



## **POVERTY IN ROMANIA:**

- **CAUSES**
- **ANTI-POVERTY POLICIES**
- **RECOMMENDATIONS FOR ACTION**



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**Abbreviations:**

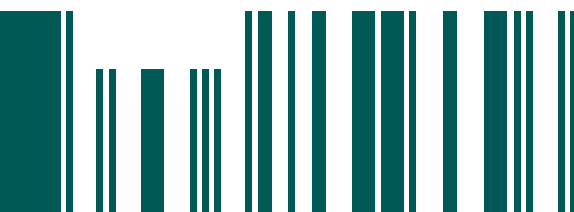
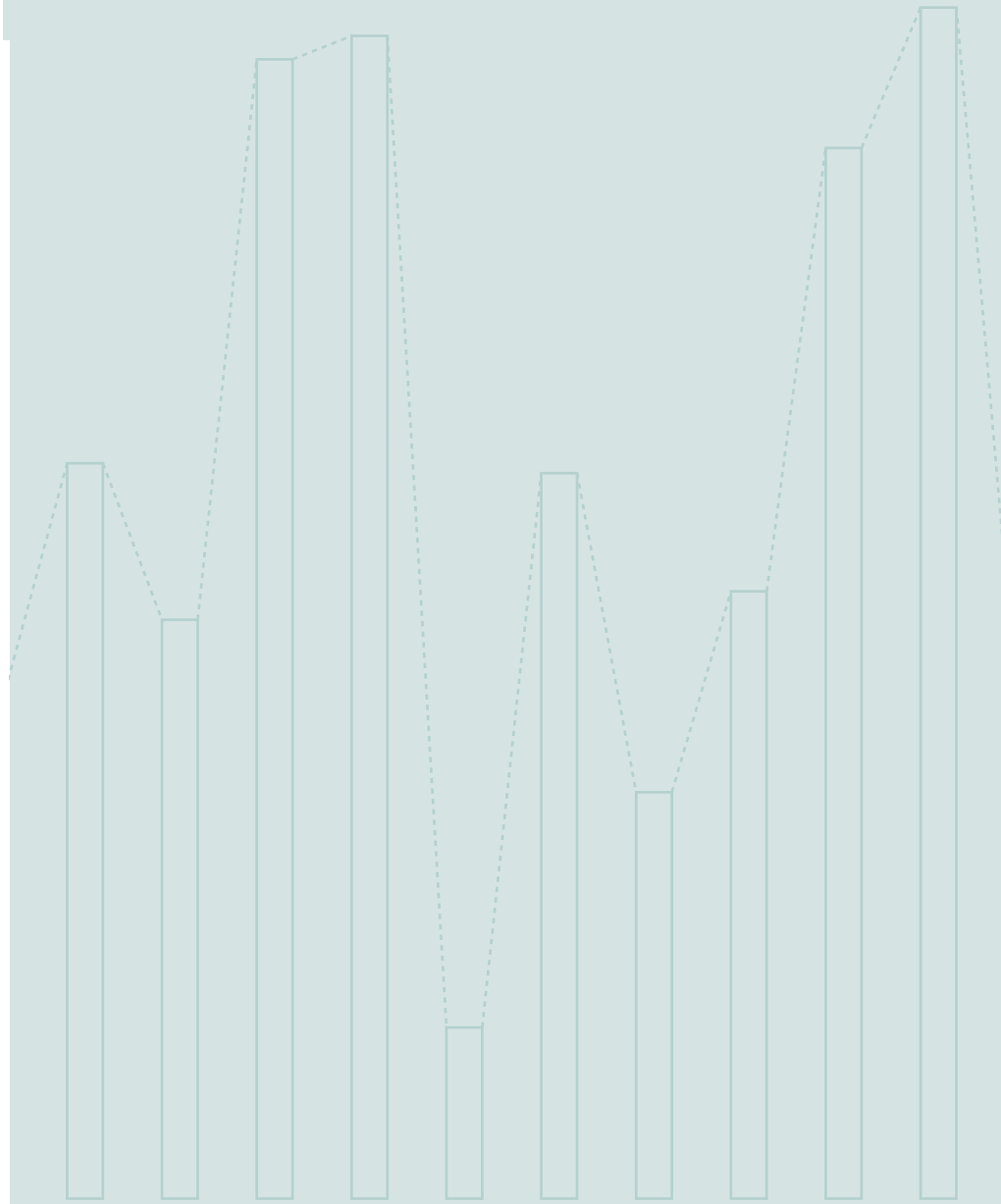
CURS - Centre for Urban and Regional Sociology  
IMF - International Monetary Fund  
MF - Ministry of Finance  
MLSS - Ministry of Labour and Social Solidarity  
NAPCR - National Agency for Protection of Children's Rights  
NBR - National Bank of Romania  
NIS - National Institute for Statistics  
RIQL - Research Institute for the Quality of Life  
RSDF - Romanian Social Development Fund  
UNDP - United Nations Development Programme

AMIGO - Household Survey on Labour Force  
AIG - Household Integrated Survey  
HDR - Human Development Report (UNDP)  
NHDR - National Human Development Report (UNDP)  
POP - Public Opinion Poll

The RIQL database includes data produced by NIS, MLSS, NBR and other national bodies and calculations based on these sources.

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At the beginning of the 20th century, Romania was a primarily agrarian society, with a traditional social structure not conducive to rapid modernisation. The communist development programme implemented between the 1950s and the 1970s emphasised urbanisation and industrial modernisation. Massive investments in economic development and the construction of urban housing and infrastructure led to improvements in the standard of living. The communist regime's official policy supported an even distribution of the modest resources available to produce an egalitarian society, guaranteeing each of its members a decent living. The instruments for achieving this goal were extensive mobilisation of the labour force and the development of a comprehensive employment-based social security system.

The economic crisis that began in the 1970s and worsened in the 1980s, led to a sharp decline in the standard of living. The level of social protection and support also declined, and unemployment, although not officially acknowledged, began to reduce the comprehensiveness of social security coverage. Impoverished social groups began to appear, but the lack of reliable data makes it practically impossible to estimate the incidence of poverty.

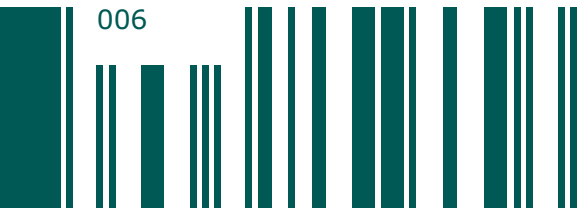
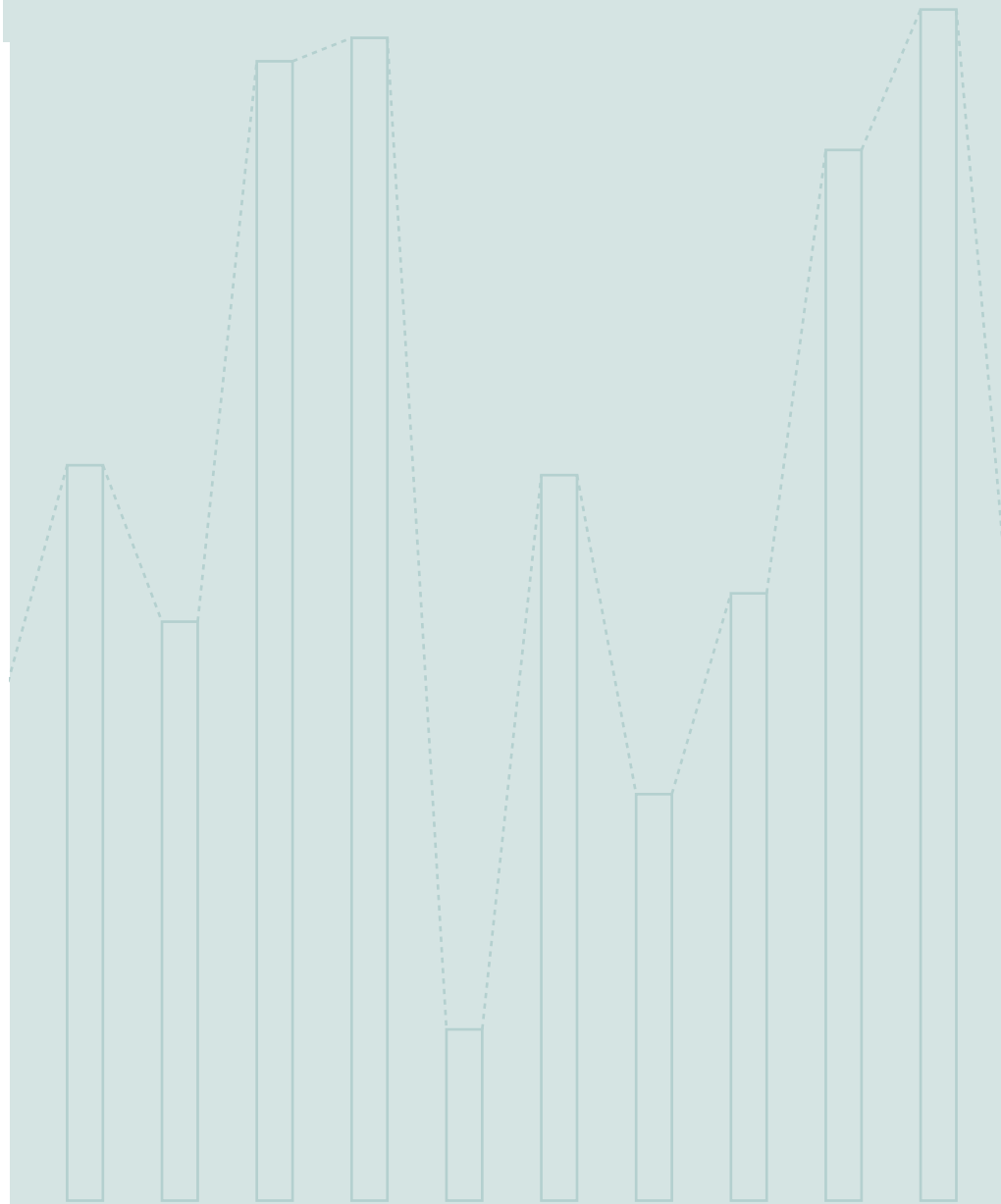
Transition generated a veritable explosion of poverty. Estimates of the proportion of the population living in poverty in the mid-1990s, although they vary according to the methodology employed, reveal a phenomenon of sobering proportions: in 1994, poverty affected between 22% (World Bank) and 39.3% (RIQL and IMF for the same year). Other calculations produced a poverty rate clustered around 28% (UNDP, 1998). After a slight improvement in 1995-96, the economy resumed its decline, and poverty has since continued to increase. Estimates for 2000 ("Government White Book, December 2000") indicate that 44.0% of the population were poor.

Romanian society was not in any way prepared to cope with an expansion in poverty of these dimensions. Although the social policy system was basically sound, those programmes supporting the poorest of the poor have always tended to be confusing, fragmented and inadequate. A concerted effort to bring coherence to the system began in 1998, initiated by the Romanian Presidency with the support of UNDP. The tangible result was a National Strategy for Poverty Alleviation, which unfortunately was not implemented. In January 2001 the Government established an Anti-Poverty Commission for Promotion of Social Inclusion, reporting directly to the Prime Minister. The programme receives substantial support from the UNDP, the World Bank, EU-Phare and other international organisations.

This report, initiated and funded by UNDP, is an overview of poverty in Romania. It also outlines proposed measures to prevent and reduce poverty. The report draws on previous studies of poverty in Romanian society, primarily those conducted by the Research Institute for the Quality of Life (RIQL) and is based on data produced by NIS and from the RIQL archive.

The authors would like to acknowledge with special thanks the contributions of the representatives of the UNDP Country Office Romania (Ms. Kyoko Postill and Ms. Ruxandra Stan) and UNDP New York (Mr. Terry McKinley), as well as of Ms. Dorothy Rosenberg, throughout the process of elaborating this report. Also beneficial were the useful suggestions provided by Mr. Gerardo Berthin and Ms. Juliette El Hage.

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Poverty is a lack of the resources necessary to lead a "normal" social life, as defined by the standards of the society as a whole. The "poverty threshold" is a somewhat arbitrary measure of this necessary minimum level of individual resources. This threshold can be established in a variety of ways and is used to define who is "in poverty".

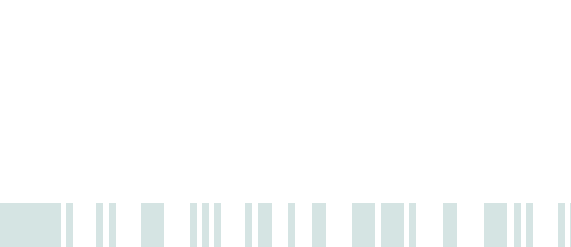
The transition in Romania was accompanied by an explosive increase in poverty. In 1989, an estimated 7% of the population was poor. By 1994, the poverty rate ranged, according to the methodology employed, between 22% (World Bank, 1997) and 39% (Research Institute for the Quality of Life, C. Zamfir, 1995). A second wave of impoverishment began in 1997 and by 1999 the poverty rate had reached 41.2% (an increase of more than 60% over the 1995 rate), while extreme poverty doubled over the same period. According to the Government White Book (2001), the poverty rate had reached 44% in 2000. Although economic collapse has been the main source of structural-economic poverty, distributional poverty caused by increasing inequality in the distribution of resources and redistributive poverty resulting from inadequate social protection also play a significant role.

The economic crisis was exacerbated by the "inherited" problems of the old system, as well as a reform strategy based on simplistic models and further undermined by the appearance of powerful interest groups. In the absence of any institutional counterbalance, these negative factors led to a sharp decline in the standard of living, mainly due to the erosion of real wages and a drastic reduction in the size of the labour force. Wages - the primary source of income for the majority of the population, declined steadily after 1989. In most cases, lost wages were replaced by considerably lower incomes (pension payments, unemployment benefit, social allowance), or even by non-cash income. The underground economy also provided an alternative to the lack of formal employment. This survival strategy, however, has major disadvantages and negative consequences, including the absence of social and medical insurance, labour rights and contract protection, as well as any guarantee of decent working conditions. Agriculture, too, was the victim of a failed policy approach as the reestablishment of private land ownership created a structure of property holdings unable to sustain the development of modern production.

During this period, the increase in economic inequality has far exceeded any functional or justifiable level, exacerbating poverty. During the first years of transition, income inequality rose by approximately 50% above its 1989 level. The income differential between the richest 10% of households and the poorest 10% is rising; the incomes of the top 5% on the average exceed those of the poorest by a factor of more than 15. The minimum salary, intended as a basic guarantee of the dignity of labour and the welfare of workers, has fallen dramatically from its 1989 level, and the proportion of those earning the minimum salary or close to it has increased sharply. Thus, a severely impoverished group has now formed among the fully employed, reducing the motivation for those who have been laid off to reintegrate into the labour force and encouraging active job seekers to join the underground economy. A regressive system of taxation, which places a heavier burden on the poor, and the excessive bureaucratisation of public services are additional sources of increasing economic inequality. The latter has led to widespread corruption and inflated payments to resolve the problems of daily life.

Redistributive poverty is the result of inadequate interventions on the part of the state to assure the social protection of all members of society, in the context of a declining standard of living for the majority. Throughout this period, the value of all types of social benefits has depreciated even more rapidly than real earned incomes. This can be explained by two factors. First, Romania faced a difficult process of economic reform in which resources had to be concentrated on restructuring and a return to economic growth. Second, in particular immediately after the revolution, unrelenting social pressure was applied to fulfil social demands. The government was more concerned with resisting the pressure of multiple social claims than in articulating a policy to support the most seriously impoverished.

A distinction can be made between temporary and long-term poverty in Romania, determined primarily by whether or not an individual possesses the means to emerge from poverty unassisted. Today, the majority of Romanians are confronted with a generally temporary form of poverty that will subside once economic growth is resumed. Some social groups, however, face severe deprivation with a high risk of becoming trapped in poverty. The groups most at risk are abandoned children, young people who have been excluded from the labour market, and thus



from the social insurance system, families with more than two children, single-parent families, unemployed families, farm families, pensioners, homeless people, and the Roma population.

The effect of social policy on the dynamics of poverty can be evaluated along two parameters: the level of funding for social support, and the configuration of the social protection system. Among the East-European countries, Romania has been an exception to the general pattern. Instead of making an effort to temporarily enhance social protection and in contrast to some other countries in similar circumstances, Romania failed to respond in proportion to increasingly urgent needs. Romanian anti-poverty policies have not advanced beyond a model of minimum intervention to adjust the distribution of welfare. Social protection did not focus on supporting "the poorest of the poor", but on a comprehensive compensating of the losses incurred by waged workers (particularly via the social security system), with minimal protection of those sectors of society excluded from the sphere of waged labour.

The wave of poverty during the past 11 years was not the inevitable social price of transition, but to a significant degree, an avoidable cost, produced by serious inadequacies and distortions in economic and social policy. Even if poverty ceases to grow and is reduced by a return to economic growth, the level of impoverishment already reached and its effects will generate "aftershocks" in the future, a process difficult to reverse. Extreme and long-term poverty generates a certain immunity to economic growth and becomes an obstacle to development. Poverty is responsible for a serious deterioration in society: the loss of professional skills, erosion of the educational level, reduced accumulation of property and savings and social disintegration. All of these lead, over time and in various ways, to social exclusion. The effects of present poverty thus become the causes of its reproduction in the future.

A broad package of policies, both economic and social, combined in a coherent programme is required to alleviate the poverty which has established itself in Romania over the past decade. This anti-poverty programme must be designed as a component of a global programme for social and economic development.

A return to economic growth is the strategic variable in Romania today. Economic policy is, therefore, the core element of any anti-poverty programme. It must attract, utilise and redistribute existing resources for optimal stimulation of the economy and to draw individuals back into the economic cycle. At the same time, social policies must be reconsidered in terms of both the level of budget resources dedicated to social welfare, and the improvement of social welfare programmes. The latter envisages better focused protective measures, a more equitable distribution of resources among the different types of social benefits, and a realistic relationship between social benefit levels and earned incomes. Equal attention must be given to the mechanisms pushing individuals into poverty. An increase in funds must be based both on economic recovery and more effective tax collection, as well as a redesigned and more efficient budgeting system.

Finally, existing social resources are another important variable to be mobilised in improving welfare. Inter-personal trust and confidence in state institutions must be reestablished, together with the stability of the social order, the transparency of the political process and an affirmation of social partnership.



## Chapter 1. The Dramatic Rise of Poverty in Romania

Immediately after the Revolution, the Romanian population was aware that transition would involve significant social adjustments. However, the extremely rapid increase in poverty in the nineties was entirely unanticipated.

	Poverty rate	Extreme poverty rate
1995	25.3	8.0
1996	19.9	5.1
1997	30.1	9.5
1998	33.8	11.7
1999	41.2	16.6
2000*	44.0	-

Source: Teffiuc, Pop, Teffiuc (2001). Poverty rate estimates were derived from AIG (Integrated Household Survey), and the definitions used are the same as in National Strategy for Poverty Prevention and Alleviation (see note 1).  
\* Source: Romanian Government, 2001.

