Vassil Tsanov, Senior Research Fellow, Ph.D. Lubomir Tomev, Ph.D.

POVERTY LINE AND THE GUARANTEED MINIMAL PAYMENTS – METHODOLOGICAL ASPECTS OF DEFINING AND BINDING*

Methodology for defining poverty line and its binding to the guaranteed minimal payments is suggested. The methodology for calculation poverty line is based on the combination of two approaches – the relative and the absolute. The first one ensures connection of poverty line to the de facto income distribution into the society and the second – ensuring the minimal living standard. Methodological solutions are presented for defining guaranteed minimal payments (minimal salary/wage, social pension and social benefits), which reflex directly or indirectly the dynamics of poverty line.

JEL: I31; I32

The effectiveness of social policy directed to combating of poverty exclusively depends on two key problems. The first one is connected to the identification poor persons in the society and their material status (how poor they are). The world practice solves this problem through defining poverty line (threshold), which the society puts between poor and non-poor.

The second problem concerns determination of social payments. In this context, variety of conceptual and methodological questions arise about the extent to which these payments are connected to the poverty line and ratios between levels of different types of payments (social benefits, pensions, salaries/wages).

There is no officially accepted poverty line in the Bulgarian social practice. The entitlement to and the size of social payments is based on guaranteed minimum income (GMI), defined by the Government and on the principle of complementing to it. Social benefits recipients are persons and families grouped into risk groups and the size of benefits is differentiated based on coefficients, which are quite subjectively calculated. GMI is used since 1992 and its size is updated according to the inflation. Due to the irregular and non-complete indexing, its size loses sense and content as a base for social benefits for poor. In order to compensate this disadvantage, the differentiated coefficients are continuously changed and became larger. It makes function of GMI nonsensical and leads to inequality of beneficiaries.

There are some more methodological disadvantages, except the above mentioned connected to the non-reflection of economy of scale, caused by family size; accumulation of benefits in different social programmes and others. The disadvantages being discussed reduce in some extent the effectiveness of the social assistance system.

* Many thanks to Ph.D. Bogdan Bogdanov, Desislava Dimitrova and Nely Shtonova, which materials and data are used in the article.

Methodology for defining poverty line

Poverty line is basic monetary indicator for identifying poor in a given society. Three basic concepts for defining poverty line are distinguished in the economic theory and social practice – absolute, relative and subjective. There are great variety of methods and methodological solutions existing within the frames of these concepts. Extremely important for the choice of approach are the criteria for minimal risk for error and connection to the changes in the dynamics of living standard.

Approaches and methods for poverty estimation used in the world practice have different qualities. The analyses of advantages and disadvantages of different methods do not assist firmly one or another method, but define the relative approach as an appropriate for creating official poverty line. It compares poverty and the average for country standard of living. The method of fixing of a given percentage of the median level of net population income (50, 60 or 2/3) is most often applied. The relative method is used for poverty estimations in EU countries (Laaken indicators). Eurostat estimates poverty in different countries based on 60% of the net equivalent[1] median households' income.

The advantages of relative approach are the good information it supplies, flexibility; its strong dependency on changes in income distribution; simplicity of calculations and wide publicity and transparency; convenience for international comparisons; good statistical realism. Method disadvantages are lack of internal consistency[2] and non-reflecting consumption level that ensures minimal necessities.

Accepting the relative approach as a basis for defining an official poverty line, the fundamental question arises about the choice of percentage of median income. Should it be 40, 50, 60 or more percent – there are no firmly defined criteria in the economic literature on this topic. Following the logic, the percentage should be fixed at such income level that ensures minimal satisfaction of basic households' necessities. It means that there is a necessity of combining two approaches: the relative and the absolute. The last one can be used as a complementary one i.e. it may be used for defining the percentage of median income, which will satisfy given minimal necessities.

