment to all children which is currently equivalent to an additional 0.17.

## 2.7 Urban and Rural Dibao

China currently has separate urban and rural systems of Dibao, although the rules in relation to the two systems are broadly similar. This reflects the significant differences between urban and rural China with urban incomes being significantly higher than rural incomes on average. It also reflects the differences in relation to the system of the urban and rural hukou (residence permit) which is related to the entitlement to Dibao. At the current stage of China's development, it is assumed that it is still necessary to have separate systems but the recommendations set out in this report apply equally to both systems. However, as the rural Dibao system is more recently established and, therefore, less mature, there are issues which apply more specifically to this system. For example, it appears that the targeting of the rural Dibao is less effective than the urban system. There are, of course a number of other issues which arise from the linking of the entitlement to Dibao to the hukou system (including access for migrant workers to Dibao (Peng and Ding, 2012) but these fall outside the scope of this report.

## 3. Dibao standard – issues in setting the rate of benefit

In setting benchmark for the Dibao standard, there are a number of factors which should be taken into account. The main factors would be:

- Impact on poverty
- Impact on labour market incentives both for those on Dibao who have work capacity (so far as relevant) and those currently in work

Financial costs in short & medium term.<sup>10</sup>

### 3.1 Impact on poverty

From the point of view of poverty alleviation, a higher rate of Dibao will obviously (at least in the short-term) have a greater impact on poverty. However, the precise impact will depend both on the measure of poverty chosen and on the precise level of benefit. In addition, there are countervailing factors which need to be taken into account. In addition to cash benefits, it is clear that a range of other social inclusion measures including social services, combined with Dibao, will be necessary to lift people out of poverty.

### 3.2 Impact on labour market incentives

Insofar as people in receipt of Dibao currently have the capacity for work, any assessment would need to take into account the impact which raising the Dibao standard might have on work incentives both for those currently in receipt of the payment and for those currently in low paid work. Studies would suggest that Dibao does not currently have a major impact on labour market incentives. For example, Ravillion and Chen (2015) concluded that 'the [urban] *Dibao* program is unlikely to provide a strong disincentive for earning extra income among participants'. Their findings suggested that reforms to the program should consider a higher benefit withdrawal rate in local implementation, alongside expanded coverage which would lead to a greater poverty impact. This would appear to be an area where further research is required to identify the extent to which Dibao recipients do have work capacity and, therefore, the extent to which work incentive issues are relevant to setting the Dibao standard.

### 3.3 Financial costs

Finally, it is important to take into account the financial costs involved in raising the Dibao standard both in the short-term but also in the medium-term having regard to possible changes in

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<sup>10</sup> Other factors such as possible impacts on household formation or fertility are difficult to isolate and given the relative scale of Dibao are unlikely to be of major importance.

demographic, fiscal and economic trends. There is also an issue in relation to the sharing of responsibility for costs between the national and local levels. For example, if a benchmark is to be set for the Dibao standard it is clear that some local governments will require national assistance to meet the additional costs involved. The issue of national and local responsibility for expenditure is dismissed in more detail in a separate report.

### **3.4 Policy simulations**

In order to carry out such a study, ideally one would use a computerised tax-benefit (microsimulation) model which could assess the impact of different changes in the Dibao standard, the labour market impacts and the financial costs. See Ireland (2001) for an example of how this was done in a European country using a micro-simulation model. In Poland, the SIMPL micro-simulation model has been developed with support of the Polish Ministry of Labour and Social Policy. In China, Golan et al. (2015) used both administrative data and data from the China Household Income Project (CHIP) to simulate the impact of policy changes on the rural Dibao scheme.

## **4. Targeting of Dibao**

Targeting is a key issue in the implementation of any minimum income payment. If Dibao is to achieve its objectives it must be appropriately targeted. For example, it is important to know the extent to which Dibao currently has an impact on reducing poverty (however defined). This issue is closely linked to setting the appropriate standard because it will inform the debate as to the relative importance of raising the Dibao standard as opposed, for example, to broadening the reach of the Dibao payment. This section looks at issues concerning targeting of Dibao drawing again on best international practice.

### **4.1 Targeting of Dibao**

Targeting of Dibao is critical to the implementation of an appropriate minimum income standard. There would be no point in spending time and resources on establishing a scientific standard if the targeting of a benefit was very poor so that, in practice, benefits were paid to persons whose incomes were over the standard. Therefore, many countries carry out research as to the targeting of their minimum income benefit and the extent to which such targeting gives rise to ‘inclusion’ and ‘exclusion’ errors. An ‘inclusion’ is one in which the minimum income benefit is paid to individuals who were not intended to be beneficiaries. An ‘exclusion’ occurs when intended beneficiaries do not receive the minimum income payment.