	Year	Poverty rate 2USD PPP*/day	4USD PPP/day
Moldova	1999	55.4	84.6
Russia	1998	18.8	50.3
Albania	1996	11.5	58.6
<b>Romania</b>	<b>1998</b>	<b>6.8</b>	<b>44.5</b>
Macedonia	1996	6.7	43.9
Letonia	1998	6.6	34.8
Bulgaria	1995	3.1	18.2
Lithuania	1999	3.1	22.5
Ukraine	1999	3.0	29.4
Slovakia	1997	2.6	8.6
Estonia	1998	2.1	19.3
Hungary	1997	1.3	15.4
Poland	1998	1.2	18.4
Belarus	1999	1.0	10.4
Croatia	1998	0.2	4.0
Czech Republic	1996	0.0	0.8
Slovenia	1997/98	0.0	0.7

Note: poverty estimate thresholds expressed in USD / day / adult equivalent, purchasing power parity in 1996.

\* PPP - Parity Purchasing Power.

Source: World Bank (2000b).

### Declining Real Earnings Exacerbated by Deteriorating Living Conditions

A much more serious problem than the simple inadequacy of current earnings, is a series of factors confronting some social groups. These include the lack, loss or deterioration of housing, loss of savings and accumulation of debt, lack of education, skills or the opportunity to be integrated into the labour force, or discrimination.

### The Poverty<sup>1</sup> Rate

In 1989, after a decade of pronounced deterioration in the standard of living, an estimated **7%** of the Romanian population was in poverty. A first wave of impoverishment between 1991-93 produced in 1994, according to the methodology of assessment, a poverty rate of between **22%** (World Bank, 1997)<sup>2</sup> and **39%** (survey undertaken by RIQL)<sup>3</sup> (C. Zamfir, 1995). A second wave of impoverishment after 1997 led to an increase of over 60% in the poverty rate between 1995 and 1999. Over the same period, extreme poverty doubled (see Table 1). According to the Government White Book (2001), in 2000 the poverty rate had reached 44%.

Seen in comparison with other Central European countries in transition, the level of poverty in Romania now affects a worrying proportion of the labour force (see Table 2).

### The Poverty Gap

Both the proportion of society, which is poor, and the depth of poverty, or **poverty gap** have grown. Over the past decade, the degree of income inadequacy has increased, that is, the amount that would be required to raise the income of a poor person to the level of the poverty threshold. Thus, while in 1995, the average consumption of a poor person was **25%** below the poverty threshold, by 1998 this gap had grown to approximately **27%**. Given the continuing economic decline, this differential is highly likely to have increased in the interim.

The financial effort that would have been required of the state to raise the incomes of the poor to the poverty threshold in 1998 (not including administrative and other costs)<sup>4</sup> was approximately 2.4% of the GDP.

<sup>1</sup> The poverty rate indicates the poor as a proportion of the total population. Romania has no official poverty threshold. Recently published poverty analyses in the specialised literature employ different methodologies to calculate the poverty threshold, which produce different rates. The estimates for the past several years are based on a poverty threshold adopted by the National Strategy for Poverty Prevention and Alleviation (1999), which is still under discussion. The Strategy used two poverty measures: an extreme poverty level defined as 40% of average household consumption expenditure per equivalent adult in 1995, and a poverty level defined as 60% of average household consumption expenditure, which is still very conservative given current Romanian conditions.

<sup>2</sup> World Bank, 1997, Romania, Poverty and Social Policy.

<sup>3</sup> C. Zamfir, 1995 - Poverty Dimensions, "Expert" publishing house. This paper defines and uses two poverty levels: a Subsistence Minimum (SM), a very conservative measure of consumption of basic necessities only, and a Decent Minimum (DM), which includes those goods and services absolutely required to participate in social life. The poverty rate here is defined by the SM.

<sup>4</sup> Such as, for instance, the expenditures related to identification of the poor, setting social allowances and implementation of programmes.

While during the first years of transition, initial conditions and accumulated savings and skills to some extent cushioned the shock of declining real incomes, over the past 11 years, this decline has been accompanied by a severe erosion of material wealth and individual capacities.

For example, the high cost of housing relative to incomes has placed a new apartment beyond the reach of the young or those who have lost their homes. With few exceptions, the situation of victims of fire or natural disasters is desperate, while the young face extreme difficulties in finding adequate housing. Those social groups affected by both inadequate current earnings and by a combination of unfavourable living conditions and lack of education and skills find themselves in a state of chronic poverty from which they will not be able to escape through economic growth alone. Groups suffering from multi-factorial poverty are threatened with marginalisation and social exclusion. These chronic social pathologies are difficult to reverse and special measures to prevent and counter-act are required.

**Self-Evaluation: Subjective Poverty**

Romanians' self-assessment of poverty is presented in Box 1. In 1998 almost half the population considered themselves poor.

However, income dissatisfaction has not varied significantly for the past decade and has remained steadily at high levels. Between 1991-2000 an average of approximately 70% of Romanians estimated their incomes as barely sufficient or insufficient to cover basic necessities (see Chart 1).

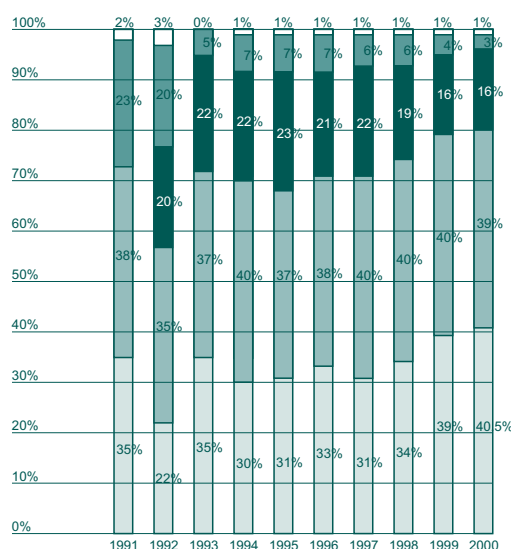
**Temporal Dimensions of Poverty**

Not all those who are poor at a given moment remain indefinitely in poverty. For many, poverty is a temporary state resulting from a shock such as the loss of a source of income, an illness, etc. For others, it is almost impossible to get out of poverty unassisted and these individuals run a very high risk of remaining permanently poor. The difference between the temporarily and the permanently poor lies largely in access to the means of overcoming poverty. Those who lack skills and ability to adapt to the changing economic and social environment (Sen, 1976) run a high risk of remaining permanently in poverty. Thus, the permanent poor include individuals unable to work, such as elderly people without social insurance or with very low pensions who have no practical means of increasing their income, and households with many children (three or more). The chronically unemployed also run a high risk of remaining poor on a permanent basis.

Currently, poverty in Romania is mostly temporary (Teşliuc, Pop, Teşliuc, 2001). Of the total number of those poor during at least one year between 1995 to 1997, only 17.9% remained poor for the whole period. This is a strong indication that poverty is not deep. In 1997-1998, 7-8% of the population was within 5% above or below the poverty line. Small variations in income can change an individual's standard of living and poverty status.

**Chart 1. Household incomes estimation (subjective living standard) (1991-2000)**

- Not enough for bare necessities
- Enough only for bare necessities
- Enough for a decent living
- We manage to buy more expensive items, but only upon restriction in other respects
- We manage to have everything we need, without restrictions in any respects



Source: calculations made by authors by summing up the opinions in the RIQL survey data base.

**Box 1.**

**Do Romanians consider themselves poor?**  
Do you consider yourself poor?

	1994	1998
Yes	45.9%	49.6%

Source: RIQL surveys - "Poverty 1994" and "Social Problems and Standard of Living 1998".

**Box 2.  
Poverty, Human Rights and Human Development**

Poverty limits human freedoms and deprives a person of dignity. The Universal Declaration of Human Rights, the Declaration on the Right to Development and a large body of other human rights instruments make this clear. The Vienna Declaration adopted at the 1993 World Conference on Human Rights affirms that "extreme poverty and social exclusion constitute a violation of human dignity".

The Human Development Reports take the view that poverty is broader than a lack of income - that it is deprivation across many dimensions. If income is not the sum total of human lives, a lack of income cannot be the sum total of deprivation. Indeed, the Human Development Report 1997, on poverty, defined it as a deprivation of the valuable things that a person can do or be. The term human poverty was coined to distinguish this broad deprivation from the narrower income poverty, a more conventional definition limited to deprivation of income or consumption.

Human development focuses on expanding the capabilities important for all people, capabilities so basic that their absence forecloses other choices. Human poverty focuses on the lack of these same capabilities - to live a long, healthy and creative life, to be knowledgeable, to enjoy a decent standard of living, dignity, self-respect and the respect of others.

How does a person escape poverty? The links between different dimensions of poverty - different capabilities or different rights - can be mutually reinforcing in a downward spiral of entrapment. But they can also be mobilised to create a virtuous circle and an upward spiral of escape. Expanding human capabilities and securing human rights can thus empower poor people to escape poverty.

*UNDP, Human Development Report 2000.*

A prolonged economic depression increases the risk of poverty becoming a permanent state. Research shows that a person who was poor in 1995 had about a 30% chance of remaining poor in 1996-1997 (Teşliuc, Pop, Teşliuc, 2001). In other words, once in poverty, one of every three persons is unable to overcome it. An individual poor for two years has a 70% chance of remaining poor in the third year. The data show extremely low levels of permanent poverty among the households of the employed. In contrast, households headed by an agricultural worker or an unemployed person, which were "poor at least once", tend to keep this stigma year after year. Long-term unemployment is an important source of chronic poverty. The proportion of the unemployed who are no longer eligible for any form of financial support (i.e. unemployment benefit or support allowance), peaked in 1994 and stabilised at roughly 20-25% of all unemployed.

The encouraging conclusion is that the poverty currently confronting Romania is largely temporary and will be reduced by an economic revival. Obviously, any anti-poverty strategy must focus on a return to sustained economic growth. The long-term poor (who are not affected by economic revival) require special social programmes to assist them in overcoming poverty.

The temporal dimension of poverty makes a distinction between **the experience of want**, as a more or less temporary condition, and **poverty**. The latter is a state of indefinitely extended or permanent want. Poverty is not a simple lack of economic resources (see box 2), but inadequate income combined with a cumulative lack of social, cultural and political resources, which reduces the capacity of both the individual and the society for economic recovery. The sudden burst of poverty over the past decade has dramatised this distinction. Much of the population considers itself to be the victim of a **process of impoverishment**, feeling that it lacks resources, but does not define itself as being poor in a

social and cultural sense. The majority considers itself to be poor for an indefinite, but limited period of time, in a state of want. If, from the standpoint of available resources, the dimensions of poverty are substantial, from a social-psychological and cultural perspective, poverty occurs far less frequently. In this sense, the greater part of the poor in Romania today considers itself impoverished as the victims of transitional shocks and with inadequate incomes, rather than poor. Even if the short- or even medium-term prospects are seen as discouraging, there is optimism that a way will be found out of the crisis in the long or medium term.

### Poverty in Romania: a Modern European Society in a Deep and Extended Economic Depression

Romania is not experiencing the poverty of traditional underdeveloped societies. The communist programme was an ambitious drive to turn Romania into a modern socialist country. This included promoting rapid industrial growth, urbanisation, and the transformation of traditional village structures into a collectivist industrial-cooperative system, radically changing inherited social and economic structures. The crisis of the communist project, followed by the dramatic collapse of the economy during the transition period has disaggregated a society undergoing a rapid process of modernisation, producing a type of poverty characteristic of countries in transition. Enterprise closures and mass redundancies have generated urban unemployment and the rapid growth of the informal economy. Nearly two decades of deferred investment in the socialist urban infrastructure has produced a housing crisis, as uncomfortable, badly built blocks of flats have decayed and not been replaced by new housing. The public utility system is in an advanced state of disrepair and desperately needs investment to increase the efficiency of energy use and reduce losses. In rural areas, poverty is widespread, as de-industrialisation has produced a reverse migration back to the countryside. The traditional agricultural system was first destroyed by the policy of instituting "socialist" forms of agricultural production and then "restored" by a reform based on the restitution of ownership of small, scattered parcels of land, reducing peasants to disorganised and powerless subsistence farmers. Without access to credit, agricultural machinery,

fuel or fertiliser, the majority of the rural population is substantially more disadvantaged than prior to the socialist reform.

In sum, poverty in Romania today is the product of an intense and protracted crisis: the failure of an ambitious programme of modernisation followed by an abrupt and poorly prepared effort to replace socialist structures with market institutions. The abrupt dismantling of large enterprises resulted in the de-industrialisation of many towns, while rural areas experienced a restoration of agricultural production on a scale too small to be economically viable.

Romania is culturally a Central European country. In the past and even more intensely after 1989, social and economic elites identified with Western European cultural patterns and trends. The isolation imposed by the socialist regime drastically reduced access to this frame of reference, but could not entirely block it. After 1989, Romania's rapid opening to the global economy and a flood of contacts with the West produced a burst of needs and the aspiration to become increasingly European, while the material means of realising these ambitions collapsed.

In conclusion, poverty in Romania exhibits two forms. The first is **minimal subsistence**, resulting from extremely precarious access to resources. The second is a **minimum modern standard of living**, based on the expectations of the citizens of a modern society and their aspirations as historically self-identified members of a western society.

## Chapter 2. Poverty Profile: Highly Vulnerable Groups

The risk of severe poverty increases with membership in certain, identifiable social and age groups, which also suffer a high risk of perpetuating poverty in the next generation. The strongest predictor of poverty is inability to perform, or lack of access to, paid work. In Romania, the groups most affected by poverty are:

**Table 3. Poverty rate by age groups and number of children**

	1995	1998
1. Poverty rate by number of children		
- No children	16.4	23.5
- 1 child	24.6	35.0
- 2 children	30.1	43.6
- 3 children	52.8	64.6
- 4 children and more	71.1	83.6
2. Poverty rate by age groups		
- under 7	30.2	37.7
- 7-15 years	37.1	48.7
- 16-25 years	34.3	45.5
- 26-35 years	21.7	31.0
- 36-45 years	26.0	36.1
- 46-55 years	23.7	32.3
- 56-65 years	14.5	21.0
- over 65 years	9.7	11.4

Source: Teşliuc, Pop, Teşliuc, 2001.

**Table 4. Poverty rate for families according to the number of children (1994)**

	Poverty rate (RIQL)*
Families with no children	17.9
Single-parent family 1 child	51.8
Single-parent 2 children	76.0

\*Based on Subsistence Minimum (see definition footnote 3)  
Source: C. Zamfir (Coordinator), 1995.

**Table 5. Poverty rate according to the occupation of the head of household**

	Poverty rate
Employee	29.7
Pensioner	25.6
Peasant	57.4
Employer	10.1
Self employed	53.9
Unemployed	59.8

Source: Teşliuc, Pop, Teşliuc, 2001.

### a. Children, Youth, Families with Many Children

The young face the highest risk of poverty (Table 3). In 1998, nearly 38% of children under 7 years of age were living in poverty, as well as almost 50% of those aged 7 to 15. The poverty rate for young people between 16 and 25, at 45.5% was also considerably higher than for adults or the elderly.

The risk of poverty increases with the number of children in a family (Table 3). The birth of a first, third or fourth child increases household risk of poverty by almost 50%. Families with three or more children have a very high rate of poverty, significantly reducing the long-term "life prospects" for these children. The probability of children from poor households not being enrolled in school is 2.5 times higher than that of children from households that are above the poverty threshold (Pop I., Voicu B., 2000). Since lower levels of education are strongly associated with unemployment, underemployment and low wages, the vicious circle of poverty can become self-perpetuating. This phenomenon is of concern not only to the individuals affected, but society as a whole, which must bear the future costs of poorly socially and professionally integrated generations of young people, who run a high risk of financial dependency on the state.

### b. Single-Parent Families

Single-parent families also display high rates of poverty (Table 4). Households headed by single women are an especially vulnerable group, particularly in rural areas.

### c. Families with Unemployed Members

Families in which the main income earner is unemployed display a very high degree of vulnerability: in 1998, 60% of these families were in poverty (Table 5), although their relative status has improved since 1996 (Teşliuc, Pop, Teşliuc, 2001).



#### d. Agricultural Families

The families of agricultural workers follow immediately after the unemployed in their degree of vulnerability. In 1995, 51.9% of households whose main income earner was an agricultural worker were poor; in 1998 the share of these households in poverty increased to 57.4% (Table 5) (Teşliuc, Pop, Teşliuc, 2001).

#### e. Pensioners

Contrary to a common belief, pensioners do not face an unusually high risk of poverty in comparison with other social groups: in 1998 only one quarter of pensioners were poor (compared to a national average rate of 33.8%, and roughly 30% for employees). Pensioners are more visible than some other groups with a significantly higher risk of poverty because they constitute a significant part of the population and make up a relatively large part of the poor. Nevertheless, age-related risks should not be underestimated. Although statistics based on current indicators, such as consumption or income, show a smaller incidence of poverty among pensioners and the aged as a whole; the elderly face risks, which are concealed by the simple measurement of consumption levels. One of these is poor health. The cost of vital medications can subject the elderly to economic pressures they are unable to cope with. A polarisation of pensioners by age cohorts has also become more pronounced in the past few years. As the result of an incoherent retirement policy, the older generation of pensioners, who require more resources, currently receive substantially lower pensions than those who have retired more recently, who are able to obtain additional incomes by continuing to work.

#### f. Homeless Families

95% of Romanians own their own home or apartment. The extremely high cost of housing in relation to incomes, together with the shortage of social housing, and inadequate policies and programmes to address the housing issue leaves the majority of young families with few solutions to their housing needs. Romania currently lacks a regulated rental market or an adequate mortgage loan system.

**COST OF BUYING A HOME.** Based on a standard two-person family - young married couple (childless), with two average wages<sup>1)</sup>, the cost of an apartment in Bucharest would be the following (A. Dan, 1999):

Apartment size	Year	Cost, in ROL	Cost as number of average wages	Time required to cover the cost		
				A Saving two full average wages (monthly)	B Minimum Subsistence Level <sup>2)</sup>	C Level of Minimum Decency <sup>2)</sup>
Two-room apartment	1989	120	40	1 year 8 months		
	1994	15,000	88	3 years 8 months		
	2000	300,000	142	5 years 11 months	11 years 6 months	99 years
Three-room apartment	1989	180	60	2 years 6 months		
	1994	22,000	129	5 years 5 months		
	2000	438,000	208	8 years 8 months	16 years 8 months	143 years

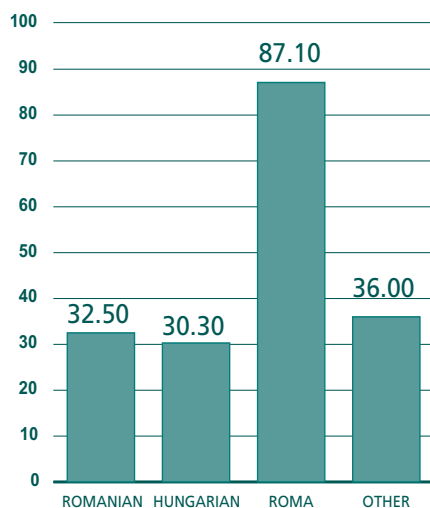
The real time required to buy a home is likely to range around the average of columns B and C (50 and 80 years, respectively), because a young couple would be unable to save total wages for an extended period. Furthermore, as there is no mortgage loan system, the total amount must be paid at once. These calculations indicate that to buy a home with normal wage income is impossible. Parental support and additional earnings are absolutely essential, although not always sufficient. Those groups with the most serious housing problems are: the young (84.6%), families with many children (49.1%) and the poor (41.4%) (Research Institute for the Quality of Life 1999 - Need for homes in Romania).

In an 1994 RIQL survey (Poverty 1994), when asked "How do you assess your dwelling?", 1.5% of the population replied "We do not have one, we live here on a temporary basis". In 1999 (RIQL and the Ministry of Public Works and Land Planning, 1999, Need for homes in Romania), 59.2% of the population estimated that someone in their family would need a dwelling in the near future (the main reasons being "not enough room - 39.2%, one child getting married - 28.6% and low quality of dwelling - 10.0%"). In comparison to 1999, nearly 9% of Romanians would require a new dwelling, while 13% would potentially require one. In other words, the real need for housing in Romania is about 200,000 units (Voicu B. & Noica R., 2000).