Here the question arises for defining minimal necessities and especially for choice of defining method. There is no single answer to this question in the theory. Two basic methods for defining minimal necessities exist: of consumer basket and statistical.

---

[1] OESC modified equivalent scale is used, according to which the first household member is given weight 1, the next above 14 years of age – 0.5 and children below 14 years – 0.3.

[2] Internal consistency is the extent to which those who are determined as poor consider themselves as poor.

Consumer basket method creates, using expert estimations, set of goods and services, which are considered as minimal. Due to the fact that the basket "can be filled" with goods and services different by quality and prices, the choice of separate items became quite difficult. Something more, people have different individual preferences and tastes. In case more expensive and with higher quality goods and services are included, the value of consumer basket increases. Besides, it is difficult to ground inclusion of cheaper goods and services. The second problem caused by this approach is defining of weights, given to separate goods and services. It mainly concerns the structure and weights of non-food component.

The statistical method for defining minimal necessities is based on the structure of de facto consumption at low-income decile groups. The method solves problem about the set of goods and services very well, but requires arbitrary solution about the structure of consumer expenditure, considered as minimal. The main question is about the structure of actual consumption, which can be accepted as satisfying the minimal necessities.

Using the statistical approach, minimal necessities can be defined as follows: first, to ensure daily consumption of calories corresponding to the recommended physiological nutrition levels and second, ratio between food and non-food goods to be in conformity with the ratio in the chosen low-income group. The choice of ratio logically is connected to the consumption structure at the first three decile groups, i.e. the 30% with lowest income. According to 2004 households budgets data, the share of expenditure on food at the first decile is 59.7%, at the second - 54.5%, or the average level for the 20% having lowest income is 57.1%. Ratio at the third decile is 52.5:47.5, or on average for the 30% poorest - 55.0:45.0.

Therefore, three variants for defining minimal necessities of poor households exist:

I variant:

- level of expenditure on food, ensuring physiological nutrition levels;
- ratio 60:40% between food and non-food goods.

II variant:

- level of expenditure on food, ensuring physiological nutrition levels;
- ratio 55:45% between food and non-food goods.

III variant:

- level of expenditure on food, ensuring physiological nutrition levels;
- ratio 57:43% between food and non-food goods.

Based on the analysis done, the minimal necessities can be defined as:

- level of expenditure on food, ensuring physiological nutrition levels;
- ratio 55:45% between food and non-food goods (on average for the 30% with lowest income, which is equivalent to the ratio at second decile group).

Reasons for the choice done are as follows:

- Consumption structure of poorest households is not indicative for consumption at low-income groups;
- Choice of consumption structure based on a single decile group (second or third one) do not reflex consumption at lower groups;
- The 30% of households with lowest income correspond to the widely accepted understanding for low living standard;
- The 20% of households with lowest income create the lowest limit for minimal living standard.

Conclusions done about the choice of appropriate methodology for defining poverty line can be summarized in the following methodological solution:

1. Poverty line is defined using the relative approach, based on the percentage of net median income.

2. Percentage of median income is defined based on the absolute approach for estimation of minimal necessities.

3. Minimal necessities are defined as level of expenditure on food, ensuring physiological nutrition levels and ratio 55:45% between food and non-food goods.

4. Physiological nutrition levels used in present research are 2700 kcal for male and 2100 kcal for female between 30 and 60 years of age (Regulation N 26 on Recommended Physiological Nutrition Levels).

The methodology presented can be used for empirical estimates of poverty line. Based on 2004 annual statistical households budgets data, three relative poverty lines are calculated. It can be supposed that they cover the minimal diapason, within which the line should be searched, satisfying already defined minimal necessities of people. Poverty lines are calculated for 50, 55 and 60% of median income respectively (Table 1).

Table 1

Poverty measures at poverty lines of 50, 55 and 60% of median income of equivalent unit*

% of median income	Poverty line (BGN per month)	% of poor persons	Poverty gap (%)	Poverty severity (%)
50	119	8.6	2.2	1.0
55	130	11.5	3.0	1.3
60	142	15.3	3.8	1.6

* Calculations based on 2004 household budgets data.