World Bank studies found that there was considerable variation in targeting performance across municipalities (Ravallion, 2009). Studies suggest that while most of those who receive urban Dibao are poor, a significant percentage of urban poor do not receive Dibao. These studies are supported by a range of other studies which indicate that there are significant numbers of urban poor who should qualify for Dibao but do not (e.g. Gao and Zhao, 2012). It should be noted that similar levels of exclusion error are also found in similar programs in other countries. However, a further issue arises in that studies have found that even if families participated in Dibao, they often did not receive the full amount of benefits to which they were entitled (Gao and Zhao, 2012).

A recent World Bank study of the rural Dibao scheme found ‘rather large inclusionary and exclusionary targeting errors’ (Golan et al., 2014). This may, in part, be due to the relatively recent introduction of the rural scheme in contrast to the more mature urban system and/or because of a greater level of administrative discretion operating in the rural scheme.

One issue in relation to the targeting of Dibao is that it is clear that the local administrators exercise significant discretion in deciding who is entitled to Dibao (see, for example, Lei, 2014; Meng, 2009a and b; Solinger and Hu, 2012). While there are certain advantages in the exercise of such

discretion at a local level, at the same time, the widespread exercise of discretion makes it more difficult for the central authorities to ensure that Dibao is granted in a consistent manner across China and that inclusion and exclusion errors are reduced to a minimum.

In terms of the Dibao standard, the correct targeting of Dibao is clearly very important. The impact of improving and standardising the standard may be lost if targeting of Dibao is not effective. Therefore, this is an area where ongoing research would be necessary to monitor the targeting with perhaps specific targets being set by MoCA and monitored in annual assessment reports of Dibao administration at a local level.

#### 4.2 Poverty reduction impact

The XIIIth Five-Year Plan (2016-2020) has set an important objective of poverty alleviation and has stated that the Chinese Government wants to eliminate poverty by 2020. Given that Dibao is the main social protection payment for those most in need, this raises the important question as to the role which Dibao should play in achieving this objective. Clearly, in order to support reaching the XIIIth Five-Year Plan target, it will be important that Dibao should be targeted at those in poverty (as defined for the purposes of the Five-Year Plan).

As noted above, in section 1, the EU Social Protection Committee currently measures the impact of social protection spending (including minimum income benefits) on poverty in each of the Member States. The results of this evaluation have recently been published by the Social Protection Committee (2015) in a report entitled “*Social protection systems in the EU: financing arrangements and the effectiveness and efficiency of resource allocation*”.<sup>11</sup> This report shows that overall social transfers reduced poverty by 37.5% on average in the European Union. However, there was significant variation between the impact in one country to another. This varies from only 14% in Greece to 60% in Ireland. The extent to which social benefits have an impact on poverty is affected by a number of factors including the level of spending but also by the extent to which social transfers are targeted on those in poverty. For example, the Irish system scores very highly under this assessment because Irish social transfers are more means-tested than those in many other EU countries and, therefore, are more closely focussed on those in poverty.

A number of Chinese studies have looked the extent to which urban and rural Dibao has had an impact on poverty levels. Of course, this will vary regionally given the regional variations in policy and will also vary over time in line with the maturing of the Dibao systems. Gao (2013) found that Dibao ‘lowered the [absolute] poverty rate, gap, and severity in Shanghai significantly but was unable to eliminate poverty.’ Similarly, Wu and Ramesh (2014) found that Dibao had ‘contributed significantly to poverty eradication in urban areas in the country’. Gao et al (2015) found that ‘[urban] Dibao had significant poverty reduction effects’ but also found that ‘Dibao was unable to eliminate poverty among its target population, with notable poverty rate, gap, and severity remaining’. The authors’ proposed policy reforms should focus on the improvement of Dibao’s anti-poverty effectiveness by better targeting, narrowing the benefit gap and addressing not only the poverty rate but also the poverty gap and severity.

This is obviously a very important issue and would require further research across China to measure how well the local Dibao systems are targeted so as to inform policy development.

#### 5. Assessment of means – income & assets

Assessment of income and assets is a key issue in the successful implementation of a minimum income payment. Unless the implementing agencies are able to assess means in a credible manner, it will be difficult to target the payment successfully and to target those below the Dibao standard.