### g. The Roma Population

Members of the Roma ethnic group are extremely vulnerable to poverty. The Roma constitute a special case, as an ethnic group, which has been subjected to social exclusion and suffers extreme poverty. The poverty rate for the Roma people 87%, is almost three times higher than the national average of 34% (Teşliuc, Pop, Teşliuc, 2001). The level of consumption for this group is also substantially lower: roughly 44% below the poverty threshold, compared to a 27% national average poverty gap.

**Chart 2. Poverty rate according to the nationality of the head of the family**



Source: Teşliuc, Pop, Teşliuc, 2001.

The Roma population's high vulnerability to poverty is the result of a complex set of factors: lower levels of education and professional qualifications, a marginal position on the labour market, lack of material assets passed from one generation to the next (house, land),

involvement in the informal economy (which can be seen as a coping strategy in the absence of job opportunities, but also as a trap that prevents this group from escaping marginalisation), large families, negative stereotyping and, last but not least, discrimination. Roma people are frequently the first laid off from restructured enterprises. In many parts of the country, the Roma are effectively isolated in ghettos with living conditions well below national standards. Their risk of abandoning or not participating in the educational system is significantly higher than the average. The special characteristics of this population sometimes obstruct their access to various social benefits. For example, the social protection system has no means of offering support to "nomadic" Roma groups.

### h. Young People Excluded from the Labour Market and Deprived of Its Associated Benefits

During the 1990s, a period was marked by massive reductions in the labour force; even those young people who were skilled and educated had little chance of finding regular employment. At the end of 1999, the under 25 youth unemployment rate in urban areas was nearly 4.5 times higher than the country average. Although active in the informal economy, nearly 25% of those under 25 have never worked in the formal economy (M. Stănculescu, 2001). Many of these young people have never contributed to the social insurance system, and their delayed entry into the formal labour market places them at a lifetime disadvantage in terms of future insurance rights. For various reasons, the post-1989 generations are increasingly confronted with graduation followed by unemployment. Higher education or vocational training courses, financed by the state as part of programmes to support the unemployed, could contribute to a solution by teaching those skills in demand on the labour market. Programmes to stimulate the employment of young graduates were recently implemented, however, there is as yet no systematic data on their effectiveness.



### i. Abandoned Children

The aggressive pronatalist policy of the Ceaușescu regime, together with the unfolding crisis of the Romanian economy as early as the 1970's pushed some segments of society into a process of rapid social disintegration. Among the symptoms were a resignation to the absence of the means for family planning and control over one's own life, sinking ever deeper into poverty, powerlessness and despair (C. Zamfir, 1999). This is the principal source of one of the most dramatic social problems in Romania today: **abandoned children** in institutions, or worse, on the street. Although the birth rate abruptly declined after 1989, the proportion of unwanted children also falling rapidly, increasing poverty after 1990 caused the number of abandoned children to increase both in absolute and relative terms (charts 3 and 4). In 1999, 2,910 children were (legally) abandoned, 1,700 more than in 1994 (NAPCR, 2000). Currently, one of every 250 children under 3 years old (0.4%), is placed in an institution. Some studies indicate that the main cause of abandonment is family disintegration rather than poverty, *per se*, reflecting the effects of poverty.

Abandoned children are a group with multiple vulnerabilities, in many cases lacking the minimum material, social and psychological conditions for normal development. In 1997 there were 5,465 young people over 18 years old in social protection institutions in Romania (although forbidden by law unless these children are enrolled in the system of higher education).

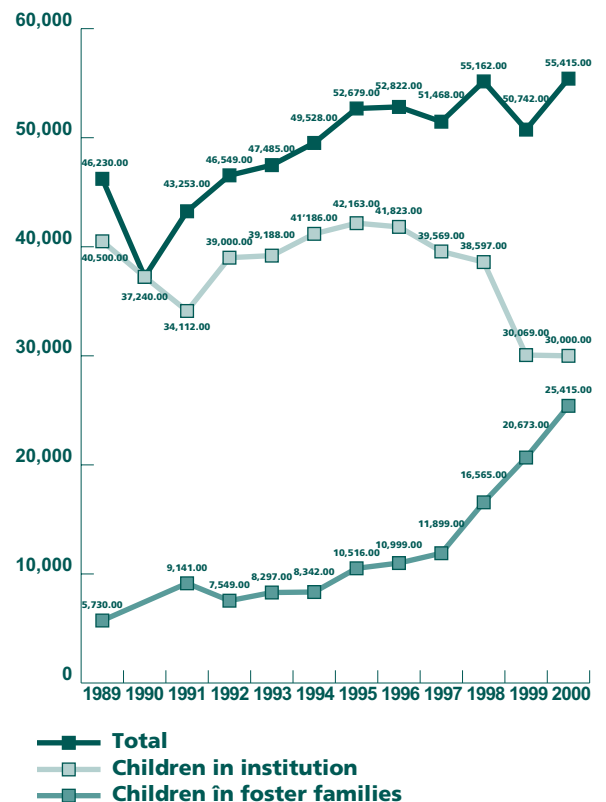
**Street children** are the extreme form of abandonment. NAPCR estimates their number as ranging between 2,500 and 3,500 (NAPCR, 2000). Street children have almost no chance of reintegration and represent practically irreversible human losses.

### Beautiful Bucharest

A UNDP project to support the social integration of post-institutionalised young adults, "Beautiful Bucharest", has had a major impact. The project provides counseling and vocational training, and short-term employment in the restoration of buildings and re-paving in the historic centre of Bucharest. Through an NGO grant, "Beautiful Bucharest" also provides housing for the young adults participating in the project.

The broader intention of the project is that the experience of "Beautiful Bucharest", linking employment generation and social integration to the revitalisation of architecturally significant buildings and street repair, will be replicated in other cities within the framework of the "Beautiful Romania" project. UNDP's long-term goal is to increase the volume of private investment, enhance the quality of life and re-establish the role of historic cities in today's economy.

Chart 3. Children in foster families and institutions

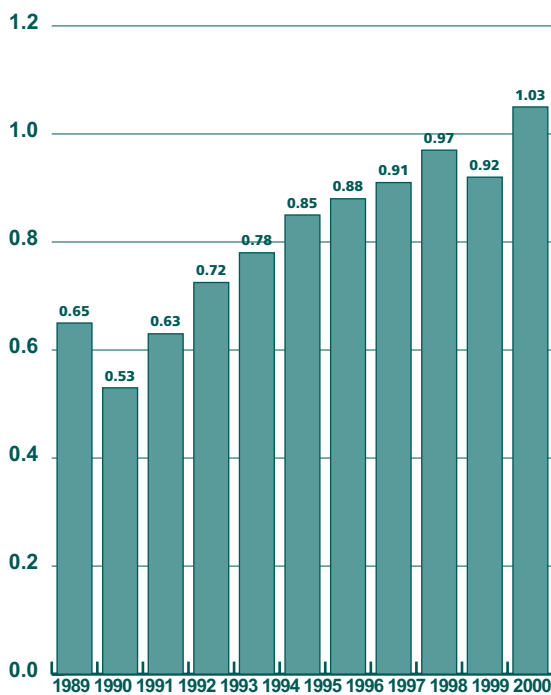


Note: For 1990 there are no data available for children in foster families.

Source: C. Zamfir, E. Zamfir (Coordinators), 1997; National Agency for Protection of Children's Rights (for the 1997-2000 data).



**Chart 4. Proportion of children in institutions / foster families of overall children under 18 year**



Source: NAPCR and NIS (Statistical Yearbook of Romania 1990-1998) and NIS (Quarterly Statistical Bulletin).

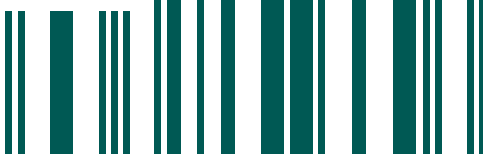
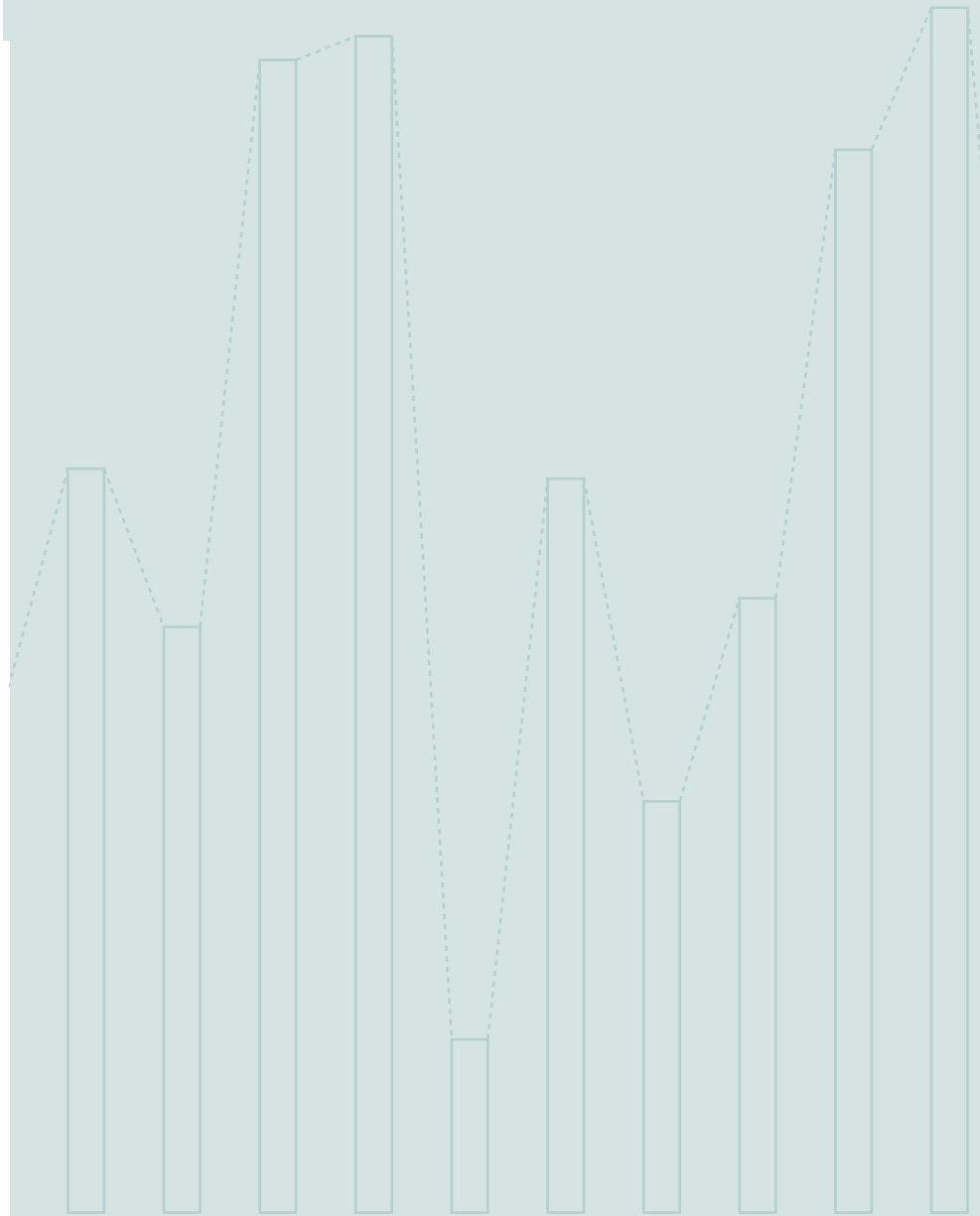
**Table 6. Institutionalised children aged 0-3, during 1990-1997, compared to 1989 in some transition countries**

1989 = 100	1990	1993	1994	1995	1997
Albania	--	--	100	132	148
Bulgaria	99	116	124	125	145
Czech Republic	95	86	88	94	--
Estonia	99	121	124	142	174
Macedonia	--	125	158	168	379
Hungary	77	79	76	76	74
Lithuania	74	89	78	92	113
Latvia	94	109	125	140	166
Poland	106	108	--	--	--
<b>Romania</b>	<b>100</b>	<b>126</b>	<b>180</b>	<b>149</b>	<b>158</b>
Slovakia	89	112	124	125	--
Slovenia	70	98	84	59	--

Source: *Change and Choice in Social Protection. The Experience of Central and Eastern Europe, 1999* (acc. to UNICEF TransMONEE Database, 1999).

In addition to child abandonment to institutions or the street, a new problem of equally serious dimensions has arisen from the same source (social disintegration coupled with poverty): **neglect**, often criminal situations, **violence** and **abuse** against women and children. In 1999, of the 2,131 registered cases of child abuse, 29% were sexual abuse (NAPCR, 2000). These children's ability to develop normally is severely affected. Family disintegration associated with extreme poverty has increased the risks for children: neglect, maltreatment and humiliating forms of earning income (prostitution and pornography), which severely reduced their ability to lead a normal adult life.

Recently, there has been an emphasis on removing children from institutions and entrusting them to foster families. While this approach has a number of advantages, it also involves risks. The lack of a developed system of community social assistance makes it difficult to prevent child abandonment, or to support and monitor foster families. Foster care can also increase child insecurity, by making abandoned children dependent upon the life fluctuations of the families to which they are entrusted, as well as running the risk of being shifted from one family to another until they turn 18. Their prospects at that point are as bad as those of institutionalised children.



## Chapter 3. Poverty: Causes and Factors

It would be one-dimensional to attribute the increase in poverty solely to the economic crisis (structural-economic inadequacy). Although economic decline is the main cause of increasing poverty, other factors, such as increasing economic polarisation (distributive poverty) and inadequate social protection (re-distributive poverty) play a significant role.

### A. Poverty as a Product of Economic Crisis

#### 1. The Economic Collapse

The socialist regime left Romania with an economy that was underdeveloped, inefficient, and irrational. It suffered from important structural distortions, including an orientation towards self-sufficiency; an absolute monopoly over the internal market; rigid and technologically backward large enterprises, and economic sectors totally dependent on massive subsidies. By the eighties, Romania had entered a state of chronic crisis in which production could be maintained only by massive cuts in consumer goods.

Restructuring, begun as part of the transition process, proved to be extremely difficult. In addition to these "inherited" problems, the reform strategy was based on one-dimensional models, further undermined by a plethora of interest groups, which found ways of maximising their profits at the expense of restructuring and re-launching the economy. In the chaos which resulted, state enterprises that had not yet been privatised experienced dramatic declines in production - even compared to the inefficient and highly politicised nature of socialist management. The free movement of goods, people and especially information, produced an almost overnight re-orientation of consumer preferences - previously constrained to domestic production - to imports better suited to their tastes. The lack of competitiveness of Romanian products on both domestic

and international markets led to the loss of important market segments, which they had previously dominated.

Privatisation also proved to be an ineffective palliative measure. The newly established private sector was hampered by a wide variety of problems and obstacles, extremely fragile and a far from adequate contribution to a smoother landing from the after-effects of restructuring the state enterprises. Many of the new private companies continue to experience severe difficulties, often barely providing the entrepreneurs with an adequate income and very rarely producing sufficient profit for expansion. The development of the private sector did not significantly improve the standard of living of those it employed.

The hope that agriculture would be a source of economic recovery was misplaced. The agricultural sector has been the principal victim of misguided policies. A reform policy focused on the restitution of private property resulted in small, scattered private plots averaging a little over two hectares and spread over at least 4 different locations, a land ownership pattern unable to support modern agricultural production. Private plots larger than ten hectares constitute only 1% of total agricultural land. The restitution of property was only partial. While peasants were given ownership of the land, they received neither the equipment needed to work it, nor access to the credit necessary to purchase other inputs, such as fuel and fertiliser. Under these conditions, it is hardly surprising that agriculture produces

**Table 7. Socio-economic indicators 1989-2000**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Annual change in GDP (%)	-5.8	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-4.8	-2.3	1.6
Real GDP (1989=100)	100	94.4	81.5	72.7	74.2	78.1	85.2	89.1	82.9	78.1	75.8	77.4
Deficit of the consolidated general budget (% PIB)	8.4	1.0	2.6	-4.1	-0.4	-2.4	-2.9	-4.1	-3.9	-4.5	-3.4	-3.8
Average annual rate of inflation	1.1	5.1	170.2	210.4	256.1	136.7	32.3	38.8	154.8	59.1	45.8	45.7
Annual variation of net real average earning (%)	2.8	5.0	-18.3	-13.0	-16.7	0.4	12.6	9.5	-22.8	3.6	0.2	-2.0
Occupational rate (1989=100)	100	99.3	98.5	95.5	91.9	91.5	86.7	85.7	82.4	80.5		

**Table 8. The dynamic of real salary incomes 1990-2000**

1989=100	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Net minimum wage	95.1	80.7	52.5	36.2	33.4	33.8	35.5	26.3	28.6	25.4	26.1
Net average wage	105.0	85.4	74.6	62.1	62.4	70.2	76.9	59.4	61.5	61.6	60.4
Average wage / minimum decent threshold per person.	186.1*	148.1	128.7	107.1	107.4	121.0	132.5	102.3	106.0	106.1	104.0

\* October 1990.

Source: RIQL data base. Minimum decent living threshold calculated by RIQL.

only expensive products and hard, meager life for peasants. The only positive aspect of this policy was that it created a sponge to absorb the excess labour shed by the closure of large industrial enterprises. Overall, agriculture has not developed beyond a kind of subsistence economy survival strategy. Although the share of the labour force employed in the agriculture has grown from 28.6% in 1989 to 34.6% in 1996, and 37.4% in 1998, the contribution of the agricultural sector to GDP has remained modest, at about 20% (UNICEF, Regional Monitoring Report No. 6/1999).

Eleven years after transition began, GDP remains at about 77% of its 1989 level. It has become increasingly

evident that the dramatic increase in poverty can only partially be understood as an unavoidable cost of transition. Its main cause lies in the defective strategies applied to economic reform (Table 7).

## 2. The Effects of Economic Decline on the Standard of Living

The economic decline has produced a collapse in living standards, mainly due to job losses and through the erosion of the value of earned income.

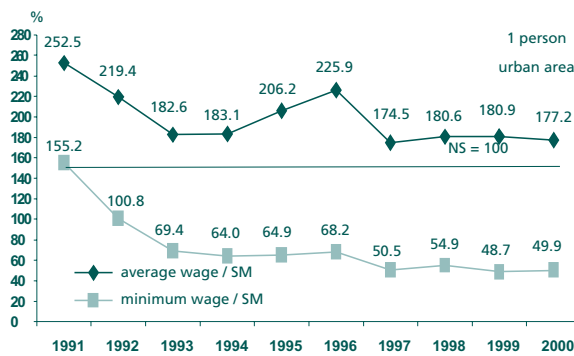
**a. The decline in earned incomes.** Wages - the principal source of income - have been seriously eroded since 1989. The medium wage fell by nearly 40% between 1989 and 1993. A period of slight recovery between 1994 and 1996 was followed by a renewed downturn. In 2000, wages reached their lowest level compared with 1989 (Table 8). By 1999, the net average wage had fallen by nearly 40% compared to 1989, moreover, average gross wage earnings are well below those paid in other East-European countries (Table 9).