Calculated monthly poverty lines vary between 119 and 142 BGN i.e. the difference between limit values is 23 BGN. Value of 130 BGN per equivalent unit is received at 55% of median income, which is equally distant from the two limit values.

Based on the poverty lines estimated, the investigation of structure of consumer expenditure is done and of daily calories content of foods consumed by the households, which are under respective poverty lines (see Table 2).

Table 2

Total consumer expenditure structure and daily consumption of calories of household under poverty line*

Poverty threshold	Expenditure on food per equivalent unit (BGN per month)	Expenditure on non-food per equivalent unit (BGN per month)	Share of expenditure on food (%)	Calories per day per equivalent unit
50% of median income	63	42	59.9	3119
55% of median income	64	46	58.2	3100
60% of median income	65	51	56.1	3117

* Calculations based on 2004 household budgets data.

Estimations show that the difference in consumption structure of poor households and consumption of calories for the two extreme poverty lines do not differ considerably. Real structure of consumer expenditure is 3:2 in favour of the food component at poverty line of 119 BGN per equivalent unit. Poor households spend on food about 60% of the total consumer expenditure, which is out of the frame we have accepted for the expenditure structure, corresponding to the minimal necessities. This structure ensures to the poor consumption of 3119 calories per equivalent unit, which corresponds to the physiological nutrition levels.

At poverty line of 130 BGN per equivalent unit (55% of the median income), the structure of expenditure of poor households changes slightly compared to the lower poverty line. Expenditure on food increase insignificantly (by 1 BGN per equivalent unit) and on non-food goods by 4 BGN. Daily calorie intake is lower, but satisfies the recommended physiological nutrition levels.

At poverty line of 142 BGN (60% of the median income) poor households have 3.2 and 21.4% higher expenditure on food and non-food goods respectively. It improves consumer structure in favour of non-food goods. At the same time, daily calorie intake decreases slightly. Consequently, choice of higher poverty line does not considerably influence the expenditure on food and calories intake. The influence is mainly directed towards increase of expenditure on non-food goods and services.

Based on estimates pointed, the following two conclusions can be done:

1. The three poverty lines follow the requirements accepted about satisfaction of population minimal necessities of daily calorie consumption. Expenditure on food of poor households does not differ considerably.

2. The third poverty line only (60% of the median income) goes closer to the expenditure structure we have accepted. Poverty line of 142 BGN monthly per

equivalent unit ensures to the poor households more favorable ratio between the food and non-food goods and services.

Estimates of consumption structure and daily calorie intake presented mainly refer to the whole population, living under respective poverty line. These are average estimates that reflect not only the consumption of households, close to the respective limits, but also of households, which are at the bottom of income distribution. That is why, the estimates done do not correspond fully to the consumption structure and daily calorie consumption, ensured by income equal to the poverty lines calculated.

An acceptable solution of the problem is investigation of consumption structure and calorie content of the food component within the income frames, corresponding to the poverty lines. The frames are defined within the following income intervals: 115-125, 125-135 и 135-145 BGN per month. The intervals pointed are appropriate first, because the enough number of households will be observed in order representative sample to be drawn and second, correspond to the intervals, within which the feasible poverty lines are estimated. Estimates received of the de facto equivalent consumer expenditure distribution are presented in Table 3.

Table 3

Total consumer expenditure structure and daily calorie consumption of households within the interval 115-145 BGN per month*

Income interval (BGN per month)	Expenditure on food per equivalent unit (BGN per month)	Non-food expenditure per equivalent unit (BGN per month)	Share of expenditure on food (%)	Calories per day per equivalent unit	Average Kcal per day per person
115-125	65	47	58.0	3183	2229
125-135	66	67	49.6	2975	2313
135-145	70	65	51.9	3197	2312

* Calculations based on 2004 household budgets data.