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<sup>11</sup> Available at <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7743&visible=0>

This section looks at the improvements which might be made in the assessment of income in China by drawing on best practice in parts of China and in European Union countries.

### 5.1 General approaches in European Union countries

In European Union countries, there are a wide range of different approaches to means-testing (i.e. assessment of means) (MISSOC, 2011; 2013). However, in general the following income is taken into account:

- Rights/actions concerning property including personal property (moveable assets, capital that can be withdrawn, etc.);
- Income and (other) benefits (earnings from work, legal support from spouse; other social protection benefits, etc.);

As we have seen, many countries allow for the possibility of exempting certain resources.

In general, the approach to means testing is set out in Laws and Regulations. Detailed guidelines are often provided for implementing agencies on the approach which they should take. For example, in the United Kingdom, the Department of Work and Pensions has developed very detailed ‘Decision Makers Guides’ to explain the law to the staff responsible for implementation of the minimum income payment.<sup>12</sup>

European Union experience shows that it is important that there be clear rules and standardised procedures as to *what* income and assets are taken into account. There also need to be clear rules for the implementing agencies as to *how* these bodies should assess income to ensure that this is done in a standardised and thorough format.

### 5.2 Data sharing

In particular, social security agencies in European Union countries (and indeed in a wide range of developed and developing countries) increasingly recognise the need to share data with other data holders with information on income and assets, e.g. property data, car registration, pensions and social insurance database, tax, life events (death), etc. This allows the authorities implementing the minimum income payment to co-ordinate with the information on income and assets in other official databases and to ensure that the information provided is accurate. It also allows the authorities to co-ordinate with databases of life events (e.g. births, deaths, marriages) to ensure, for example, that once a person is registered as dead, payments in respect of that person are terminated.

There are several good examples of data sharing in European Union countries, e.g. Romania, and Slovenia. In Slovenia the recent reform of the minimum income payment (Financial Social Assistance Act 2012) includes simplified systems supported by a centralised information system. Albania (an EU applicant country) has recently reformed its minimum income and it has also established a system of data sharing so that the State Social Services which administer the benefit can access information in other government databases to assist in this process.

Indeed, there are also good examples in China which should be rolled out to all areas, e.g. the Family Economic Situation Assessment Centre (e.g. Shanghai). These examples are discussed in more detail in the national reports.

## 6. Policy recommendations

### 6.1 Standardised methodology for setting the Dibao standard

There would appear to be strong arguments for MoCA to provide national guidelines to local governments as to the methodology to be used in setting the Dibao standard. Based on a review of

<sup>12</sup> <https://www.gov.uk/government/collections/decision-makers-guide-staff-guide>

the possible approaches, it would seem to be most appropriate to base the Dibao standard on local consumption expenditure (possibly the data for the low income group). Further studies would be necessary to establish the availability and reliability of data at a local level and to establish a more detailed methodology.

Recommendation: MoCA should develop and adopt a methodology for setting the Dibao standard which should be included in the legislative provisions.

## **6.2 A benchmark for Dibao**

In addition to establishing a standard methodology, there is also an argument for setting a specific benchmark for the Dibao standard. This might be a set figure or might provide a range within which local authorities would set their local Dibao standard. Having such a benchmark would further ensure a greater level of consistency across China and would also allow MoCA to vary the level of Dibao over time in response to social and economic developments.

There are, of course, a wide range of possibilities in terms of how binding the benchmark might be. It could, for example, be allowed that the local governments could vary to some extent from the benchmark based on (exceptional) local factors such as the state of the labour market or financial capacity.

In order to set the precise level of the benchmark (or range), further studies will be required as to the impact on poverty, the financial costs, and (insofar as it is relevant) the possible impacts on the labour market. Ideally this should involve the use of some form of microsimulation model.

Recommendation: MoCA should develop and adopt a benchmark for the Dibao standard which should be included in the legislative provisions. This study should utilise micro-simulation modelling.

## **6.3 Indexation**

Where a benchmark is set as a percentage of, for example, consumption expenditure, it is not strictly necessary to have a separate means of indexation, as the benchmark will be updated automatically. Where, however, the benchmark is not such a percentage or where there is a gap before data may be available to update the benchmark (as in Germany), it is necessary to have some form of indexation. In most European Union countries which set a specific mechanism, indexation is related to changes in the consumer price index. In most countries in recent years, wages have tended to rise more rapidly than prices and indexation to prices alone gives rise to a widening gap between the Dibao standard and average earnings. In order to counteract this trend, some countries (e.g. Germany) also take into account changes in earnings in indexing the Dibao standard.