**Table 9. Average gross wage (in USD) in some East-European countries (1999)**

Slovenia	Poland	Czech Republic	Hungary	Romania
953.1	450.9	365.8	325.7	127.7

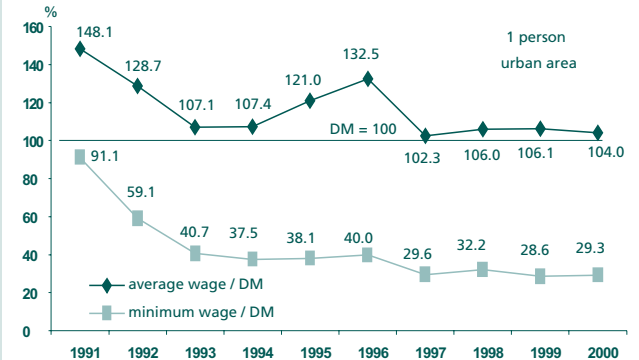
Source: CESTAT No.2/2000 and authors' calculations based on NBR data.

**Chart 5. Ratio wage earning and the subsistence minimum level (SM)**



Source: RIQL database.

**Chart 6. Ratio between average wages and minimum decent level (DM)**



Source: RIQL database.

Wage incomes have steadily depreciated in relation to the poverty threshold: the minimum wage (per person) in 2000 was equal to only 50% of the Subsistence Level and 30% of the Minimum Decent Living Standard, as calculated by the Research Institute for the Quality of Life (chart 5 and 6).

Although wages have declined significantly as a share of overall household budgets, they remain the principal source of income for much of the population. At the same time, the share of social transfers, spending from accumulated savings, and other (non-wage) earnings has grown. This last category includes entrepreneurial or individual earnings and other infrequent activities, as well as various other sources (Table 10).

**Table 10. Structure and dynamics of population's income (%)**

	Total households		Poorest 10%		Wealthiest 10%	
	1994	1998	1994	1998	1994	1998
Wages	49.4	↘ 39.5	34.7	↘ 19.6	48.3	↗ 49.8
Social transfers	26.9	≈ 27.0	33.0	↗ 45.9	7.8	↗ 9.6
Other non-wage incomes	23.6	↗ 33.5	32.3	↗ 34.5	43.9	↘ 40.6

Source: Standard of Living Survey (1994, RIQL); Social Problems and Standard of Living (1998, RIQL and Bucharest University).

**b.** The effect of the decline of real wages on the standard of living has been exacerbated by the sharp decline in the number of employees. In 2000, the number of employees (officially registered regular or limited term contracts) was only 55% of the 1989 level (Table 11).

**Table 11. Dynamics of employee number 1989-2000**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Employee number (thousands persons)	7,997	8,156	7,574	6,888	6,672	6,201	5,707	5,634	5,125	5,025	4,616	4,457
1989=100	100	102.0	94.7	86.1	83.4	77.5	71.4	70.5	64.1	62.8	57.7	55.7

Source: National Institute for Statistics, Statistical Yearbook of Romania 1993-1998. Statistic Bulletin NIS 1998-2000.

For nearly half of the labour force, wages have been replaced by substantially reduced incomes: pension payments, unemployment benefits, support allocations, social assistance, or in some cases, with no income at all.

**Table 12. Replacement incomes as % of the average wage**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Jan. 2001
Pension for age limit with complete contribution	65.8	60.8	53.2	53.7	56.2	54.0	51.5	48.7	51.1	47.6	47.4	45.1	45.8
Unemployment benefit			42.9	29.6	28.0	35.8	30.2	29.6	39.3	32.4	37.5	31.3	31.9

Source: RIQL database (calculated by the authors from NIS, MLSS data).

### c. Pensions

After 1989, a policy of encouraging early retirement was instituted with serious effects on the financial sustainability of the pension system. Retiring to pension has been the best way to protect against the loss of wage income - providing a lifetime income that was both assured and greater than the unemployment benefit (Table 12). The wave of early retirements led to rapid growth in the number of pensioners. In 1990 the share of pensioners in the age group 46-55 was 1:5, by the year 2000, it had grown to 1:4. An even greater increase is found in the 56-65 age group, where the share of pensioners rose from 63% in 1990, to 83% in the year 2000 (M. Stănculescu, 2001).

**d.** A significant share of employees has experienced unemployment and faced the risk of becoming permanently dependent on social benefits. Although the rate of unemployment has not been particularly high - a little over 11% at its peak (Table 13) - unemployment is less a transition to a new job than the beginning of a slow process

**Table 13. Registered Unemployment (labour office statistics)**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	Jan. 2001
Unemployment rate (%)	8.2	10.4	10.9	9.5	6.6	8.9	10.3	11.5	11.2	10.8
Number of recorded unemployed, thou. persons	929.0	1164.7	1223.9	998.4	657.5	881.4	1025.0	871.9	1007.1*	1032.9
Of which, with no form of support -%	9.3	8.5	12.7	22.4	29.8	25.6	22.6	22.4	25.5*	25.1

\* Data for December 2000.

Source: NHDR, 1999; NIS (AMIGO 4th quarter '99); NIS (monthly statistical bulletin).

of complete exit from the labour market, and thus a passport to poverty. Almost half of all unemployed persons have been without a job for over a year, and of these almost half have been without a job for over two years. After nine months, the unemployment benefit is replaced by income support (which is substantially lower than the unemployment benefit), and after another eighteen months, by virtually nothing. This social support - that should benefit the poorest - is paid sporadically at best. After losing any form of economic support, the long-term unemployed tend to disappear even from official records.

One quarter of the unemployed (according to the International Labour Office) receive no income support, increasing economic dependency within the family. On the national level, the economic dependency ratio (between those who are active income earners and those who have no income) has increased from 1.1 to 1.5 (NHDR, 1999). In comparison with other transitional countries in 1997, the dependency ratio in Romania (0.69) was one of the highest after Bulgaria (0.76) compared with the Czech Republic (0.5). High dependency rates exert increasing pressure on the economically active population. Their earnings are more heavily taxed to sustain public finances (another perverse effect of reducing the size of the labour force), and must at the same time sustain more members of the household who no longer earn their own incomes. In addition, there is an increasing trend in the number of seasonal workers and civil contracts (a form of temporary work contract), with a net result of discouraging job seekers.

**e.** Some of those who have left waged work have attempted to start their own business. While a few of them have enjoyed rapid success, the majority is struggling to break even. In 1998 approximately 48% of registered entrepreneurs were poor, as well as 54% of households headed by a registered entrepreneur<sup>5</sup> (Teşliuc, Pop, Teşliuc, 2001)

#### **f. Additional Income**

Declining real incomes have forced a search for alternatives. More than 25% of pensioners have an income in addition to their pensions, although only around 5% of registered employed do (M. Stănculescu, 2001). The need for a second, supplementary income is reflected in surveys conducted by the Public Opinion Poll (CURS, 1999): 81% of those interviewed stated that they would give up their free time to earn extra income. The principal sources of supplementary income are: working in agriculture, abroad, self-employment or working as an employee. Although the need for a second income is almost universally recognised, the figures published by AMIGO show a surprising reduction in secondary activities from 8.3% in 1995 to a mere 4.2%, in the first quarter of 2000. This can be explained by lack of jobs in the official labour market.

**g. The Underground (informal) Economy** in many cases provides the only immediate solution to declining real incomes. In contrast to the official economy, the underground/informal economy more than tripled in size (3.3) between 1992 and 1998. In 1999, the NIS<sup>6</sup> estimated this sector at 21% of GDP, although considerably higher estimates also exist.

Informal economic activities may sometimes provide higher incomes than working in the official economy, however they involve high delayed costs to both the individual and to society as a whole: the absence of social, medical and pension insurance contributions, the lack of contract protection and safe working conditions. The informal economy has served as an important buffer against some of the destructive effects of transition, but its immediate and long-term negative effects cannot be ignored. Informal employment often degrades values and work norms, it erodes legality by mixing informal, illegal, and criminal activities, and in the long term it will become an additional source of poverty for those without social insurance coverage.

## B. Distributive Poverty

### 1. The Rise of Economic Inequality

Even without change in the level of economic development, increasing inequality in the distribution of income usually leads to **increasing poverty**. When the majority of the population is located close to the poverty threshold, this is accentuated.

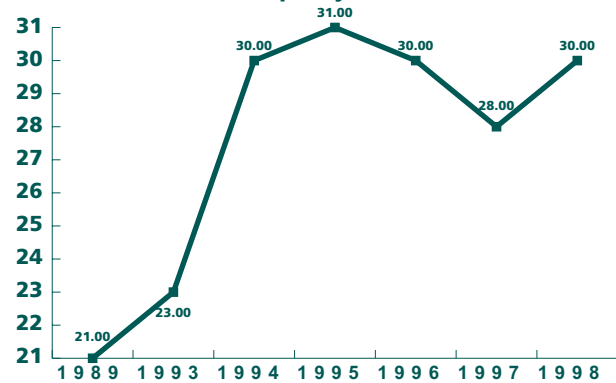
**Table 14. Gini index in several former socialist countries (1989-1997)**

	Gini index	
	1989	1997
Hungary	22.5	25.4
Czech Republic	19.8	23.9
Poland	27.5	33.4
Bulgaria	33.1 <sup>a</sup>	36.6
Lithuania	26.2	30.9
<b>Romania*</b>	21.0	28.0
Russia	26.5	38.5 <sup>b</sup>

\* For Romania the source is Teşliuc, Pop, Teşliuc, 2001.  
<sup>a</sup> 1992; <sup>b</sup> 1995.

Source: UNICEF, *Regional Monitoring Report No. 6, 1999*.

**Chart 7. Evolution of inequality (Gini index) in Romania**



Note: Gini index has values between 0 (perfect equality) and 100 (absolute inequality).

Source: Teşliuc, Pop, Teşliuc, 2001.

Although an expected effect of economic transition, the degree to which economic inequality in Romania has increased is well beyond either functional or socially sustainable levels, and has produced an increase in poverty that could and should have been avoided. Income inequality has increased by approximately 50% since 1989. The Gini Index - the standard measure of inequality - rose from 21 in 1989 to 30 in 1994. This is within the range of the other transitional countries of Central and Eastern Europe, and well below levels in the countries of the former Soviet Union. Between 1995 and 1999, inequality in Romania has remained relatively stable.

The situation is nevertheless fragile, and less a result of income stabilisation than income substitution as the unemployed have shifted to home-production in place of income generating activities. Self-consumption (the use of homegrown products) increased from **22%** to **32%** of total household budgets between 1989-1997 (AIG, NIS). Without this factor, inequality would have been approximately **25%** greater.

In addition, the level of inequality remains relatively low because of a strong concentration of incomes in the middle of the distribution. In terms of income, the "middle class" is very close to the poor. Future economic growth must be accompanied by pro-poor policies to prevent inequality from increasing further.

The rise in economic inequality results in an ever smaller number of individuals owning an ever larger share of disposable income. The data on income distribution suggests that the poorest 20% of households are drifting away from the rest of society, while the difference in rates of income growth in the middle-income groups (deciles 3-9) is small.

**Table 15. Growth rate of income between deciles, as % of the previous decile**

	Poor 10%	D2	D3	D4	D5	D6	D7	D8	D9	Wealthy 10%
June 1994		74.0	22.9	17.9	13.2	13.1	13.6	15.1	21.6	108.4
Oct. 1998		85.7	31.8	19.8	14.7	13.9	15.3	16.6	23.8	85.2

Sources: RIQL - *Quality of Life Diagnosis, 1994*; RIQL and Bucharest University - *Social Problems and Standards of Living, 1998*<sup>7</sup>

<sup>7</sup> Financial support for this research was provided by CNCUS (Romania) and Volkswagen Stiftung Foundation (Germany).

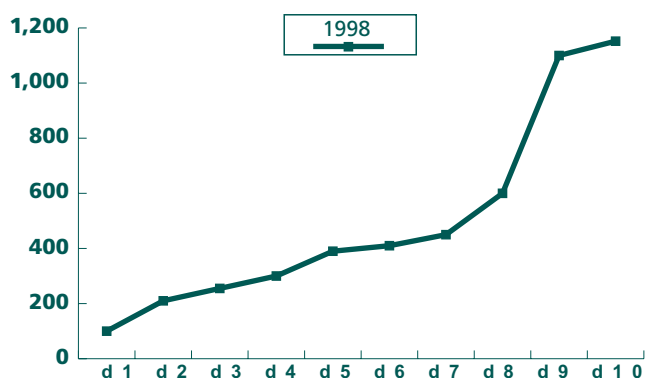


**Table 16. Indicators of the inequal distribution of the income**

	Income d8 / income d3	Wealthy 10% / poor 10%	Wealthy 5% / poor 10%
Sept. 1994	2.0	10.7	14.4
Oct. 1998	2.1	11.8	15.7

Sources: RIQL - Quality of Life Diagnosis, 1994; RIQL and Bucharest University - Social Problems and Standards of Living, 1998.

**Chart 8. Average incomes/person (deciles)**



Source: RIQL and Bucharest University, Data Base "Social Problems and Standards of Living, 1998".

The richest (D10, particularly the richest 5%) stand out. The income gap between the richest 10% of households and the poorest 10% has tended to increase over time, from ten to eleven times higher. The income of the richest 5% tended to grow compared to the rest of the population (Tables 15 and 16, Chart 8), on average 15 times that of the poorest 10% of households. The data clearly reflect **an accelerating rate of impoverishment and inequality**.

Impoverishment and increasing inequality in income distribution are among the problematic costs of transition, which raise two questions: the first is political - what level of social inequality is the population willing to accept? The second is a practical issue - do current levels of inequality actually reflect the social and economic structures of a developed market economy or do they undermine them?

## 2. The Sources of Growth in Inequality

### a. An incomplete market economy

Serious distortions in the transition to a market economy are responsible for the increasing social and geographical concentration of poverty.

1. Price distortions: as a result of incomplete markets and the failure of Government regulation of natural monopolies. The population thus pays for economic inefficiency - a fact that contributes to the growth of poverty. In monopoly or weakly competitive areas, prices in Romania are sometimes higher than in Western countries.

2. Increased profits via the artificial increase of prices in monopoly areas (rent-seeking).

3. The effects of high and uncertain rates of inflation are absorbed almost exclusively by consumers. Economic agents are able to protect themselves by preventively including in prices foreseeable increases in inflation.

### b. Rising wage inequality

Artificially maintained within a narrow band by the socialist regime, wages began to diverge in 1992-93.

The minimum wage, intended to provide basic protection of human dignity and work-related welfare, rapidly fell behind the average wage (Table 17). At the same time, the proportion of those receiving the minimum wage has increased. This is largely the case in sectors outside the monopoly sphere (or, weakly indexed) where wages

**Table 17. Dynamics of the minimum wage compared to the average wage**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Jan. 2001
Minimum wage as % of average wage	65.3	59.2	61.5	46.0	38.0	34.9	31.5	30.2	29.0	30.4	26.9	28.2	36.5

Source: RIQL database.



have been adjusted to economic performance. Thus, while 3.4% of employees received the minimum wage in 1994; by 1998, their proportion had grown to 5.1% (NIS data, in NHDR 1999).

**Table 18. Social benefits as % of the minimum wage**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Average pension (state social insurance)	71.0	75.6	73.3	95.0	118.9	122.0	129.6	127.8	139.2	122.5	133.0	121.7
Unemployment aid	--	--	69.8	64.4	73.7	102.5	95.8	97.9	135.8	106.4	138.9	111.2
Unemployment allowance	--	--	--	43.5	42.5	41.1	59.0	52.1	53.2	48.3	62.2	45.9
Social aid	--	--	--	--	--	--	60.0	46.4	39.3	41.1	38.6	27.2

Source: RIQL database.

Recent years have seen a boom of high wages. Paradoxically in state-owned enterprises, many operating at a loss, managers granted themselves high salaries, 50 times greater than the median. Between 1994 and 1998, the proportion of salaries more than twice the median quadrupled: from 2.3% to 9.8%<sup>8</sup> of employees.

**Table 19. Wage difference between sectors**

Average Wage = 100	Monopolistic economic units	Manufacturing branches	Budgetary branches
1990	118.6%	91.6%	96.5%
March 1998	180.9%	85.5%	90.5%

Source: NIS Branches Classification, Romanian Statistical Yearbook.

Monopolies have been particularly prone to abusing their position. The salaries in enterprises with a monopoly on certain key areas of the economy have not been based on criteria related to economic performance. In 1997, in the "electrical, thermal energy and water" sector, labour productivity per employee was 83.1% of what had been in 1994, while the net wage had risen by 98.7%<sup>9</sup>.

The massive increase in salaries in monopolies and similar enterprises was achieved at the expense of other sectors of the economy and society:

- employees of other enterprises, high prices at the beginning of the production chain (frequently under monopoly control) causing the producers of goods and services whose prices are governed by competition to compensate with low wages (caught between the artificially high cost of inputs and the prices imposed on the market).

- consumers, the transfer of wage increases to prices, reducing consumers' total buying power and increasing poverty.

- budget, more or less hidden subsidies and refusal to pay contributions due to the state.

Salary policy since 1992 has contributed to the increase of poverty by creating and exacerbating the imbalance and inequality in the system of remuneration.

#### **c. Expansion of the informal economy**

Increasing informal economic activity adds to the growth of economic inequality, as income polarisation in the underground economy is extreme. Participation in the parallel economy also carries additional risks, such as administrative penalties for illegal activities, vulnerability to extortion, lack of labour protection or access to the social and health insurance rights.

#### **d. Disproportionate taxation of lower-income groups**

Fiscal fraud, as well as the non-payment of taxes and contributions by many formal as well as informal economic actors, greatly increase the fiscal burden on already small legal incomes.

The difficulty of collecting taxes and contributions has led to increasing indirect taxes on consumption (VAT, excises), that are broadly regressive. The greater the decline in individual incomes, the more indirect taxes (which are included in the prices of goods) are felt. The

<sup>8</sup> RNIS data in NHDR, Romania 1999  
<sup>9</sup> NHDR, Romania 1999, page 24

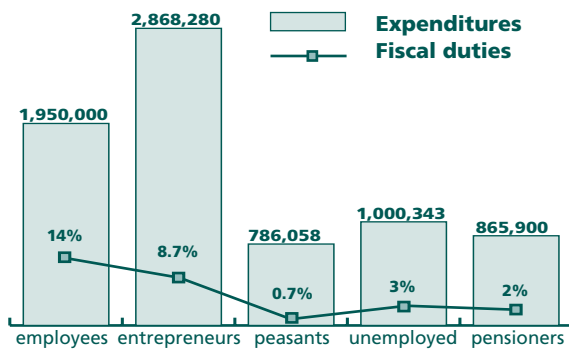


plan of the present Government to reduce VAT for a set of basic goods, which would have improved the situation for the poor, could not be implemented in 2001, because of difficulties in formulating the budget.

**e. Increasing of regional inequality**

The crisis in mining and heavy industry, as well as the

**Chart 9. Taxation as a share of total household expenditures, by occupation**



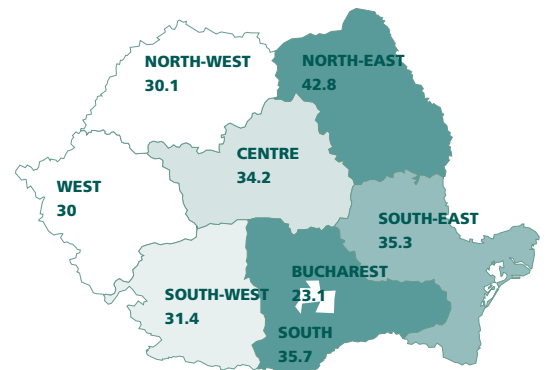
bankruptcy of a number of large economic units, has triggered high unemployment and set off a downward economic spiral in towns and regions heavily dependent on single industries. In these cases, the decentralisation process had the undesired effect of deepening regional inequalities. Poor areas became poorer as they were forced to rely primarily on local financial resources. Unless the Central Government acts as both a collector and re-distributor of resources, inequality will increase along a central-peripheral pattern.