Estimations can be considered representative, because the number of population within these intervals is as follows: 2.6% within the interval 115-125 BGN; 2.8% within the interval 125-135 BGN and 3% within the interval 135-145 BGN.

Poverty line amounting 119 BGN per equivalent unit ensures de facto consumption of 112 BGN, distributed 58:42% between food and non-food goods (65 BGN on food and 47 on non-food goods and services). Pointed expenditure ensures the necessary daily calorie intake per equivalent unit. Calculated daily calorie intake per 1 household member is about 2200 calories. Hence, consumption structure and daily calorie consumption, which must be ensured by the pointed poverty line, do not correspond to the definition accepted on minimal necessities. The ratio required between food and non-food goods and services is not satisfied.

De facto consumption volume and structure of households, having equivalent monthly income within the intervals 125-135 and 135-145 BGN, correspond to the definition accepted on minimal living standard. Expenditure on food within the interval 125-135 BGN ensures the necessary daily calorie consumption and its share within the total consumer expenditure is below 50%. The situation is a little bit different for the higher income interval, but it most completely corresponds to the requirements for satisfaction minimal necessities. De facto expenditure on food is higher in this case and ratio between food and non-food components is 52:48%.

The observed discrepancies in the consumer structure between the two income intervals can be considered accidental, i.e. due to non-food purchases, which increase share of non-food goods. Therefore, it is not logical to conclude that the expenditure on non-food goods and services within this income group always exceed the same, within the higher income interval.

Based on the estimations done about structure of de facto consumption and daily calorie consumption, the following conclusions, concerning the choice of poverty line, can be done:

- The interval between 55-60% of the median income outlines acceptable limits for choice of poverty line.
- Expenditure on food ensures the recommended physiological nutrition levels for all variants of the poverty line.
- Choice of higher poverty line does not considerably influence expenditure on food and calorie consumption (the expenditure on food increase by 7.6% and on non-food goods by 38.3%).
- Poverty line at 50% of the median income (119 BGN per equivalent unit) does not satisfy the ratio accepted between food and non-food goods.
- Poverty line at 60% of the median income (142 BGN per equivalent unit) satisfies chosen minimal necessities of food and ratio 55:45 (on average for the 30%, having lowest income).
- Poverty line at 55% of the median income (130 BGN per equivalent unit) satisfies chosen minimal necessities of food and ratio 57:43 (on average for the 20%, having lowest income).

Thus the conclusions pointed out outline two acceptable variants for choice of official poverty line. The first amounts to 130 BGN monthly per equivalent unit and the second – 142 BGN. In our opinion it is more appropriate to choose the variant of poverty line at 60% of the net median income, i.e. 142 BGN monthly equivalent net income. The arguments for this choice are as follows:

1) ensures minimal living standard (physiological nutrition levels and ratio between food and non-food goods at the 30%, having lowest income);

2) corresponds to the used by Eurostat methodology for defining poverty;

3) level and structure of consumption of the 30% of population, having lowest income, are considered as generally accepted level of low living standard.

Important advantage of the approach as pointed out is that within the process of updating no change of income is required. Updating poverty line is based on the methodology for its defining. The only intervention by the authorized bodies is defining minimal necessities, and mainly the ratio between food and non-food component. It means re-defining minimal necessities and based on this, choice of percentage of median income. The advantage is that it is possible to do current adaptation to the changes in population living standard, caused by changes of income and consumer prices.

Usage of poverty line for defining minimum salary/wage

Proposal for poverty line of 142 BGN for 2004 and 152 BGN[3] for 2005 is very close to the minimum salary/wage level for the respective year. It causes bad disturbance of ratio between the levels of the two indicators. It is not logical, the income of low qualified workers to be identical with the poverty line. There is no defined strong proportion between them, but practice shows that prevailing ratios are 1:1.5. Consequently, poverty line suggested, supposes considerable increase of minimum salary/wage.