## **6.4 Targeting of Dibao**

In terms of the Dibao standard, the correct targeting of Dibao is clearly very important. The impact of improving and standardizing the standard may be lost if targeting of Dibao is not effective.

Existing studies of the urban Dibao system would suggest that while most people who get Dibao are poor, many poor people do not receive Dibao. In addition, a World Bank study of the rural Dibao scheme would suggest that targeting is quite weak. Therefore, this is an area where ongoing research would be necessary to monitor targeting with perhaps specific targets being set by MoCA and monitored in annual assessment reports of Dibao administration at a local level.

Recommendation: MoCA should carry out research on targeting of Dibao and, on the basis of that research, should set targets for local governments which would be monitored in annual assessment reports.

## **6.5 Impact on poverty**

The XIIIth Five-Year Plan (2016-2020) has set the objective of poverty reduction. Dibao should play an important role in achieving this objective. Therefore, it will be important to monitor the impact which the urban and rural Dibao systems are having on poverty in order to inform the future development of poverty.

Recommendation: MoCA should carry out research on the impact on poverty of Dibao in different areas to inform future policy development.

### **6.6 Assessment of means**

Assessment of income and assets is a key issue in the successful implementation of a minimum income payment. Unless the implementing agencies are able to assess means in a credible manner, it will be difficult to target the payment successfully and to target those below the Dibao standard. In European Union countries, the following income is, in general, taken into account:

- Rights/actions concerning property including personal property (moveable assets, capital that can be withdrawn, etc.);
- Income and (other) benefits (earnings from work, legal support from spouse; other social protection benefits, etc.);

In general, the approach to means testing should be set out in Laws and Regulations and detailed guidelines should be provided for implementing agencies on the approach which they should take in order to improve both effectiveness and transparency. European Union experience shows that it is important that there be clear rules and standardised procedures as to *what* income and assets are taken into account. There also need to be clear rules for the implementing agencies as to *how* these bodies should assess income to ensure that this is done in a standardised and thorough format.

Recommendation: MoCA should develop clear definitions of the income and assets to be included in the Dibao means test and these should be included in the legislative provisions

Recommendation: MoCA should develop standardised guidelines for the implementation of these rules at a local level.

### **6.7 Data sharing**

In particular, social security agencies in European Union countries (and indeed in a wide range of developed and developing countries) increasingly recognise the need to share data with other data holders with information on income and assets, e.g. property data, car registration, pensions and social insurance database, tax, life events (death), etc. This allows the authorities implementing the minimum income payment to co-ordinate with the information on income and assets in other official databases and to ensure that the information provided is accurate. It also allows the authorities to co-ordinate with databases of life events (e.g. births, deaths and marriages) to ensure, for example, that once a person is registered as dead, payments in respect of that person are terminated.

This is an area where China could improve the effectiveness and efficiency of its Dibao system by drawing on EU best practice. Indeed, there are also good examples in China which should be rolled out to all areas, e.g. Family Economic Situation Assessment Centre (e.g. Shanghai).

Recommendation: MoCA should develop data sharing protocols drawing on EU experience and on best practice in cities such as Shanghai

Recommendation: MoCA and the EU SPRP should consider establishing a pilot project to improve assessment of means at a local level in line with the above recommendations.

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**Annex: EU Member State Names and country codes**

Name in English	Official name in English	Country code
Belgium	Kingdom of Belgium	BE
Bulgaria	Republic of Bulgaria	BG
Czech Republic	Czech Republic	CZ
Denmark	Kingdom of Denmark	DK
Germany	Federal Republic of Germany	DE
Estonia	Republic of Estonia	EE
Ireland	Ireland	IE
Greece	Hellenic Republic	EL
Spain	Kingdom of Spain	ES
France	French Republic	FR
Croatia	Republic of Croatia	HR
Italy	Italian Republic	IT
Cyprus	Republic of Cyprus	CY
Latvia	Republic of Latvia	LV
Lithuania	Republic of Lithuania	LT
Luxembourg	Grand Duchy of Luxembourg	LU
Hungary	Hungary	HU
Malta	Republic of Malta	MT
Netherlands	Kingdom of the Netherlands	NL
Austria	Republic of Austria	AT
Poland	Republic of Poland	PL
Portugal	Portuguese Republic	PT
Romania	Romania	RO
Slovenia	Republic of Slovenia	SI
Slovakia	Slovak Republic	SK
Finland	Republic of Finland	FI
Sweden	Kingdom of Sweden	SE
United Kingdom	United Kingdom of Great Britain and Northern Ireland	UK