The Jiu Valley is a typical area characterised by an abrupt and devastating economic decline. Unemployment in major towns is very high: Petrila 58%; Petroşani 48%; Aninoasa 20%; Vulcan over 50%; Lupeni 63%; Uricani 55%<sup>10</sup>.

Differences between regions have increased dramatically. The poorest region is the North-East of Romania, but southern regions are also confronted with high levels of poverty.

The differences between towns and villages have also widened. According to 1998 data, the poverty rate in rural areas was 50% higher than in urban areas: 41%

**Chart 10. Poverty rate in Romania by regions**



Source: Te[liuc, Pop, Te[liuc, 2001.

of the rural population was poor compared to only 28% in urban areas. The differences between rural and urban areas are significant even independent of occupational status (preponderance of agricultural workers in the rural areas, etc.). The devolution of the agricultural sector into a survival economy exacerbates the social and geographical isolation of many village communities.

**f. Corruption, bureaucracy, and inefficiency in public administration**

A recent study by the World Bank<sup>11</sup> found that corruption also contributes significantly to the decline in the standard of living. The Prime Minister, Adrian Năstase, estimates that corruption reduces budgetary revenues by at least 15%, a conservative assessment (Weekly Conference with the Prefects, 2nd of March 2001). Corruption is a factor in the redistribution of resources from the poor to the better off, through both direct and indirect mechanisms. Offering money or gifts in return for public services is the most obvious, but far from the only corrupt practice. The World Bank study (2000) found that **42%** of those interviewed declared that they had felt it necessary to give bribe in the last year, or had offered bribe or "a present" in their interactions with public officials. Excessive bureaucracy in the delivery of public services expands the opportunities for corruption as well as increasing the costs of resolving problems. Corruption reduces the effectiveness and efficiency of both the government and of economic actors.

<sup>10</sup> Source: Preliminary Report of the Inter-Ministerial Commission for the Analysis of the Possibilities for Improving the Economy and the Society in Jiu Valley, March 2001.  
<sup>11</sup> Diagnostic Survey of Corruption in Romania, World Bank, 2000.

The same World Bank study (2000) lists the most important consequences of corruption as follows:

Lowering the living standard	51%
The poor getting poorer and the rich richer	51%
Endangers national security	17%
Violating human rights	16%
Moral decline of society	14%
Decline in the number who believe in honesty	11%
Losing foreigner investors	11%

A study conducted in 2000 by the CURS<sup>12</sup> found that 51% of those with a health problem (hospitalisation) had "to offer presents" to receive medical care. The percentage of those forced to use this method of obtaining services was 10% in interactions with Public Administration, 17% at school, 23% for finding a job, 23% in the judicial system and 16% with the Police department.

It is thus not surprising that public opinion finds that those who have benefited from transition are "those who held leading positions", but not ordinary citizens.

### g. Criminality and fraud

There has been a major expansion in the activities of Mafia-like criminal organisations, in some cases tolerated or protected by the police, as well as an increase in thefts, robberies and large-scale financial fraud. Small entrepreneurs are forced to pay protection money, elderly people lose their homes to fraudulent schemes, illegal loans with very high rates of interest have proliferated as have street crime and petty thefts on public transportation.

The response of the authorities responsible for security and the safety of individuals and their assets has been entirely inadequate and this weakness played an important role in the explosion of criminality.

The number of criminal acts investigated by the police quadrupled between 1990 and 1997. Cases of property

### "Who do you think have benefited by the transition to the market economy up to now?"

Those in leading positions	87%
Ordinary citizens	3%
Don't know	10%

Source: Gender Poll, GALLUP - Romania, August 2000.

fraud, theft and cheating increased 20 times. These incidents are direct causes of poverty both for the victims and the perpetrators. The victims are often left in irreversible poverty. The offenders also pay: those who are caught and detained face long-term consequences, an increase in their and their families' social vulnerability, social marginalisation and exclusion from the labour market.

### How much do you trust the Police?

62% - low and very low

### How much do you trust the courts ?

74% - low and very low

Source: Gender Poll, GALLUP - Romania, August 2000.

Increasing acts of delinquency are also related to the material difficulties of transition. The young in particular are exposed to crime because of the many economic difficulties they face and the severe lack of income opportunities in the formal sector.

### Do you know anybody who, after losing a job, started stealing?

Yes - 8%

Source: Gender Poll, GALLUP - Romania, August 2000.

The failure of the state to protect the population from criminal fraud, in direct or indirect forms, during the transition, period was responsible for the increasing poverty among important segments of the population. Financial "clever schemes" robbed the participants and the state budget. The CARITAS and FNI scandals, as well as bank bankruptcies caused large numbers of people to lose their savings. While the state budget was forced to take over these debts, an even more serious effect was to discourage saving for lack of trust in savings institutions and investments. A significant part of internal capital resources have been stolen.

### How much do you trust the Banks?

69% - low and very low

Source: Gender Poll, GALLUP - Romania, August 2000.

<sup>12</sup> Source: Public Opinion Poll, CURS, November 2000.

**h. The policy of correcting past injustices produced by the socialist regime**

The policy of restitution of land and buildings, in addition to creating new injustices (families evicted from their homes with no compensation, villagers who worked for years in agriculture left without land) has placed an immense burden of huge restitution costs on the entire population. The effect of this political decision in terms of increasing economic inequality has not yet been assessed, but the population will pay in the future.

The transition period has been characterised by an explosion of criminal activities, which hardly serve the growth of a healthy economy. The appearance of pathological behaviours, monopolistic and speculative mechanisms, swindles and fraud have all contributed significantly to the process of impoverishment.

**C. Re-distributive Poverty**

While the standard of living has declined for the majority of the population, the state's efforts to provide compensatory payments has also substantially depreciated. Social support for those who have lost their jobs and savings, or who face an acute gap between needs and resources, has eroded faster than earned incomes. If we compare the dynamic of different social

benefits with wages, the most important source of income, we find a rapidly increasing "distance" between employees and persons living on income support.

In addition, over the past several years, social policy decisions that are difficult to explain rationally have created new inequalities. The introduction of different methods of pension calculation in contradiction to the fundamental principles on which the system is based, as well as the policy encouraging early retirement have created major imbalances. Pensioners who retired during specific periods receive pensions as much as twice their last salary or have benefited from more advantageous conditions than other pensioners who retired from similar situations, but at an earlier time.

- Pensioners retired prior to the end of the year 1997 => 78% of total pensioners, receive 94.2% of the average pension.

- Pensioners retired after 1997=> 22% of total pensioners receive 127% of the average pension.

(Source: calculations made by the Ministry of Labour and Social Solidarity).

**The extreme depreciation of social benefits has itself become an important source of increasing poverty.**

**Table 20. Social benefits as % of the average wage**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Average pension (state social insurance)	46.4	44.7	45.1	43.6	45.2	42.6	40.8	38.6	40.3	37.2	35.9	34.3
State allowance for children	10.5	9.7	7.2	5.4	4.9	4.2	4.3	3.9	7.4	6.2	4.3	3.2
Allowance for the second child <sup>1)</sup>	--	--	--	--	--	--	--	--	13.7	10.1	7.0	5.5
Social aid		--	--	--	--	--	21.3	14.0	15.6	13.2	10.6	7.7
Unemployment allowance		--	--	20.0	16.1	14.4	18.6	15.7	15.4	14.7	16.8	12.9
Aid for professional insertion	--	--	--	--	--	24.7	20.1	17.0	18.8	17.9	21.9	17.4

<sup>1)</sup> In 1997, an additional allowance for the families with two or more children was introduced.

Source: RIQL database.

In conclusion, the explosive growth of poverty in Romania over the last 11 years was not an inevitable social cost of transition, but was to a significant extent an avoidable cost, generated by major failures and distortions in economic and social policy. As a result, in addition to changes in socio-economic policies needed to spark a return to economic growth, significant resources must be dedicated to poverty alleviation.

## Chapter 4. Current Poverty: Source of Increasing Poverty and Future Vulnerability

The current wave of poverty will generate future aftershocks even if the long awaited economic revival materialises. Extreme and long-term poverty generates a kind of "immunity" to economic growth and becomes an obstacle to development. Poverty has already produced serious deterioration in Romanian society: the loss of professional skills, declining educational levels, reduced savings, reduced accumulation of assets, and social disintegration. All lead in different ways to social exclusion.

**The process of social marginalisation and exclusion are difficult to reverse. The effects of poverty today become the causes of future poverty.**

### a. The Depreciation and Underdevelopment of Human Capital

The collapse of industry radically reduced the number of highly skilled jobs available, which in turn severely limited the opportunities of the younger generation to find skilled jobs. Professional polarisation increased dramatically among the young. A small elite of young people have benefited from top professional opportunities, while the large majority of the young are either unemployed, hold unskilled or semi-skilled jobs or work well below their level of qualification.

The prolonged depression also delays entry or return to the labour market. The unemployment rate for the young has consistently been twice the national average and since 1994, nearly three times higher. Chronic youth unemployment has worrying implications for the future.

The fact that transition has not as yet produced clear signs of an economic, political and social recovery, and that for many, opportunities are decreasing is a source of a severe discouragement. Prolonged social and economic stress generate enormous risk of self-destructive personal coping strategies: some withdraw into passivity, others into alcohol and drugs, others earn a living from illegal and degrading activities (begging, prostitution), others leave the country and others choose suicide (the suicide rate per 100,000 has increased sharply: from 14.0 in 1996, 15.8 in 1998, and 18.9 in 2000 (Annual report of forensic medicine network, 2001)

### b. The Declining Level of Education

A low educational level among the adults in a household is a strong predictor of a low income level (independent of other household characteristics), and a higher risk of poverty (Chart 12). Education is the sole chance for the children of these families to escape from poverty in the future.

**Do you know anyone who, after losing his or her job, has started drinking?**

Yes - 25%

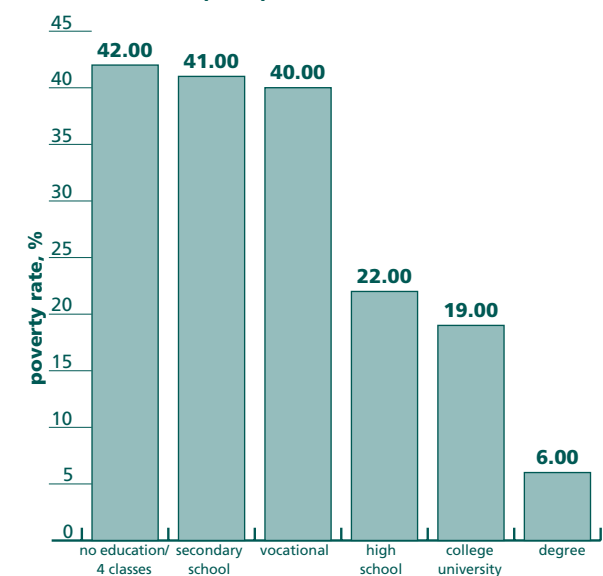
**Do you know anyone who after losing his or her job has started begging?**

Yes - 6%

Source: Gender Poll, GALLUP - Romania, August 2000.

School enrolment also depends on the family. Children from poor families have a higher non-enrolment or drop-out rates and significantly lower chances of success (Table 21). Most of the children who drop out of school

**Chart 12. Poverty rate according to educational level of household head (1998)**



Source: Te[liuc, Pop, Te[liuc, 2001.

or were never enrolled come from poor, socially troubled families. The erosion of the systems of social support over the past 11 years has enormously increased the degree to which school enrolment depends on family support. At one extreme, the troubling increase of non-enrolment or dropping out of compulsory elementary education is frequently due to a lack of basic necessities (food, clothing, notebooks and transportation, particularly in rural areas). At the other extreme, is a dramatic decline in the opportunity for children from poor families, particularly from rural areas, to enter higher education. The effects are also felt in the serious burden on family budgets that keeping children in school represents, often resulting in a strict limitation of other expenses. In some cases the elderly use their pensions to help their children or grandchildren, cutting their own expenditures for medicines or even food. The

educational system in rural areas has steadily degraded, particularly in isolated areas.

The Roma population is particularly negatively affected (Table 22).

The deepening of economic inequality during the last eleven years has been accompanied by a polarisation of school participation. There has been a spectacular increase in the number of students in post-secondary education, while the primary and secondary levels have experienced sharp reductions in the numbers of students. Pre-school education has seen the sharpest decline in enrolment rates: from 83% in 1989, to 63% in 1997 (NHDR, 1998). Although less dramatic, the decline in enrolment and rising drop-out rates in primary school is particularly problematic. The most spectacular fall is in secondary education from 90.7% in 1990 to 68.7% in 1997.

Romanian education currently concentrates on the accumulation of information rather than on cultivating learning abilities for successful social and economic integration. The mid-nineties saw "a crisis in the vocational educational system", reflected not only in declining enrolment rates, but also its failure to adjust to current economic needs.

The lack of education and/or of training and skills makes it very difficult to find a job, a continuing source of poverty. The labour market prospects of those now giving up secondary and post-secondary education are extremely poor. Their mobility is minimal and their chances of occupying a marginal position on the labour market in the future are very high, which means continuing high economic vulnerability.

**Table 21. Poverty and non-enrolment school rate (percent of whole population)\***

Year 1998		Place of Residence		
		Urban	Rural	Total
Total		3.4	6.1	4.6
<b>Household features</b>				
The household	Is in poverty	5.6	7.6	6.7
	Is not in poverty	2.1	3.8	2.6
The household	Is in extreme poverty	11.0	10.1	10.4
	Is not in extreme poverty**	2.3	4.5	3.2

\* The statistics refer to children above the age of seven at the beginning of the academic year but younger than fifteen at the time of the survey.

\*\* Includes both non-poor and "poor but not extremely poor"  
Source: L. Pop and B. Voicu (2000).

**Table 22. Educational situation of the Roma children**

School enrolment of Roma children (aged 7-18)	
Never enrolled	19.6%
Dropout in elementary school	9.2%
Dropout in middle school	6.6%
Dropout in high school	1.0%
Currently enrolled in school	60.0%
Degree of functional literacy of Roma children (aged 10-18)	
No reading skills at all	23.0%
Reads with difficulty	16.6%
Reads well	60.4%

Source: L. Pop and B. Voicu (2000).

### c. The Erosion of the Work Ethic

Transition-related distortions in the economy have negatively affected the work ethic. Experience shows that speculation at the border of legality or beyond are the key to success, rather than constructive effort and intelligence. These attitudes are also barriers to a healthy re-launch of the economy.

In 1999 the majority of the Romanians thought (POP '99) that work is poorly paid (91%) and hard to find (87%).



#### How do you think the majority of people who have made a fortune in Romania, managed to do this?

By breaking the law	54%
Connections	21%
By work and personal merit	9%

Source: Public Opinion Poll, November 1999 (POP '99).

#### d. Inadequate Living Conditions for Children

Impoverishment has a brutal effect on children. The general decline and stagnation of the economy has led to family disintegration as a result of extreme poverty, increasing the risks of child neglect, maltreatment or children being forced into humiliating forms of earning income or abandoned, any of which severely affect their ability to lead normal lives as adults. Abandoned children, who lose all support after turning 18, require urgent intervention to support their integration into adult life. Many of them end up living in the street, homeless and unemployed, while others become candidates for crime. Street children, the most extreme form of abandoned children, have virtually no chance of a normal social existence

#### e. The Housing Shortage

A number of factors have contributed to an as yet not established number of families and individuals who are homeless and have little chance of finding shelter. In the current climate, the loss of a home is a decisive event pushing families into a state of extreme poverty.

Two aspects of the problem should be noted here: the housing shortage and the crisis in utility costs. In recent years a new crisis with disastrous long-term effects has taken shape: the inability to pay maintenance fees. 22.4% of all families living in blocks of flats are more than 3 months in arrears in their maintenance costs (POP, November 2000)<sup>13</sup>. The accumulating debt pushes these families into a desperate situation with little chance of escape, the major risk being the loss of their home. Non-payment of public utilities affects not only the family in question, but the entire building's homeowners association - and is thus an indicator of the advancing bankruptcy of the infrastructure of community life. The current heating system is technologically obsolete and providers charge excessive rates to cover energy losses. Voluntary or forced disconnection of many families from the heating system,

and even from the water and power supply, for non-payment makes poverty a misery unacceptable in a modern society.

#### f. The Formation of Pockets of Poverty

Without targeted interventions, communities and even large geographical areas now mired in profound economic and social crises will hardly be touched by a return to economic growth. These communities are in danger of becoming areas of chronic underdevelopment. Several factors contribute to the formation of poverty pockets:

- small towns entirely dependent on a bankrupt industry, particularly in mining areas;
- poor rural communities in which economic life is based on subsistence agriculture;
- in larger cities (mostly temporarily) work opportunities have drawn in a labour force for which proper housing is not available.

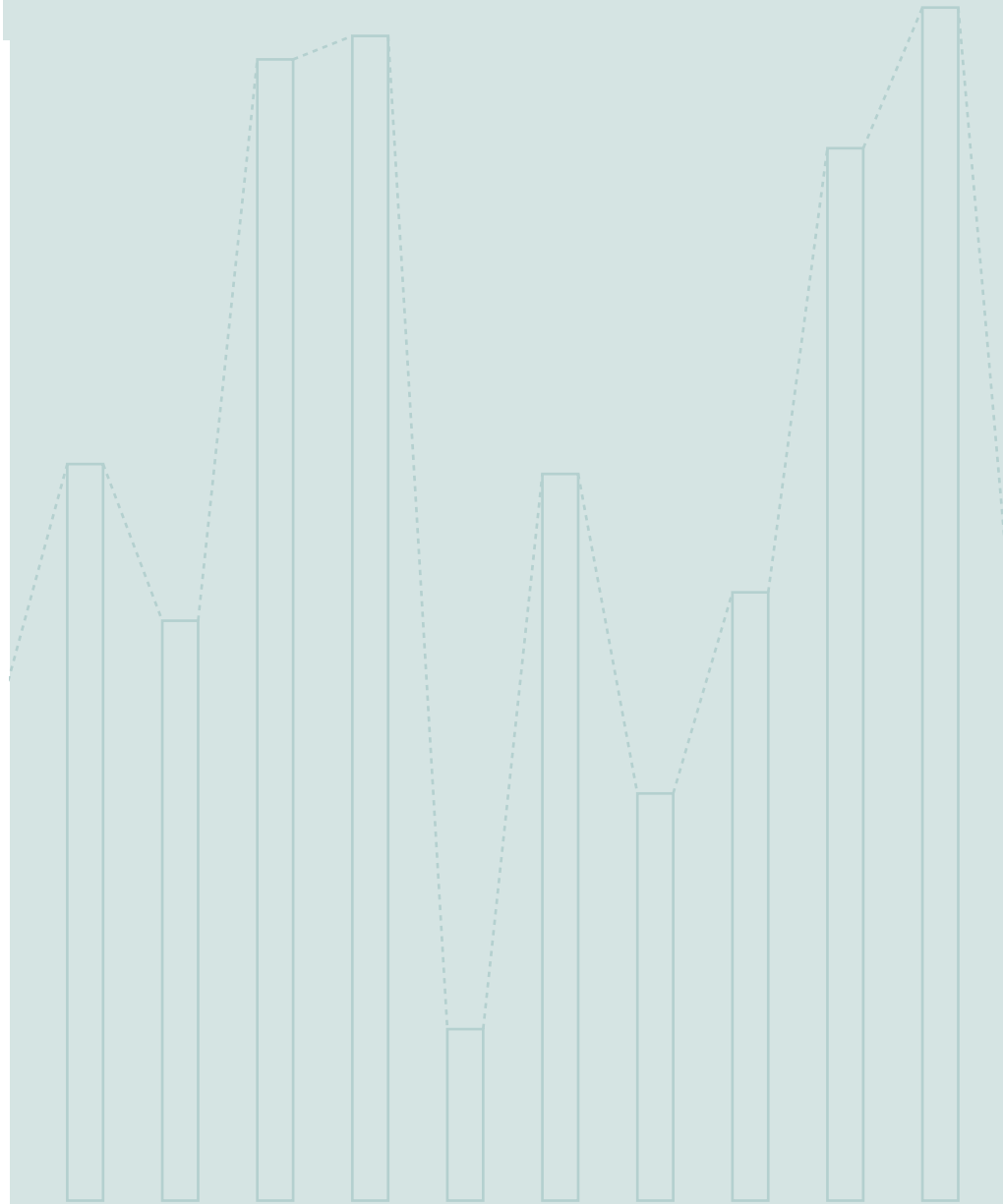
These factors have added to, and to some extent generated, decay of the infrastructure, the transportation network and of general living conditions.