Increase of minimum salary/wage causes number of problems, methodological and practical. The first one is connected to the grounding of relationship between poverty line and minimum salary/wage. The second one concerns the necessity dynamics of minimum salary/wage to be in consistency with the poverty line dynamics. The third one concerns elaboration of mechanism, reflecting this connection.

Is there a linkage between the poverty line and minimum salary/wage? Answer of this question should be searched in the fundamental understanding of minimum salary/wage nature and functions. All the theoretical concepts on minimum salary/wage consider it as an economic category, combining two functions – social and economic. The first one is connected to the prevention of income of low qualified workers. In this context it is a mechanism applied in order the minimum income from employment to be guaranteed, ensuring labour reproduction. As such, the minimum salary/wage is linked and depends on the poverty threshold. The dependence acts as a mechanism for limitation so called "working poor" and thus naturally it is somehow connected to the poverty line.

Minimum salary/wage is used for payment of simple, low-qualified labour at full time employment. Its size depends on number of economic factors, related to the efficiency and financial status of a given organization. From this point of view, its linking with the poverty line, without respecting economic conditions, can become unfavourable for great part of enterprises. At the same time, low minimum salary/wage does not stimulate searching employment and creates aspiration for receiving social benefits and parallel employment at the "gray" economy.

Combining the social and economic function of minimum salary/wage is not only methodological question, but also political, because it is defined by

[3] Based on preliminary 2005 household budgets data.

Decision of Council of Ministers. Balance between the two functions to be reached means first, that it will guarantee minimal living resources and second, no economic difficulties for the employers should be created in its payment.

If the official poverty line at the pointed amount is accepted, it will break the proportion between poverty line and guaranteed minimum payments. Minimum salary/wage should increase quicker than the poverty line. Two basic mechanisms can be applied for solving the problem:

The first one is automatic with varieties: application of fixed coefficient, updating with real or prognostic inflation at once used basis – poverty line, reaching limit values or indicators, where a given mechanism starts its action, etc. As the mechanism is automatic, the risk exists for accumulation errors, which can reach unacceptable values in dynamics and minimum salary/wage cannot be finally used as an effective tool for adequate social and economic policy. Also the role of social partners is ignored, concerning extremely important question, which should be the minimum parameters of income from employment, depending on the economic situation and labour market.

The second mechanism is the minimum salary/wage to be negotiated between social partners (government, trade unions and employers unions) regarding the poverty line and criteria settled in advance. The mechanism ensures freedom and better flexibility in application given polices and searching and negotiating optimal solutions, depending on the social-economic priorities, without separating the minimum salary/wage and official poverty line. In practice it presume defining diapason (field of choice), within which the minimum salary/wage to be negotiated. The diapason allows optimal flexibility of linking.

The suggested model can be characterized as defining acceptable and referent corridor for negotiating minimum salary/wage. Basic concepts, connected to its application are:

- Official poverty line – accepted as 60% of the net median equivalent total households' income.
- Upper limit (UL) for the minimum salary/wage – created as a percent of the average salary/wage in order the unacceptable compensation of income from employment to be avoided.
- Bottom coefficient of linking (BCL) - defines minimal values for linking the minimum salary/wage to the poverty line.
- Upper coefficient of linking (UCL) defines maximal values for linking the minimum salary/wage to the poverty line.
- Acceptable corridor for negotiating the minimum salary/wage – created, based on BCL and UCL. It defines the acceptable diapason, within which the minimum salary/wage should be.
- Referent corridor for negotiating the minimum salary/wage – created, based on BCL and UL, if the last is lower than UCL. In case UL is higher than UCL, than the referent corridor coincide with the acceptable one. The referent corridor

defines the frame, within which the level of minimum salary/wage can be negotiated. In case the UL is lower than BCL, the BCL is applied.