**Annex**

**Report on national and local financing - budget distribution for Social Assistance**

## Introduction

This report forms part of topic 3.2.1 of Component 3 of the EU China Social Protection Reform Project: An analysis of the calculation and adjustment of Dibao (minimum income) standards.<sup>1</sup>

The specific requirements (set out in the Terms of Reference) were to provide a Report on national and local financing - budget distribution for Social Assistance (minimum income).

The structure of the report is as follow: Section 1 discusses the approach to funding of minimum income in the European Union looking, in particular, at France and Germany. Section 2 looks at examples which national governments have adopted in an attempt to use some ‘scientific’ approach to the distribution of resources to local governments (fiscal equalisation).

Annex 1 provides some detail on experiences in the USA.

### 1. National and local responsibilities for minimum income schemes in the EU

#### 1.1 Comparing the European Union and China

In considering the European experience, it is important to bear in mind that there are many structural differences – demographic, economic and political – between China and the European Union. For example, the population of the largest EU states is about the same as a large Chinese province. On the other hand, the level of economic development in the EU is significantly higher than that which has currently been achieved by China and there are significant differences in the structure of employment. Chinese statistics indicate that about 40% of the workforce is employed in primary industry (agriculture). In contrast, in most EU countries well below 10% of the workforce is engaged in agriculture (in France and Germany this is 2-3%). The EU is not, unlike China, a single nation but is rather a quasi-federal arrangement involving limited sharing of sovereignty in certain policy fields by a group of nations. The EU itself (unlike the central Chinese government) has limited competence in relation to social protection matters and responsibility for social protection policy remains primarily a matter for the Member States. However, there are important recent developments in this area with the establishment of the Open Method of Coordination (OMC)

#### 1.2 Introduction to EU countries

EU Member States adopt different approaches to the internal division of responsibilities for social protection policies. In most European countries, social protection services started off at municipal and local level. For example, in the United Kingdom, social assistance was originally organised at the parish level (a small administrative district). However, over time, the planning and administration of social protection moved towards the national level. This was particularly the case with the introduction of social insurance schemes which were generally legislated for at a national level and which, in several countries including Germany, played an important role in nation and state-building. After an initial overview, we will look in more detail at France and Germany below.

#### 1.3 Minimum income schemes

Unlike the situation in China, in most EU countries, minimum income policies are generally set at national level. However, in a few countries decisions are made jointly at national and regional/local level and in some other countries decisions are made primarily at regional or local level (see Table 1) (Frazer and Marlier, 2016).

Table 1: Level of governance at which policy decisions are made about MI schemes

Exclusively or almost exclusively national	National and regional/local jointly	Exclusively or almost exclusively regional/local
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<sup>1</sup> Dibao is short for *zuidi shenghuo baozhang* [Minimum life guarantee].

BE BG CY CZ DE DK EE AT FI LT SE ES IT  
 EL FR HR HU IE LU LV  
 MT NL PL PT RO SI SK  
 UK

Administration of minimum income schemes is somewhat more devolved. In slightly over half of the countries, responsibility for the delivery of minimum income benefits is devolved to the regional or local level and in about a third of the countries responsibility is shared between the national and regional/local levels. However, in a few countries responsibility remains at the national level (see Table 2).

Table 2: Level of governance responsible for delivery of MI benefits

Exclusively or almost exclusively national	National and regional/local jointly	Exclusively or almost exclusively regional/local
CY FI HR IE LI MK MT UK	BG DE EL FI FR HU LU SK	AT BE CH CZ DK EE ES IT LT LV NL

It is reported that financing is fully ensured by the State in a majority of countries (LU, PT, UK, IE, CY, MT, LT, SI, CZ, PL and BG) while in others there is a mixed system of financing involving central state and regions (generally a predominant part of State funding) (DK, NL, BE, DE, FR, EE, SK) or only by regional and local authorities (ES, FI, SE, LV, RO).

France and Germany have been selected for this report as examples of the approaches adopted. Both are amongst the largest Member States (populations of 66 million and 80 million respectively). France is generally seen as being a highly centralised state while Germany is a federal state with the *lander* (states) having significant powers.