In these areas, pockets of poverty appear in which a culture of poverty takes shape. The behaviour and life style characteristic of chronic poverty include a sense of discouragement, apathy, and demoralisation. Some Roma communities, faced with a chronic lack of opportunities for integration into a modern economy, are highly persistent pockets of poverty and social exclusion.

#### g. Growth of the Underground Economy, including the Problems of Reconversion to a Normal Economy

A survival strategy developed in response to the economic crisis, the underground economy may itself become a source of underdevelopment. It has given birth to highly persistent social and cultural structures characterised by poverty, exclusion and criminal activities, which are not easily absorbed by the wider society. Social relations within this milieu become fragile and are replaced by relationships based on power rather than law and morality.

<sup>13</sup> The POP survey of November 2000 collected data for the months of August, September, October. An increase in maintenance costs is expected for the winter months (during winter months maintenance costs increase as thermal power costs are added to the total cost of maintenance of an apartment).





## Chapter 5. An Assessment of Anti-Poverty Policy

In the first years after the revolution the idea was raised that a temporary, enhanced social protection programme would be needed during transition to minimise its social costs and avoid a serious decline in the standard of living, a process difficult and costly to reverse. Did Romania choose to implement enhanced social protection to compensate for the effects of transition? How did the other countries in transition react to the same challenge?

### Political Refusal to Face Poverty

Unfortunately the wave of poverty during the eleven years of transition was met by a political tendency to ignore its severity.

In 1989, few Romanians perceived themselves as poor. Rather, they considered themselves to have been sacrificed to an aberrant policy. National resources were used to support an inefficient economy and to acquire foreign currency through extensive exports, while incomes were reduced to finance megalomaniac investments. Thus, the 1989 revolution produced extremely optimistic expectations. The fall of the Ceauşescu regime raised hopes for an immediate and substantial increase in welfare. Released from the artificial constraints of the socialist regime, it was assumed that the process of economic revival would follow automatically, producing gradual growth and creating few problems.

This faith in the immediate positive results of economic reform during the early years of transition caused the warnings of rising poverty to be considered an exaggeration by the specialists. In 1991-1993, politicians did not consider poverty to be an issue requiring a systematic approach. Poverty emerged too suddenly, despite the optimistic expectations. Only in 1994, at the peak of poverty, was the problem recognised at the level of political consciousness as a surprise, rather than a problem demanding a response. A modest level economic growth in 1995-1996 pushed poverty back into the shadows. In 1997, people close to the new

president tried to bring the problem of poverty to public attention, but it rapidly returned to being an issue of little interest. The government was more concerned with closing inefficient enterprises as a reform measure, than fighting poverty. The policy of offering generous compensation for mass lay-offs was not an anti-poverty programme, but a means of avoiding social struggle while implementing industrial closures. In 1997, at the request of the UNDP, a National Commission for Poverty Control was established under the patronage of the President of Romania. This Commission produced a Strategy formulated in relatively broad terms, of which the Government took no notice and which, consequently, did not become a governmental programme for action.

There are two other explanations for this studied ignorance. First, Romania was confronted with a difficult process of economic restructuring, and its main efforts were focused on economic revival. It seemed that poverty might best be addressed by a successful economic reform. Second, the first years after the revolution saw constant social pressure for the satisfaction of social claims. The government was more concerned with resisting the pressure to use public funds to meet the multitude of claims, than with articulating a policy for the support of the severely impoverished.

### Transition: Economic Reform with Social Shock

In order to assess the impact of social policy on the dynamics of poverty, we will consider two aspects: the level of social policy funding and the structure of the system of social protection.

#### A. Financing Social Policies

Enhanced social protection could be achieved, first of all by a higher level of budgetary effort. Many countries in transition have implemented enhanced social protection. Although the initial level of public social expenditure in Romania as a percentage of GDP was among the lowest in the socialist system, particularly if we consider the Central European countries, the increase

The level of social expenditure is considered by the Global Human Development Report (1999) to be an extremely important factor in securing satisfactory human development. The report appeals particularly to poor countries, despite their limited resources, to enhance their efforts in this field.

**Table 23. Dynamics of public social expenses in transition countries as reaction to first transition shock (% in 1993 compared to 1989) in comparison with some EU countries**

Countries in transition	1989 (% of GDP)	Increase / decrease in 1993 compared to 1989 (%)
Average for the countries in transition	16.7	4.5
Average for the European countries in transition	20.4	6.6
<b>Romania</b>	<b>14.2</b>	<b>1.0</b>
Average of CIS countries	13.6	6.0
EU (1990)*	25.4	3.6
Portugal	15.5	5.5
Spain	20.4	4.0
Greece	22.7	-0.7

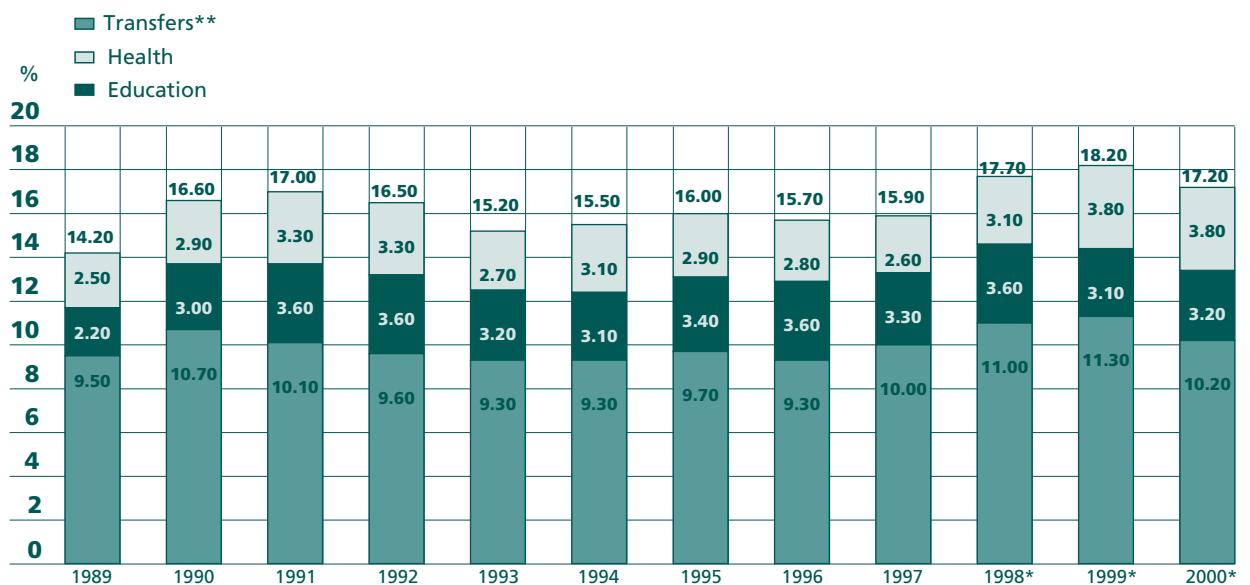
\* For EU countries, the comparison is between 1993 and 1990; data includes only social protection expenditures for health and social transfers, and does not include expenditures for education. Source for Romania and countries in transition: C. Zamfir (coord.), 1999. Source for EU countries: *The Social Situation in the European Union*, EUROSTAT, European Communities, 2000.

in Romania was one of the lowest: 1% in 1993, compared to 6.6% on average among the Central European transitional countries (Table 23). Romania has continued to lag behind in the social sphere compared to the other Central European countries. Growing unemployment and the slowing of GDP growth during the same period led the EU countries to increase their social protection expenditures by 3.6%. The poorer EU countries (Spain, Portugal, except Greece) made greater efforts than others (Table 23).

The slight increase in Romania's budgetary effort for social programmes (Chart 13) was in fact nullified by the decline in real terms of social policy funding (Table 24).

Romania is also far from the level of social commitment of the Western European countries (Table 25) and of some Central European transition countries which are not facing a crisis period (Tables 25).

**Chart 13. Dynamics of public expenditure as % of GDP in Romania**



\* For 1998, 1999 and 2000 - RIQL data base.

\*\* Transfers include expenditures for social assistance, allowances, pensions, aids, compensations and other social expenditures (minus housing expenditures).

Source: *National Human Development Report, Romania 1999*.

**Table 24. Dynamics of public social expenditure in Romania**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999*	2000*
Public social expenditures** as % from GDP (1989 = 100)	104.2	80.4	65.4	62.0	67.9	80.5	86.0	76.8	76.4	74.6	72.6

\* Provisional data.

\*\* Include social transfers (social assistance, allowances, pensions, aid and compensation), education, health, the expenditures of a social character, minus the ones related to dwellings and housing.

Source: RIQL data base.

Romania's accession to the EU will require an additional effort in both the level and the quality of social protection. The Amsterdam Treaty art.2 states: "The community will have the task ... to promote within the community ... a high level of social protection." The Committee adopted on 4 July 1999 an official statement (COM99-347) on a broad strategy of the EU for the modernisation of social protection. The official statement defines the agenda for collective discussion of four key objectives: labour efficiency and secure incomes, guaranteed pensions and a sustainable pension system; to promote social inclusion and the protection of high quality and sustainable health.

Although social protection expenditures within the EU are quite heterogeneous, they are tending to converge, the greatest increase in those countries previously at the lowest levels (The Social Situation in the European Union, EUROSTAT, European Communities, 2000). In this context, we can expect Romania to be forced to increase its social protection expenditures significantly as it moves towards EU accession.

**Table 25. Proportion of public social expenditure (transfers and health) as % of GDP in Romania in comparison with other countries in transition and EU countries (1996)**

Sweden	34.7
Denmark	33.6
United Kingdom	27.7
Germany	30.5
Portugal	21.6
Greece	23.3
Spain	22.4
Hungary	20.9
Estonia	16.2
Slovakia	20.9
Lithuania	14.7
<b>Romania (1996)</b>	<b>12.1</b>
<b>Romania (2000)</b>	<b>13.5</b>
EU Average	28.7

Source: International Labour Organisation, *The Social Situation in the European Union*, EUROSTAT, European Communities, 2000.

### Level of Direct Social Transfers to the Population

The social benefits granted to individuals in difficulty are the most accurate reflection of anti-poverty policy during an emergency period. Direct cash social transfers (pensions, child allowances, social benefits), remained fairly stable, with small annual variations (Table 26). After 11 years, despite rapidly increasing poverty, no additional effort has been made. At slightly over 10% of GDP, given the rapid growth in the number of individuals requiring social support after 1990, we can safely state that the effort to assist those in difficulty has decreased.

Thus, Romania was an exception to the general pattern: it did not choose to make an enhanced effort for social protection, but allowed protection to stagnate or decline in the face of increased need, failing to make the efforts visible in other countries in similar situations.

This social policy choice was, without doubt, a source of the excessive social and human costs of transition, an important explanatory factor for the wave of poverty.

**Table 26. Dynamics of direct social transfers as reaction at the first transition shock**

	1989	1990	1991	1992	1993	1993 compared to 1989 (%)
Average for countries in transition	8,5	9,0	11,3	10,6	11,1	130,6
European countries in transition	11,6	12,1	14,7	15,6	15,2	131,0
CSI countries	6,2	7,0	9,1	7,5	7,7	124,2
<b>Romania</b>	<b>9,5</b>	<b>10,7</b>	<b>10,1</b>	<b>9,6</b>	<b>9,3</b>	<b>97,9</b>

Source: C. Zamfir (coord.), 1999.

## B. Structure of Anti-Poverty Policies

If the modest volume of resources dedicated to Romanian social policy reflects a pattern of minimal intervention by the state to correct imbalances in the distribution of wealth, the manner in which these resources have been applied is completely in contradiction to its philosophy and deviate particularly from the recommendations of neo-liberal doctrine. Social protection did not focus on the support of the "poorest of the poor". Instead, social policy concentrated resources on compensation of the losses incurred by employees through the system of social insurance, rather than on the protection of those excluded from wage employment.

### 1. Social Protection as Contributory Social Insurance

**a. The system of social insurance for the employed** was the central pillar of the social policy system during transition. This mechanism provided a minimum security to a large segment of the population - the elderly, most of whom had been employees. At the same time, a basic social choice was expressed for a society based on labour. That is, a society in which labour is compensated not only by current income, but also by a satisfactory system of security in old age. The emphasis of social protection policy was placed on the area most sensitive for the working class: retirement. Within the resources available, a consistent effort has been made to keep pensions at a reasonable level. These social benefits were the least eroded, although in the past year the pace of pension erosion increased. The risk of a lower degree of system comprehensiveness is also increasing. An important segment of small entrepreneurs and the vast majority of peasants run the risk of remaining uncovered by social insurance, which will greatly increase their social

vulnerability. The new pension system promulgated in a recently passed law intends to consolidate the system of insurance protection, stipulating that it be supplemented by at least two pillars: an investment-based compulsory insurance and optional private insurance. A reasonable level of social benefits also exist for other situations of loss of working capacity: sick leave, maternity leave, including a two-year leave for child care (given to either of the parents or the legal guardian). The ridiculously low level of the pensions paid to former agricultural cooperative members is a painful unresolved issue. The pensions of the former coop members are purely symbolic, throwing the eldest of them into extreme poverty.

**b. The system of support for the unemployed.** This was elaborated as an essential element of reform as early as 1990, when there was actually no unemployment. If initially the unemployment benefit was set at a reasonable level in relation to the wage it replaced, it rapidly eroded as the number of the unemployed increased. The introduction in 1997 of a system of compensation for mass lay-offs was perceived as a "bribe" to avoid social protests, as a way of making unemployment acceptable for organised groups, rather than as a support system for creating new jobs. The previous policy from 1990-1996, which had emphasised job protection, had supported large enterprises economically, in the hope that they would implement a reform process. The effect on enterprise restructuring was modest at best and sometimes counterproductive. It is difficult to explain the rather hostile attitude towards infrastructure programmes as an alternative to relieve the traditional enterprises of social pressures in order to restructure them. After 1997, a new policy was implemented, equivalent to restructuring by destruction or restructuring as a purpose in itself, not for economic revival. Important financial resources were allocated to support the unemployment of large groups of people working in sectors to be cut, primarily mining. Budget credits to support the economy became even less transparent and did not support production, but covered accumulated debts. In addition, both internally and externally funded programmes for active job creation were implemented, but their overall efficiency was not evaluated with the proper independence and attention. The results were minimal.

Although theoretically the importance of job creation policies was recognised from the beginning, they were minimally financed and ineffective.



The passive protection of the unemployed through cash benefits, accounted for 60% to 90% of the expenditures from the Unemployment Fund (in surplus until 1997), while active programmes (including training/retraining, subsidised employment and credits for the creation of income-generating activities), due to a declining unemployment rate in general and long-term unemployment in particular, never exceeded 3% between 1991-1997. For example, beginning in 1992, the proportion of training/retraining courses for the work force was less than 1% of the expenditure from the Unemployment Fund. The proportion of unemployed enrolled in such programmes decreased from 82% (1992) to 38% (1997). The unemployed as a proportion of the total enrolled in these programmes decreased from 82% (1992) to 38% (1997). Barely 2% of total unemployed enrolled in such training courses in 1997. The proportion of persons finding a job after the completion of these training courses (including not only the unemployed, but also persons who initially had a job) decreased continually, from 35% in 1991 to 13.3% in 1997. **Based on these data, an optimistic assessment would indicate that active measures - professional training/retraining courses - could have reintegrated into the labour market no more than 1% of the overall recorded unemployed.**

The preference for passive measures was also visible in the significant proportion of total expenditures incurred from the Unemployment Fund to subsidise the wages of those employed in the so-called national strategic branches and the army during periods when their production was low or zero. **These passive approaches**, together with the introduction in 1997 of so-called compensatory payments for those who were laid off during enterprise restructuring, produced inadequate social and economic effects.

## 2. Non-Contributory Social Policy

**a. Child allowance** was, during transition, the most important instrument in fighting poverty. Its value eroded more or less continuously; after a rapid decrease until 1996, an insufficient revival in 1997 was followed by a continuous decline until 2000, when the lowest level since it began was reached. If before 1989, the child allowance was about 10% of the average wage, it currently represents barely 3% of a substantially lower wage. The introduction of a supplementary allocation for families with two or more children brought a slight improvement (Table 27). However, the continuous decline in real incomes substantially reduced the ability of this benefit to compensate for the rapidly deepening impoverishment of these families. Furthermore, the inclusion of child benefits among the incomes taken into consideration for granting social assistance negated its function as a supplementary support for poor families with children. The new draft of law on minimum guaranteed income changed this stipulation, excluding child benefits from income calculation. The same is true for social scholarships. These too were counted in the social assistance calculation and are to be excluded in the new draft of the law. In addition, the present government intends to increase child allowances back to 10% of the average wage.

**b. Income-tested benefits** directed to the support of the poorest were introduced at the end of 1995. The eligibility threshold was not set at the actual poverty line, but was related to budget resources. It was estimated that the poorest 10% of the population could be covered (Table 29). In June 1994, 659,000 households had an income per capita below the eligibility level for the social benefit (adjusted accordingly to the consumer price index), constituting 11.8% of the total population (C. Zamfir, 1995). In 1995, when the benefit was passed,

**Table 27. Dynamics of the real value of the child allowance compared to 1989**

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
97.8	59.1	38.4	29.0	24.9	28.6	28.6	42.1	36.7	25.2	18.7

Source: MLSS.

**Table 28 - Allocations for the family and for maternity, as % of GDP**

1990*	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
3.8	1.8	1.2	1.0	1.1	0.8	0.7	1.2	1.6	1.1	-

\*The data on 1990 include the tax reduction.

Source: MLSS.



the threshold set for a one-person family was 87% of the threshold defining the extreme poverty rate (EPR), and 58% of the poverty rate (PR). After a sharp decrease in 1998 this benefit represented 48% and 32% of the poverty threshold, respectively (Table 29).

During the first few months after the law was passed, the benefit was paid from the state budget. City halls assessed the requirement and the MLSS transferred these funds to local budgets. Beginning in January 1996, the financial responsibility for payment was transferred to local city governments.