- Minimum salary/wage for the referent period – negotiated within the frame of the referent/acceptable corridor and basic data for the rest parameters from the previous year.

The parameters that fulfill concepts of the model are defined and ground as follows:

Coefficients of binding: 1.15 - 1.45 of the poverty line. According to the used by Eurostat method, the ratio between the minimum salary/wage and poverty line for the 10 new EU member states is within the following limits: lowest - Latvia (1.14), Estonia (1.17) and highest - Poland (1.46), Hungary (1.47). As a candidate member state and having in mind country economic situation, Bulgaria normally falls in the same diapason at present. BCL of 1.15 and UCL of 1.45 describe the acceptable corridor for negotiating minimum salary/wage and are too close to the practice in new member states.

Upper limit: 60% of the average salary/wage. This is an important ratio, which is widely used for statistical comparisons and for creating special policies. There are a lot of examples in the European practice, where the ratio mentioned varies within wide limits. For the purposes of the applied mechanism for linking, the acceptance of upper limit of 60% of the average salary/wage is in accordance not only to the European practice, but also to the requirement for fairness in payment. But what is most important now is that it is a working parameter. At higher values it will firmly stay above the acceptable corridor and at lower – will firmly oppress the possibilities for negotiating within an unacceptably narrow referent corridor.

Basic characteristics of the described model of linking the minimum salary/wage and poverty line can be summarized in the following directions:

- The mechanism guarantee maintenance of given proportions within determinate diapasons, but also gives possibilities for active inclusion of the social partners at negotiating the minimum salary/wage size.
- The model is based on the previous year data, i.e. updating the minimum salary/wage is done within the year following the statistical observations. In practice it impose one-year time period, due to the necessity of negotiations, requiring presentation of respective arguments by the social partners, necessity of draft state budget for the next year, because there are some more minimum payments that are also connected to the poverty line.
- Acceptable corridor is constant and represents diapason of 26% compared to BCL. If the average salary/wage increases more, compared to the poverty line, the referent corridor became wider (varies between 0 and 26%) and also the possibility for negotiations and vice versa.
- In principle, the model is long lasting. Its main parameters – BCL and UCL – need verification and adaptation from time to time. In this context, the acceptable period can be re-defined, depending on the stable changes that occur at upper limit – 60% of the average salary/wage. Expectations are that new, higher coefficients of linking will became possible and necessary in parallel to the improvement of living standard.

Binding the minimum old-age pension to the poverty line

Binding the minimum old-age pension is done directly through the minimum salary/wage or indirectly – through the poverty line. The minimal size of old-age pension should be no less than 50% of the minimum salary/wage.

Annually, when the poverty line is updated, the coefficient of binding to the minimum salary/wage is revised in order the levels of poverty line and minimum old-age pension to be equalized.

If the poverty line increases smoothly within the period 2006-2010 and targeting social policy is conducted, it will allow the equalization in 2010 the level of minimum old-age pension and poverty line. Preliminary calculations show that it may become true if the average insurance income increase to 550 BGN (309 BGN in 2004). There is almost full correspondence between the average insurance income and the average salary/wage for the country in 2004. If the last tendency remains the same, it will mean that the average salary/wage in 2010 will be 550 BGN. Minimum salary/wage of 275 BGN will represent 50% of the country average and the minimum old-age pension – 70% of the minimum salary/wage.

Binding the social assistance to the poverty line

There are two aspects of binding the social assistance system to the poverty line: conceptual and methodological. Number of key questions exists from the conceptual point of view. The first one concerns the achievement of an agreement on an indicator (value), which will be used as a basis in defining the size of social benefits. The question is whether the poverty line is appropriate base for defining social benefits or another indicator should be accepted (as in the case of GMI). A lot of arguments can be pointed out, supporting each of the two theses, but in our opinion, the poverty line is generally agreed to separate poor and non-poor.