#### 1.4 France

There are four levels of administration in France: National, Regional, *Department* (county), and communal. Each ministry has its own agency at the regional and Department levels. Each Region and Department has a *Préfet* who represents the National Government and coordinates state agencies. The state system co-exists with locally elected bodies including 26 regional councils (regional level), 101 general councils (Department level) and 36,000 municipal councils (communal level). These bodies have their own administrative agencies and reserved fields of intervention, as well as areas of jurisdiction which overlap with those of the State.

The French social protection system includes several insurance schemes (including health, maternity, disability and death; family; old age pension; etc.); an unemployment scheme; and a range of ‘solidarity’ or social assistance payments which are discussed in more detail below. In recent decades (1983-2004), there have been a number of moves towards decentralisation in France and this has had some impact on social protection. In particular, the French minimum income payment (revenu de solidarité active (RSA)) is the responsibility of the *department*. The *department* is also responsible for payments to people with disabilities, as well as for social assistance to children and older people. Including all types of social aid, in 2013 *departments* provided some form of support to about 3.5 million people. However, the responsibility for the legislation remains at a national level and the national level sets the amount of the minimum social payments and the conditions of entitlement. Studies of the decentralisation of the minimum income payment suggest that its implementation has been ‘problematic’ (Eydoux, 2013; Eydoux and Tuchsirer, 2011). This is due to the limited financial capacity at departmental levels and weaknesses in terms of the definition of competencies between the national and departmental level.

Decentralisation involved transferring a small proportion of the revenue from a national petroleum tax (TIPP) to local governments. Eydoux (2013) states that the transfer of funding from central to local level in relation to the transfer of responsibility for the minimum income payment has been problematic and without a correction mechanism to take into account the additional costs involved.

### 1.5 Germany

The Federal Republic of Germany consists of sixteen states (*Länder*) in a governance arrangement of "co-operative federalism". In practice, this means that the federal government and the governments of the sixteen *Länder* have to work together politically, as well as administratively. Thus, there is a division of labour between the federal, the subnational *Länder*, and the local governments: County and local governments, by and large, are responsible for policy implementation, whereas decision-making is the prime tasks of the federal government acting in close co-operation with Germany's Second Chamber, the *Bundesrat*, which constitutes the representative forum of the German *Länder*.

The social protection system in Germany consists of two pillars:

- a social insurance system tied to formal employment with benefits or services in recognition of peoples' contributions and
- a tax-funded unemployment and social assistance system to guarantee a minimum subsistence level.

In relation to the minimum income/unemployment system, a recent reform (Hartz IV) has led to changes in relation to the role of the *länder* and municipalities. This involved a major reform of the system of social assistance and of the labour market administration with an amalgamation of some benefits and services provided by the federal and municipal levels. The municipalities now pay for the majority of the costs of housing the long term unemployed, while cash assistance is paid by the central state. In addition, local job-centres have been created with services co-funded and co-administered by municipal assistance departments and staff from the local offices of the hierarchical system of labour market administration.

## 2. Fiscal equalisation and ear-marked grants

In general, the division of responsibility between national and local levels in the EU in relation to minimum income payments has not been based on a very scientific basis (as discussed above) or has been based on historical spending levels.<sup>2</sup> In this section we review briefly the general literature of fiscal equalisation and look at some relevant examples of countries which have adopted a more scientific approach.

### 2.1 Fiscal transfers between different levels of government

The experience in relation to fiscal transfers between different levels of government and approaches to fiscal equalisation has been studied by the OECD (Joumard and Mathis Kongsrud, 2003). The OECD study recognises the importance of such transfers in equalising revenue across sub-national units and, for example, in allowing poorer regions to provide appropriate levels of public services. However, the review found that "measuring economic externalities or defining minimum spending levels to reach a given quality for public services, so as to set the contribution rates from the central government at an appropriate level has proved to be extremely difficult".

In other words, while the need for such transfers is clear, it has proved difficult to identify the optimal level and structure for such grants so as to allow local governments to provide appropriate services without creating incentives for under- or over-spending at a local level or creating an extremely complicated system.

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<sup>2</sup> The same approach has been adopted in the USA in relation to its minimum income payment (see Annex 1).