The consequence of this fiscal decentralisation was that the number of beneficiaries began to decrease (Table 30). Expenditures for social benefits fell in real terms beginning in 1996. In 1999, they represented in real terms just 15% of the expenditure during those few months in 1995, and by 2000 just 6% (Table 31). At that time most city governments, primarily in rural areas, ceased to make payments. Those still paying the benefits limited the beneficiaries to a few categories, such as the elderly and the chronically ill and did not accept new applications. Even for those still receiving social benefits, the delay in payment (often once every 3 or 4 months) or the partial payment meant that it had effectively ceased to be a solution for the poor.

**Table 29. Level of social benefits and its degree of coverage**

**Level of social benefit granting threshold as % of the threshold for extreme poverty and severe poverty:**

	Extreme poverty	Severe poverty
1995	87%	58%
1998	48%	32%

**Degree of coverage by the social benefit**

Projected in 1994	Achieved in 1998
Nr. of families = about 700,000 = 10% of population	Nr. of families = about 50,000 = 0.5% of population

Source: Teşliuc, Pop, Teşliuc, 2000.

In 1997, all cash social assistance benefits, except child benefits, equalled 3% of total social benefits, or 0.3% of GDP (C. Zamfir, 2000). The actual social benefit was a merely 0.05% of GDP in that year (Teşliuc, Pop, Teşliuc, 2001).

In order to increase the incomes of those in extreme poverty to this benefit threshold in 1998, an **11.7** fold

**Table 30. Number of families receiving social benefits at the end of the year, compared to December 1995**

Year	1996	1997	1998	1999	2000
-%-	49%	26%	22%	15%	6%

Source: MLSS.

**Table 31. Dynamics of real expenditure for social benefits**

Year	1996	1997	1998	1999	2000
-%-	144.2%	47.6%	30%	14.8%	-

Note: for 1995 the expenditures covered only the last three months of the year.

Source: MLSS.

increase of the expenditure for social benefits would have been necessary.

Currently, the system is practically frozen, as the social allowance will be replaced by another benefit: the minimum guaranteed income. The law on the minimum guaranteed income was adopted by the Government (end of April 2001), but will come into force as of 1st January 2002. Thus, the social allowance, targeting the poorest of the poor, did not cover precisely the peak poverty years - 1993-1994 (because the system was not established) and 1999-2000 (due to chronic underfunding of the system - Table 32).

In 2000, a new system of income tested social assistance was introduced: **the allocation of solidarity**. The benefit is addressed to families with per capita incomes less than 50% of the national minimum wage, and calculated as the amount necessary to bring their income level to this threshold. It was intended to replace the social assistance benefit (the threshold for social assistance is lower than the new threshold) and those families eligible for social assistance which do not benefit from it due to the financial problems of the local councils. The allocation of solidarity is financed from a special social fund, especially set up and supplied from taxes on gambling and the lottery: the National Solidarity Fund. In fact, the benefit is granted upon request, by the County Directorates of the MLSS, usually for no more than for six months. It is clear that the system only provides for an extremely low and unstable support granted to a small percentage of the potential beneficiaries. It is not yet clear how the system actually works, nor its coverage. An obvious result of adopting this system is that city governments will not be willing to pay any social benefits, relying on this new benefit

financed from the national budget. In 2001, the Fund was taken over by the Ministry of Finance and it is not clear whether the allocation of solidarity will exist on the future.

**c. Social assistance services.** Social work services, the third basic pillar of social services, has developed with difficulty, particularly in the face of several explosive problems: abandoned children, the disabled, and the elderly. The public system is still centred on residential institutions and practically ignores service provision in the family and community. Several non-governmental organisations have accumulated rich experience, but they are far from able to meet the need for social assistance among the entire population. Although the training of social workers began in several universities in 1990, and today there are several thousand specialists in the field, they are still not active in an articulated public system at a European level. After 11 years of transition, despite the unprecedented explosion of social problems, there is as yet no governmental strategy for the development of a system of social assistance services.

- The social assistance of abandoned children, despite a national effort and special support from Western countries, is still a critical situation. Residential institutions for children have improved substantially and an alternative system of foster care has been developed. Directorates for child protection have been set up at the county level. Although significant resources have been consumed, the lack of a clear strategy has produced far from satisfactory results. The incoherent policy in this area resulted in a crisis in children's institutions in mid 2000. The system is still centred on institutions, and lacks social assistance services within the family. Prevention of abandonment, as well as of neglect and child abuse in the family are practically non-existent. Street children continue to be regarded as an unavoidable situation and there is no articulated programme of intervention.
- The services for the elderly were limited, until 2001, to institutions. Institutionalisation was the only form of care addressed to the problems of poverty and lack of personal autonomy among the elderly. In 2000, a new law for the social protection of the elderly was passed, stipulating their right to receive medical services/care in their homes, household help and even a companion, according to need. This package of services was intended to "humanise"

social work for the elderly and to help them to avoid institutionalisation, but the odds that it will be implemented are minimal, as these services have been transferred to local budgets, which lack resources and have constantly increasing financial obligations.

- The only services addressing the poor directly are social assistance canteens, begun in 1993, and organised and financed by city governments. Their number has remained constant (there is an average of 2.8 canteens in every county, one of them in the county capital), and quite low<sup>14</sup>, rural areas are completely excluded from this type of service (despite various efforts by the non-profit sector). The average number of persons benefiting on a daily basis of this service represents 0.8% of the Romanian population. The social assistance canteens are however, where they do exist, the most important support for those in extreme poverty (children, the elderly and the chronically ill receiving preference), while the social benefit has proved to be an "institutional failure".
- Services serving pre-school children - nurseries, kindergartens - steadily degraded after 1989, while parental costs rose continually. This has decreased the access of the poor to these services. Nurseries were neglected as a consequence of the extension of maternity leave until the child reaches two years of age.

**d. Romanian Social Development Fund (RSDF).** Community development programmes in poor communities are an exception in Romania after 1989. One of the few active measures adopted was the establishment in 1998 of the Romanian Social Development Fund (RSDF), as a means of fighting poverty in rural communities.

**e. Health and education.** Although health and education received special political attention during the early years of transition, a reflection of their severe under-financing during the last decade of the communist regime, they were subsequently largely sacrificed. The budgetary effort (as a percent of GDP) is much lower than in the other countries in transition (Table 32), which are not in a severe state of crisis, and even lower than in western countries: 2-3% of GDP.

**Education** represents an extremely important instrument of poverty policy because it breaks the transmission of poverty from one generation to the next and improves

<sup>14</sup> Most social assistance canteens, 4-8/county are particularly in the counties from Moldavia, e.g. Botosani, Vaslui, Suceava, Iasi, counties with serious social problems and a high poverty rate. The canteens organised by the non-profit sector (just 23 in 1999) are located, paradoxically, in the less poor counties, such as the counties from the west and north-west of the country. The expenditure of keeping children in school increased significantly, the expenditure, even the informal expenditure for health care also increased significantly.

an individual's ability to use the opportunities provided by the economy.

The increase in direct payments for education, particularly by stimulating private education as a means of compensating for inadequate budget funding, ignores

As established by Law 129 of 1998, with an initial 4-year period of operation, the Romanian Social Development Fund (RSDF) "... is intended to reduce poverty by financing projects in targeted poor communities and for disadvantaged groups, increasing local management capacities, supporting administrative decentralisation, increasing organisational capacity at the local level" (Law 129/1998, art. 3, paragraph 1). The RSDF funds<sup>15</sup> 3 types of projects: small rural infrastructure projects, projects for income-generating activities, and community social services projects.

So far, the RSDF has approved 290<sup>16</sup> of the 1362 applications for financing (195 in the small infrastructure component, 56 income-generating activities, 39 in the community social services component); the number of recipients thus far is 115,372 people. Funds granted amounted to USD 13,421,724 in 2001 (i.e. 85.2% of the total value of the project), while the 14.8% remainder (USD 2,331,547) represents the recipients' contribution (Source: RSDF).

the medium- and long-term educational and social effects. There is a clearly foreseeable risk in the educational policy of recent years, as the state withdraws more and more from supporting higher education, shifting the costs to the population. The establishment of paid classes in pre-university education, beginning in 1999, started a trend with hardly foreseen effects. Continuing this policy may lead to a reduction in the overall educational level of the population, a rapid increase in the inequality of educational opportunities, and an acceleration of the processes of social polarisation and even segregation.

Although substantial improvements have been seen over the past ten years in education, there are several critical issues that can become equally major crises:

- The pre-school system is severely underdeveloped, drastically reducing the opportunities for success in school for the poorer members of society;
- Educational polarisation;
- Increased school non-enrolment and dropping out;
- Disintegration of the rural education system;
- Failure of the system of education to meet the requirements of a modern society.

**The health care system's** technical equipment has been improved, but access to services has undergone a rapid process of polarisation. A wide segment of the population is now marginally covered by health care services, for various reasons:

- Decreasing health care service coverage in rural areas has made access more difficult for the rural population;

**Table 32. Dynamics of the public social expenditure for education and health in several countries in transition**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Russia	7.3*	5.8*	6.9*	6.0	7.2	7.7	6.1	6.6	7.0	6.0	6.8	-
Slovakia	10.6*	11.5*	12.4*	12.0*	9.1	8.5	8.9	11.1	10.7	10.2	9.9	-
Slovenia	-	-	10.3	13.5	13.0	11.8	12.1	-	-	-	-	-
Czech	9.1*	9.4*	9.6*	10.3*	13.3*	13.7*	13.3*	-	-	-	-	-
Poland	6.7*	9.6*	10.5	10.8	10.4	10.7	9.7	10.8	11.2	9.9	-	-
Hungary	10.4*	9.6*	13.0	14.0	13.5	13.9	12.4	11.4	-	-	-	-
Estonia	-	-	-	-	-	-	14.1	13.0	11.8	11.8	12.4	-
Bulgaria	7.9*	8.6*	11.0	12.6	10.4	8.6	7.7	6.5	7.4	7.4	-	-
Armenia	8.5*	9.3*	10.3	11.7	7.8	3.4	4.4	3.4	3.1	3.5	3.3	-
<b>Romania**</b>	<b>4.7</b>	<b>5.9</b>	<b>6.9</b>	<b>6.9</b>	<b>5.9</b>	<b>6.2</b>	<b>6.3</b>	<b>6.4</b>	<b>5.9</b>	<b>6.7</b>	<b>6.9</b>	<b>7.0</b>
<b>of which for education</b>	<b>2.2</b>	<b>3.0</b>	<b>3.6</b>	<b>3.6</b>	<b>3.2</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>3.3</b>	<b>3.6</b>	<b>3.1</b>	<b>3.2</b>

\* Source: UNICEF, Regional Monitoring Report no. 4/1997.

\*\* For Romania, source is National Human Development Report - Romania 1999 (for 1989-1997 period) and RIQL database (for 1998-2000 period).

Source for the others data: Transition Report, 2000.



- The wave of poverty is another factor decreasing access to health care services, due to the costs of "side" payments. The liberalisation of the price of medications has reduced access to badly needed drugs;

- The choice of a system of health care insurance excludes important parts of the population from health services. The stipulation providing health care insurance for the beneficiaries of social assistance aid paid from public funds produces a basic inequity. Those who qualify for social assistance aid represent a very small minority of the poor, while there is a large mass of the poor desperately trying to earn a living who do not qualify for social aid, and consequently, for health care insurance funded from the budget. Due to their extremely limited resources, they cannot afford to pay for insurance. Furthermore, the dissolution of the social assistance aid system blocked access to health care services even for those who would have been entitled to it;

- The cancellation of the territorial health care system paralysed free of charge care for pregnant women and children;

- Family planning for the prevention of unwanted pregnancy, although important resources were dedicated to it, yielded limited results. Primarily the middle class benefited from this programme and its foreign funding has already ended. The poor, with a high degree of need, have limited access to the means of modern family planning.

If no structural reforms are undertaken in the system, we will be confronted with massive exclusion from basic health care services.

### **C. Decentralisation: Instrument for Increased Efficiency of Social Policy Delivery, or Withdrawal of the State from its Responsibility for Social Protection?**

After 1997 in particular, the government began a rapid process of decentralising certain responsibilities. The most emphatic decentralisation was in the sphere of social protection. Social assistance aid, initially covered from the state budget, was passed to the local budgets, together with other social benefits. The institutions of social assistance were passed to local financing. The organisation of social assistance services was transferred to the local authorities.

This rapid decentralisation process, despite its theoretical advantages (programme adjustment according to local requirements, making the local authorities responsible,

#### **Case:**

The 1997 decentralisation of financing for institutions for children was a failure. Expenditures on these institutions had decreased significantly in 1999, compared to its level prior to the reform. Town halls did not have the capacity to make their financial contribution, drastically affecting their ability to develop other programmes of social assistance. The 1999 crisis in financing these activities resulted in a new partial re-centralisation of financing the system of child protection in institutions.

etc.) has thus far been more a disorganisation, pushing various aspects of social protection into crisis, because:

**a.** It was implemented without providing sufficient funds to the local budgets to cover their minimum new obligations.

In 1998 (prior to the adoption of the Law of Local Public Finance) transfers from the state budget to local budgets accounted for roughly 75% of local budget income. Most transfers were designated for specific purposes. In 1999, transfers from the state budget decreased to only 17% on average of the total income to local budgets. In real terms, local budget incomes in 1999 were only 77% of their 1996 value. The responsibilities of the city governments (i.e. local budgets) in the area of social assistance increased sharply over the past three years. Some of these financial obligations are compulsory or even have priority (such as the support and maintenance of social assistance institutions, contributions for the maintenance of institutionalised children, payment of wages to the persons caring for handicapped persons). Under these conditions, the only expenditure the town halls may cut, under the two-fold pressure of lack of funding and priority expenditures, are cash benefits, the largest of which is social assistance.

**b.** Decreasing transfers from the state budget balancing the disparities between areas and localities

**c.** The current system makes local budgetary planning impossible.

## Conclusions: Inadequate Social Policy as a Clear Source of Increasing Poverty

In a critical period of transition, characterised by a dramatic economic decline, Romania was further disadvantaged by an **inadequate social policy**. Both the level of resources dedicated to the social sector, and the organisational-institutional strategy were entirely insufficient to meet the need.

The resources allocated to social programmes were inadequate, not just in relation to the increased requirements of transition, but also in relation to the possibilities, as demonstrated in other transitional countries. Romania was unique among the other Central European countries in transition, in failing to institute extraordinary social protection.

Government policy choices also were a significant negative factor, both in the orientation of social policies and the efficiency of resource utilisation. Although the legislative and institutional framework of the social policy sector has developed well over the past ten years, the source of the ineffectiveness of social programmes lies precisely in the financial, institutional and organisational arrangements, which yields a relative paradox: **an increase in poverty and the multiplication of social problems accompanied by an increase in the number of social programmes and of legislation regulating the social protection of the population**. The fragmentation of social welfare responsibilities among levels of government, the waste of financial and organisational resources in a plethora of parallel and excessively fragmented governmental units is a significant factor in the chronic distortions in the conception and implementation of an articulate and efficient social policy. This issue has been raised explicitly several times by both Romanian and foreign experts. Although in 11 years major changes have been made in the system of social assistance, the fragmentation has proved to be extremely resistant to remedy, due primarily to strong parish interests, but also to inadequate organisational strategies.

The real explanation of social policy failure must be sought beyond the superficial excuse that the "economy does not work". The data presented in this paper reveal to some extent a lack of political will. The effort Romania made in the interests of social protection, compared to its economic potential as a percentage of GDP, was

substantially lower than that of other Central European countries. The explanation is, however, more complex (C. Zamfir, 2000). The budget deficit is a central cause. Despite high tax rates for important segments of the population (as a result of a narrow tax base), the size of the budget compared to GDP is lower than that of other European countries (Table 33).

Lack of financial discipline is one cause of the budget deficit which can be addressed. Poor performance in collection of taxes and contributions and the tolerance of delayed payments of debts and arrears must be improved.

The use of budget resources to compensate for economic inefficiency and the absorption into the public debt of the debts of important banks and enterprises has added to budget deficit (Table 34).

Romania could not provide adequate social protection during a period of social restructuring, but could have managed to prevent or to diminish the social problems which followed the increase in poverty: criminality, corruption, drug addiction (particularly among the young), school drop-outs, the declining state of health, the ever increasing housing crisis, child abandonment.

A strong argument can be made that **inadequate social policy was a significant factor in the deterioration**

**Table 33. Public expenditures as % of GDP - 1995**

Czech Republic (1994)	37,1
Slovakia (1994)	41,7
Hungary	55,3
Poland (1994)	39,8
Slovenia	46,2
Albania	38,6
Bulgaria	39,6
<b>Romania (1995)</b>	<b>36,5</b>
<b>Romania (2000)</b>	<b>35,1</b>
Estonia	40,6
Latvia	40,3
Lithuania	37,1
Moldavia	34,0
Russia	29,4
Belarus	32,6

Source: *Economies in Transition Studies, Regional Monitoring Report No. 4, UNICEF, 1997; Romanian Government, "Government White Book December 2000", Bucharest, 2001.*



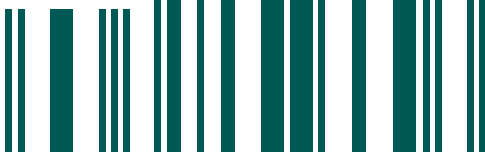
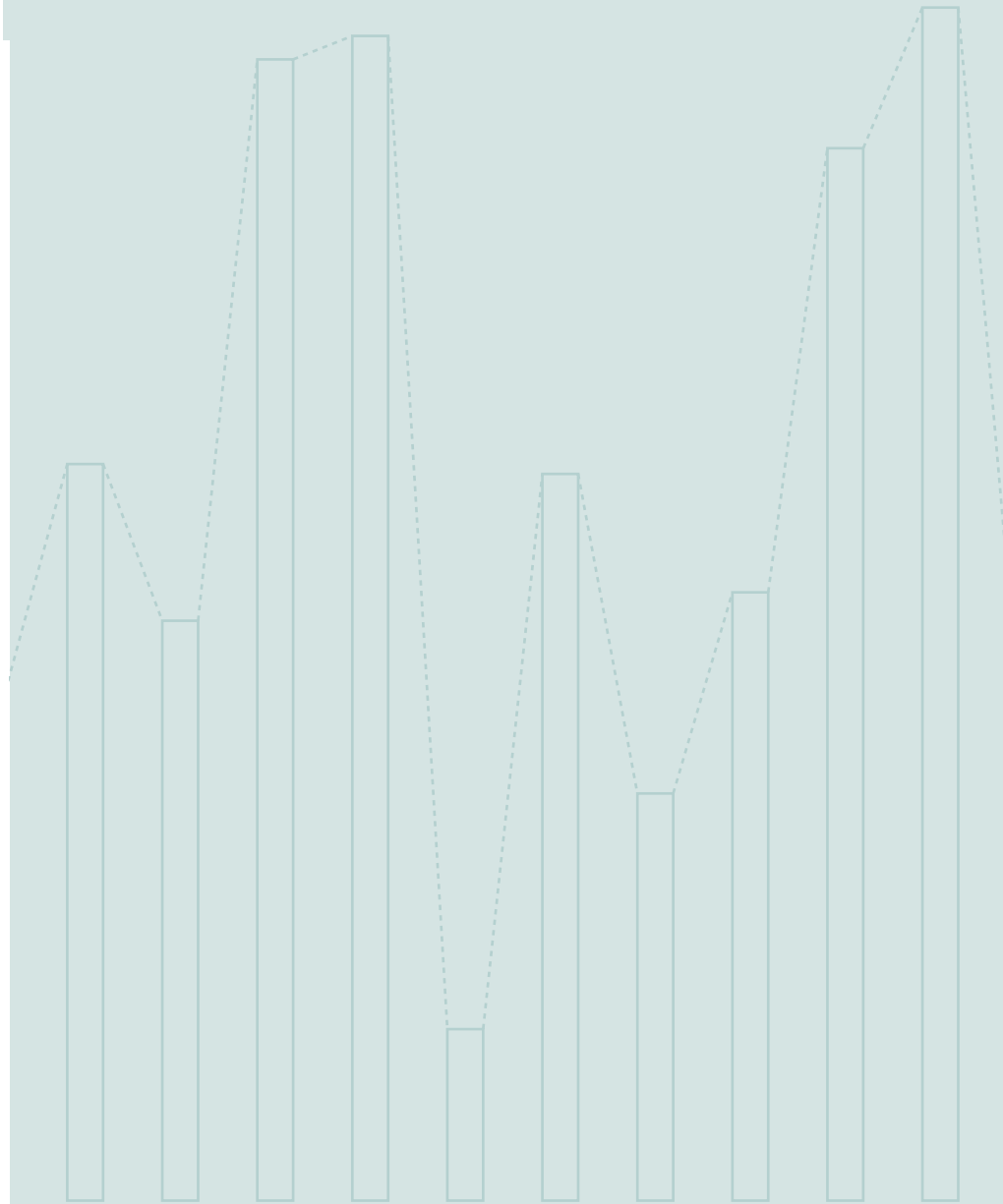
**Table 34. Taxes and contributions uncollected to budget - billions lei current prices**

	1996	1999	2000
Debts to the State budget	7,393	40,930	60,000
Debts to the Social Assurance budget	3,671	17,969	45,000

Source: Romanian Government, "Government White Book December 2000", Bucharest, 2001.