## 2.2 Examples of fiscal equalisation

Nonetheless, there are several examples of approaches which might be of assistance in the Chinese context. For example, in Serbia, funding for local government in relation to social welfare services is based primarily on a per capita basis (i.e. proportionately to the share of each local government unit in the overall number of inhabitants in the Republic of Serbia). In addition, there is a system of equalisation grants which make up to 15% of total grants. The equalization grant funds are allocated by the criteria specified in law. The criteria are (i) the level of development and (ii) the size of the jurisdiction, measured by population density. This grant fund is received only by local government units that are below the average level of development and/or the average population density.

As set out in Annex 1, funding of Medicaid in the USA is based largely on per capita expenditure in each state in relation to the average per capita income in the USA. In the case of the US equivalent of Dibao (TANF) although national expenditure is based primarily on historical data, a 'compensation' fund has been established which provides additional funding based on levels of unemployment and need in the state.

At a more general level, the European Union Cohesion Policy<sup>3</sup> provides support to different EU regions depending on their level of development. Regions are categorised as

- Less Developed regions (GDP < 75% of EU-27 average)
- Transition regions (GDP 75% to 90% of EU-27 average)
- More Developed regions (GDP > 90% of EU-27 average).

However, the EU has no role in relation to funding of minimum income schemes at national level as this remains a Member State competence (for a discussion of the issue involved see Vandembroucke, et al, 2012).

## 2.3 Conclusions & recommendations

In general, the division of responsibility between national and local levels in the European Union in relation to minimum income payments has not been based on a very scientific approach. Nonetheless, there are examples from European and other countries of the approach to the division of responsibility between national and local government which would be of assistance in a Chinese context. These include allocations based on population and levels of economic development.

Further study would be required by MoCA to establish the most relevant criteria in the case of Dibao. These might include population in the local region, average income (or GDP per capita) in the region, and some indication of local unemployment and/or poverty. The impact of any such criteria (once established) should be carefully monitored to identify their impact on policy trends (e.g. on the numbers on Dibao and other social benefits).

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<sup>3</sup> EU Cohesion Policy provides support to regions in relation to the EU goals of growth and jobs, as well as tackling climate change, energy dependence and social exclusion.

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## Annex 1: Experience of the USA

It is perhaps interesting to compare China with the situation in the USA (population 320 million). The USA is a federal system and responsibility for social protection policies is shared between the Federal Government and the State level. In some cases, (such as old age pension and disability insurance), the systems are almost entirely Federal. The laws setting out all the details of these schemes are adopted by the Federal Government and funding is provided by Federal taxes (although there is some element of state involvement in the administration of the schemes). In other areas (such as workers' compensation, i.e. benefits for injuries at work), the responsibility is entirely at State level. The laws in relation to workers compensation are adopted at State level and the schemes are funded by the states.<sup>4</sup> However, there are also a number of interesting examples of federal-state co-operation in the field of social protection, e.g. unemployment insurance (UI), social assistance (TANF) and Medicaid (the provision of health care to low income persons).

### 1. Medicaid

The Medicaid program is jointly funded by the Federal Government and the States. The Federal Government pays the States for a specified percentage of program expenditures, called the Federal Medical Assistance Percentage (FMAP). FMAP varies by state based on criteria such as per capita income. The regular average state FMAP is 57% of total expenditure, but ranges from 50% in wealthier States up to 75% in States with lower per capita incomes (the maximum regular FMAP is 82 %). In general terms, FMAP is based on the per capita income of each State in relation to the per capita income of the United States as a whole. In addition, the law provides that a State's FMAP must be adjusted if it experiences positive or negative growth in total personal income. FMAPs are adjusted for each State on a three-year cycle to take account of fluctuations in the economy.

### 2. Temporary Assistance for Needy Families

Temporary Assistance for Needy Families (TANF) is a program that provides cash assistance and supportive services to assist families with children (Falk, 2013). It is a form of minimum social assistance (Dibao). Federal law sets out the objectives of the system and imposes certain requirements on the States which wish to participate. TANF funds must be used for families in financial need and who have a qualified child.

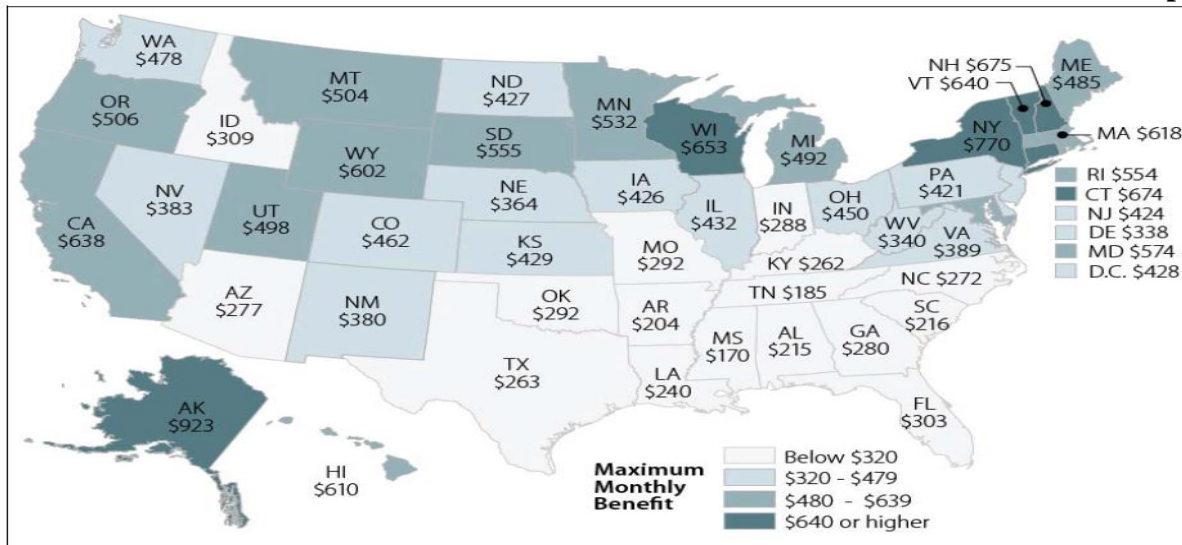
Federal law also applies 'work requirements' so that States must ensure that 50% of all families and 90% of two-parent families must be 'engaged in work'. TANF also has a time limitation and funds cannot be used to provide assistance to a family for more than 60 months (subject to some exceptions). Otherwise States are free to set eligibility rules and to set the appropriate amount of benefit which varies greatly from one State to another (see below).

TANF Maximum Monthly Benefits for a Single Parent Caring for Two Children, by State, July 2012

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<sup>4</sup> This is largely for historic reasons as the schemes of workers compensation were established before the establishment of a national social security system in 1935.





In theory TANF participation is voluntary though in practice all States participate. TANF is co-funded by the Federal Government and the States. Federal funding is provided by way of block grants. In the case of non-compliance by the States with the Federal rules, a certain amount of the block grant may be withheld. The amount of Federal funding is not set in any scientific manner but rather is based primarily on historical levels of spending prior to the introduction of the TANF scheme.

This led to concerns that the fixed basic grant under TANF might be inadequate during economic downturns. Therefore, the law established a \$2 billion TANF contingency fund. To draw upon contingency funds, a State must both (1) meet a test of economic “need” and (2) spend from its own funds more than it previously spent on TANF’s predecessor programs. For the purposes of the TANF contingency fund, a state meets the “economic need” test if

- (i) its seasonally adjusted unemployment rate averaged over the most recent
- (ii) three-month period is at least 6.5% *and* at least 10% higher than its rate in the corresponding three-month period in either of the previous two years; *or*
- (iii) its Supplemental Nutrition Assistance Program (also known as food stamps) caseload over the most recent three-month period is at least 10% higher than the adjusted caseload in the corresponding three-month period prior to the introduction of TANF.

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**Annex 2: EU Member State Names and country codes**

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Belgium	Kingdom of Belgium	BE
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Czech Republic	Czech Republic	CZ
Denmark	Kingdom of Denmark	DK
Germany	Federal Republic of Germany	DE
Estonia	Republic of Estonia	EE
Ireland	Ireland	IE
Greece	Hellenic Republic	EL
Spain	Kingdom of Spain	ES
France	French Republic	FR
Croatia	Republic of Croatia	HR
Italy	Italian Republic	IT
Cyprus	Republic of Cyprus	CY
Latvia	Republic of Latvia	LV
Lithuania	Republic of Lithuania	LT
Luxembourg	Grand Duchy of Luxembourg	LU
Hungary	Hungary	HU
Malta	Republic of Malta	MT
Netherlands	Kingdom of the Netherlands	NL
Austria	Republic of Austria	AT
Poland	Republic of Poland	PL
Portugal	Portuguese Republic	PT
Romania	Romania	RO
Slovenia	Republic of Slovenia	SI
Slovakia	Slovak Republic	SK
Finland	Republic of Finland	FI
Sweden	Kingdom of Sweden	SE
United Kingdom	United Kingdom of Great Britain and Northern Ireland	UK