**of human welfare during the ten years of transition.** The social and human costs of the difficult process of change were modestly compensated by social policy. Its greatest achievement was to save a large part of the wage earners, who became extremely vulnerable (particularly the group on the brink of retirement), but it did very little for the extremely poor or large groups rapidly becoming impoverished. Those confronted with extreme poverty were almost completely ignored.

In conclusion, anti-poverty policy was confused and lacked a clear political will or support. In a period when poverty boomed, the policy of poverty prevention and minimisation was modest and directed to the protection of the class of wage earners. Non-contributory forms of social support, addressed particularly to the alleviation of extreme poverty, were confused and hesitating, and when they did exist, they experienced the most intense loss of real value. Finally, the changing institutional and financing arrangements for several social services (particularly health care and education) led to decreasing access to these services for the poorest members of population.



## Chapter 6. Main Lines for Action

### I. General Principles

Substantial poverty reduction must be recognised as a central criterion of successful macroeconomic stabilisation. Growth, while both necessary and desirable, is not an end in itself, but a means for improving the welfare of the entire society.

A return to growth is the most important precondition for the elimination of poverty, but it does not automatically reduce poverty. Indeed, without government transfers, even highly developed market economies would have poverty rates ranging between 20 and 25%. The developed countries have found that to reduce poverty, to achieve social stabilisation and cohesion, the intervention of the state is required.

To be successful, as well as politically and socially sustainable, macroeconomic stabilisation must be evaluated in terms of its effects on employment and poverty reduction as well as growth. Thus, macroeconomic stabilisation, privatisation, and liberalisation must be supported by active programmes to increase employment, to control inequality and eliminate poverty and thus to re-establish a binding social contract between the state and its citizens. Even in circumstances of great economic difficulty, it must be remembered that the goal is not just survival, but achieving social inclusion and human dignity.

An active social policy oriented towards promoting social cohesion must not be regarded as a limitation to economy functioning, but rather as an essential source for its sustainability: an investment in human and social capital, a crucial factor for long-term economic growth. Modern societies are based on a set of social and moral norms, which are essential to the consensual functioning of a society. These norms have traditionally included: promoting economic efficiency, reducing poverty, promoting social equality, promoting social integration and avoiding social exclusion, promoting social stability and individual autonomy.

The guarantee of primary economic security at a basic level for all citizens, together with universal access to health care and education are public goods fundamental to a successful market economy. The adequate funding of pensions and social welfare benefits, as well as health

care, education and scientific research are long-term investments made by citizens via the instrument of the government in the social sustainability of a society, its future economic potential and its political stability. These long-term investments also have positive short-term effects - social transfer payments tend to cycle directly back into the local economy, sustaining the level of effective demand and thus serving as "automatic stabilisers" helping market economies to sustain shocks and smoothing out the peaks and valleys in the economic cycle. Far from reducing their social expenditures to balance budgets during recessions, successful market economies stimulate demand by increasing transfer payments and government consumption, expanding their deficits in recessions and paying down debt during periods of economic expansion.

To alleviate the extensive and severe poverty that has developed in Romania during the past 11 years, a comprehensive package of policies is required -- both economic and social, incorporated into a coherent programme. The anti-poverty programme should be designed as part of a global programme for social and economic development.

### II. Economic Policy

**1. Resuming economic growth** represents the strategic variable in Romanian society today. Therefore, economic policy is the core of any anti-poverty programme. The poor's lack of resources cannot be prevented or compensated for, while the entire society is in a condition of chronic depression. Making the market economy fully operational by drawing all citizens into rebuilding society is thus a *sine qua non* prerequisite to improving the standard of living, providing welfare and ensuring sustainable development. Beyond this, however, a successful strategy must be oriented towards the optimum utilisation and redistribution of existing (limited) resources and drawing these resources into effective circulation, not only reproducing, but multiplying their effect.

The key first step is **re-establishing basic economic stability**, followed by stimulating national and international investment, encouraging saving, and building the institutional structures to support a market economy. These measures constitute the only framework

able to provide for rapid and sustainable economic growth. The economic growth strategy must benefit the majority and promote equity (pro-poor growth) to recreate a balanced society. While a degree of inequality can stimulate competition, excessive inequality can be socially destabilising. Further adverse effects of economic reform on Romanian society must be avoided at all costs. Furthermore, the poor must be among the first beneficiaries of economic growth and their economic and social reintegration must be among the first positive effects of return to economic growth.

**2. Economic activation policies** are required to draw the poor into the formal economy and prevent their exclusion from the labour market. Poverty alleviation cannot be accomplished with any speed by relying only on the natural mechanisms of the market economy. Economic activation policies should be promoted both at the national and local levels to create a stimulatory framework for economic activity.

The following lines of approach to economic activation should be given particular consideration:

- *Stimulating income-generating economic activities*, even at the elementary level of covering basic household consumption. This represents an essential tool for drawing important segments of the population back into the normal economic circuit: those who have been excluded from productive economic life during the transition years.

- **Support for individual initiative** must be reinforced by *incentives for local community initiatives*. One of the keys to restoring economic growth is the initiation and development of local partnerships. This includes identifying resources by region and sector, establishing supportive group-based social-economic systems, developing small-scale economic activities to capitalise on these resources, including the available labour force, all of which require only limited investment. Local authorities should play the central role in this activation process.

- *Planning and coordination of socio-economic development by sector* is vital to correcting the fragmented and unfocused approach, which has shown itself to be highly inefficient.

- *Investments in infrastructure*, including environmental rehabilitation and territorial planning to reduce the

probability of natural disasters, will stimulate future economic growth, in compensation for an economy which is currently stagnant. The creation of temporary jobs in public works and in infrastructure projects where the private sector cannot absorb the available workforce will increase the attractiveness of Romania for productive investment, at the same time avoiding the loss of skilled professionals, maintaining domestic occupational demand and supporting domestic producers.

*Turning agriculture* from a low productivity, primarily survival activity, which perpetuates poverty for those employed in this sector, into an efficient economic sector must be a central element of any anti-poverty programme.

**3. The disintegration of the public utilities infrastructure** runs the risk of turning into one of the major problems facing Romanian society, especially in urban areas. In recent years, public utility services have become a major drain on the limited resources of the population and a source of impoverishment. The inherited industrialist-centralist method of operating many public utilities, as well as the prevalence of obsolescent technology, makes the exploration of alternative strategies urgent. The current approach, which is limited to the rehabilitation of chronically inefficient systems (such as heat and hot-water generation and distribution networks, which incur huge losses due to non-maintenance of the pipeline system), will only distribute their inefficiency "more precisely". To avoid an intolerable waste of resources in the medium and long term, the system must be re-designed and reconstructed. Local public administrations have an extremely important role to play in rehabilitating the living environment of the population and providing civilised living conditions at affordable costs.

### III. Social Policy

**4. Reconsideration of social policies.** Current social policy is inadequate in comparison both to other European countries in transition and particularly to members of the European Union. This is one of the principal causes of the unacceptable increase in poverty and for its remaining at unacceptable levels.

*Social welfare budgets* will have to grow substantially to bring Romania into compliance with European standards. Financing the necessary increase in public social expenditures will require both economic growth



social expenditures will require both economic growth and major improvements in the effectiveness of tax collection, as well as a more efficient redesign of the budget. To achieve this, the mechanisms for the collection of taxes and duties must first be improved and be complemented with a more equitable tax system. The fight against tax evasion is crucial to securing a more substantial budget and reducing the fiscal burden, which is currently unevenly distributed. More efficient administration of social welfare funding to reduce administrative costs and delays in implementing programmes to prevent social problems is also urgently needed.

- *Structural redesign of the budget.* The rapid development of the social security system, together with the diversification in the number and type of social programmes, makes urgent a redesign of the principles and goals of social policies at the macro level, with the overall goal of supporting the socio-economic development of the country.

- *Consolidation and Improvement of social insurance components*

- Develop a reform plan to put the current pension system on a sustainable basis (increase employment, increase proportion of population covered/paying in, raise retirement age level, raise wage levels). The social insurance system must be designed to provide a decent retirement income and a reduction of its comprehensiveness must be prevented. Redesign must take place in an open, transparent and democratic interaction between policy-makers and the population.

- Provide enhanced social protection for children, particularly for those abandoned in institutions or in the street, as well as children neglected or maltreated by their families. Provide nutritional support and health care for pregnant women, infants and children.

- Fund an acceptable level of social support payments for the disabled or handicapped, develop sheltered employment where possible.

- Invest in the health care and education systems, as a long-term investment to avoid future productivity losses due to morbidity and mortality, lost investment and low efficiency due to inadequate training and skills. Human capital is a part of the infrastructure necessary to attract direct foreign investment and prevent the loss

of skilled workers and professionals to emigration because of lack of appropriate domestic employment and inadequate pay levels.

- Implement the minimum income law, with a guaranteed budget, to replace the bankrupt system of social allowances. The implementation mechanism, which caused serious problems in the old system, also needs careful elaboration well in advance.

- Demographic policy must be carefully assessed to support the birth of healthy, wanted children. Urgent measures are required to decrease avoidable mortality and morbidity, and improve health and the quality of life.

- A national system of social assistance services should be developed as rapidly as possible to serve as a form of active intervention in individual and social crisis situations. Social assistance must develop assistance strategies for communities, as well as persons and families in difficulty, becoming an active factor in the promotion of community development programmes.

**5. Romanian society has important social resources** which can be mobilised to increase welfare and to reduce and prevent poverty. These include such elements of social cohesion as improved social morale, greater social security, trust in one's own abilities and in others, all of which are essential factors for the resumption of economic growth. In the absence of a more transparent, more predictable and more supportive social environment, a return to economic growth will be a slow and laborious effort. Restoring interpersonal trust and trust in state institutions as well as rebuilding optimism are important objectives for an anti-poverty policy. The stability of the social order, provided by a coherent, qualified and responsible political leadership, assisted by coherent and strictly observed laws are crucial elements. The essential instrument of such an approach is the transparency of the political process founded on the principle of social partnership.

**6. An efficient instrument for poverty alleviation and control is the protection of the population against exploitation by a corrupt bureaucracy and/or crime.** These are important sources of increasing socio-economic inequity, with all its perverse effects. Excessive bureaucracy leads to unacceptable costs for public services, often amplified by supplementary contributions required to obtain services from public officials.



To increase the quality of public services, it is vital to gradually increase wages in education, health care and social assistance, police and local administration, in order to attract and retain qualified employees, together with strict punishment of bribe-taking or "small gifts", with immediate loss of employment.

The inefficiency of current problem solving methods forces citizens to turn to a judicial system which is often negligent or corrupt and a waste of limited resources. A more transparent and inexpensive mechanism for the administration of justice would be an efficient tool for reducing the risk of poverty and increasing welfare.

The high crime rate is an inexhaustible force pushing or keeping important segments of the community in poverty. More effective crime control would improve not only security, but also welfare. Strict control of criminal, speculative, or illegal and economically counterproductive means of obtaining incomes, the simplification of bureaucracy, and an effective fight against corruption and criminality would increase both the standard of living and raise community morale.

**7. Address extreme poverty, while consolidating the existing system of social security.** The existing system of social protection must be made fairer and more efficient. Those members of society in extreme poverty, suffering from social exclusion and marginalisation require urgent attention. Without neglecting the needs of the mass of people living at the edge of poverty, we must first address the needs of poorest of the poor, with a combination of financial support and programmes for social reintegration. More coherently articulated programmes must be formulated for the most serious social problems: those segments of society in extreme poverty include much of the Roma population,, abandoned children, street children, neglected children and/or the victims of exploitation and violence, and the homeless. Resources returned to the budget by cancelling subsidies to economically inefficient sectors must be dedicated to increased funding for anti-poverty programmes for the chronically neglected.

Poverty is not just a lack of income and particular attention must be given to the prevention of marginalisation and social exclusion. Special programmes promoting social inclusion must be the focus of an anti-

**In March 2001, by Decision of the Prime Minister** the Governmental Anti-Poverty Commission for Promotion of Social Inclusion was established with the following functions:

- a.** Monitoring poverty dynamics, directing particular attention to extremely poor areas, which display a disturbing trend towards exclusion and social disorganisation.
- b.** Evaluating all steps in the implementation of policies, particularly social policies, in terms of their impact on poverty. Monitoring the anti-poverty effects of current policies.
- c.** Designing and implementing an anti-poverty action programme. Considering the urgency of the problems to be addressed, an anti-poverty programme and strategy, complemented by a global social policy, must be developed to incorporate special, urgent and long-term measures.

poverty strategy. The law for preventing marginalisation and social exclusion, the draft of which has already been elaborated by the Ministry of Labour and Social Solidarity, must be passed as soon as possible.

Promoting social inclusion requires making the beneficiaries of social support responsible. Making the beneficiaries of social support active by including them in public programmes and by encouraging them to assume community responsibilities is the only way to avoid their marginalisation and social exclusion.

**8.** The European Union accession process implies not only the harmonisation of legislation and economic growth, but also the solution of serious social problems. The standard of living must be brought closer to the European level, in accordance with the expectations and efforts of the population.

**9.** The ultimate goal of the anti-poverty strategy should be to build a dignified, democratic and active society, with improved morale and without extreme poverty of social exclusion, which must be eliminated.

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## A Decade of Poverty Research in Romania

The goal of the Romanian socialist programme was the creation of a relatively homogeneous, developed society in which all members of the population could enjoy a decent standard of living. Several attempts were made in the 1970s to establish an average consumption standard for essential goods and services, which would have served as a definition of a decent standard of living.

During the post-revolutionary period, a nutrition-based approach to living standards was used to establish a subsistence minimum, which was then employed as a standard for measuring the prevalence of poverty.

In 1991 the Research Institute for the Quality of Life launches a research programme focusing poverty and anti-poverty policies. Based on representative empirical data, the RIQL organises in 1991, 1992 and 1994 three surveys on nationally representative samples, concerning the living standard of the population, which offered information on income distribution, consumption and subjective poverty / welfare.

A first calculation of the absolute poverty threshold using this normative method was issued in 1992, in the "Quality of Life" Review (15)<sup>17</sup>. The author established the subsistence minimum for two typical households: a 4-member family with two active adults (one man and one woman) and 2 children under 14 years of age; and a 2-pensioner family, further differentiated according to place of residence. This standard was based on consumption norms (food and non-food), and was developed in consultation with specialists in nutrition, housing and environment, hygiene and public health. The publication also includes a broad range of papers on these subjects<sup>18</sup>, outlining various aspects of quality of life measurement.

Under the coordination of Prof. C. Zamfir, the first comprehensive paper (2) on poverty was released in 1995, providing an overview of the work of a group of researchers from the Research Institute for the Quality of Life. This analysis, which provided a complex picture of the phenomenon of poverty - its depth and extent, objective and subjective definitions and risk groups - elaborated on the poverty threshold work developed

by the RIQL. The paper makes a distinction between the minimum subsistence (a level below which income is sufficient only for survival and minimal social participation) and the minimum decent standard of living (based on the social participation definition of the standard of living).

The normative approach, or average needs and minimum consumption budget method, was also applied in a number of variations by researchers at the National Institute for Economics (21) and the National Institute for Scientific Research on Labour and Social Protection<sup>19</sup>.

1995 was an important point for the analysis of poverty, marking the first Household Integrated Survey (AIG), organised by the National Commission for Statistics (now National Institute for Statistics). This annual survey is based on a wide sampling of households, allowing the study of actual living conditions, as well as an assessment of the depth and extent of poverty. The AIGs provide the foundation for much of the work that followed. The methodology employed was an updated version of traditional systematic statistical research on household family budgets developed since 1950, but which had not been structurally adjusted to reflect the socio-demographic characteristics of Romania.

In 1996, World Bank experts developed a new poverty threshold (3) defining absolute poverty based on a different method of calculation than the previous definition. The minimum standard of living was established using the real consumption structure of the poorest 20% of households, derived from AIG data, as a starting point.

Also in 1995, the United Nations Development Programme initiated a broad research project in support of a research effort to establish an official poverty threshold in Romania. The Poverty Alleviation Project operated for several years, coordinating the efforts of researchers from various institutions active in the analysis of poverty in the Romanian society.

The first stage ended with the publication of a comprehensive analysis (25) of the results produced by

<sup>17</sup> See List of Books, studies and reports approaching poverty topics in Romania.

<sup>18</sup> Dimension of Poverty in Romania, Puwak, H., Subjective dimensions of the poverty phenomenon in Romania, Gheorghe, V., Brief analysis of poverty by age groups in urban areas, Ghimpau, V., Unemployment vs. poverty: cause-to-effect relationship? Zecheriu, M.

<sup>19</sup> Minimum standard of living, central reference point for the orientation and substantiation of social policy and protection, Raboaca, G., Bati, I., Părciog, S., a paper presented in the Romanian-German Seminar for Social Assistance Issues, Poiana Brasov, 1994.

the various methods and techniques of poverty assessment that had been applied in Romania. Although the study failed to establish a consensus on how to measure poverty, the systematic definition and refinement of the available methods was a major step for research in the field. The supporters of both approaches have refined their methodology to reflect current Romanian realities.

The second stage of the project was completed in 1999, with the publication of two volumes (5, 6) of research reports on the individual and community level characteristics of poverty in Romania, and the outline of a proposed anti-poverty strategy.

In 1997 the World Bank initiated a series of research studies on the rural environment. The results, in the form of a rural poverty map at the commune level (24), were published in 1998. In 1999, World Bank and NIS

experts pointed to (30) a strong statistical relationship between household consumption in rural areas and the level of development of the commune in which it is located. In 2000, a new World Bank study (24) mapped rural poverty at the village level, covering practically all villages with more than 20 inhabitants that were not under the jurisdiction of an urban area.

In 2001, a survey paper (5) was added to the effort to measure poverty. The paper includes a broad study based on AIG data and employs the relative method. It describes the characteristics of poverty and the poor in Romania, the dynamics of poverty and includes an analysis of the Romanian system of social protection at the end of the 20th century.

In addition, a range of sectoral studies by population group complete the picture of poverty research in Romania. A selection of these works is listed below.

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