The following, more important arguments can be presented in this connection. The poverty line is a value corresponding to the accepted by the society minimal living standard. In this aspect, binding the social benefits to minimal living standard ensures adequate protection of the poor. There is no need of updating the poverty line due to the methodology for its defining. It is based on the de facto distribution of income and in this sense the size of social benefits is automatically updated, after chancing the poverty line.

The second conceptual question is connected to the defining subjects of social assistance. The question is whether the unit (subject) of assistance will be person or family (as at present) or household. In the first case (persons and families) consumption economy due to the household size is not taken into account. Thus, persons with low income are supported who live together with other persons (or use the same goods), having relatively high income. If the household is accepted as a basic unit of social assistance, the pointed injustice will be eliminated and it will allow the consumption economy to be taken into account.

The third conceptual question concerns principles of binding different social programmes. The complementary (addition to) principle is accepted in our social practice. Programme for energy assistance (heating) during the winter for example is complementary to the monthly benefits programme. Something more, considerable shares of persons receiving social benefits complement their income through participation in another programmes. It leads to the possibility one and the same persons or families to accumulate income, which is high enough to de-motivate participation at the labour market.

Social policy in many countries shows that there is no universal solution of the question. Elimination of the undesired effects of the social benefits complementary character can be solved in two ways. The first is the limitation of complementation to a given level, the poverty line for example. It requires synchronization of the access to different programmes. On practice it can be realized through the application of means testing, including all sources of income (social programmes also). The second solution is more radical and concerns receiving benefit according to a given social programme. It can be applied if the maximum size of social benefit includes to one or another extent the benefits, received according to the rest programmes. In this context, binding the social benefits to the suggested poverty line gives a good possibility for combining social programmes. The accepted methodology for defining the poverty line is a reason to do so. It includes all types of household's income as well as ensures expenditure, covering the food and non-food component.

Methodological problems concern mainly the determination of risk groups and defining differentiated eligible income.

Numbers of risk groups are defined in the Bulgarian practice. According to the Law on Social Assistance, they are entitled to specific treatment for defining their eligibility to social assistance. They are differentiated according to the different indicators and differentiating coefficient is given to each target group. Thus, it is difficult to compare separate persons and families and no answer is fount to the question why the access to social assistance is "easier" for some, compared to other. In our opinion, all households meeting the accepted criteria should be treated equally i.e. should have the same eligibility to social benefits. If a household is recognized as poor, than the size of its differentiated eligible income should be in conformity (equivalent) with the rest poor households.

If equivalency is accepted as a basic principle for households access to social benefits, one and the same scale should be used, making the households income comparable. Equivalent scales are descending ranged and take into account the weight of each household member in total household budget. Main purpose of the weights is to estimate for separate household, the budget elements that are connected to the expenditure on common, equally important and impossible for separation goods for all household members. Such are the expenditure on electricity, heating, energy consumption for cooking and purchases of durables. Thus, the consumption economy, depending on household size is

taken into account. Having in mind that the poverty line is defined based on modified equivalent OESD scale, the same should be used in the case.

The next two examples can be used for illustration the suggested methodological solution. Let poverty line is 152 BGN monthly per equivalent unit. If a household consists of 3 persons (2 parents and a child under 14 years of age) than households' differentiated eligible income will be 273.6 BGN. Another household consists of 4 members (2 parents, one child, 17 years of age and one – below 14) and its differentiated eligible income will be 349.6 BGN. In the case, the income of the two households is equivalent and if their de facto income is under the pointed levels, they will be entitled to social benefits (of course, if meet also the other eligibility criteria).

So calculated income, will complement income of households proved as poor, i.e. the households will be supported with sum, which is equal to the difference between defined for assistance income and the income, declared by the household, recognized as poor and needing assistance. Introduction of the household as a beneficiary of social assistance and the equivalent scales for defining amounts, reduce possibility for repeating assistance of separate persons or families, within one and the same household. Thus, resources for social assistance of poor households can be more effectively used.

*

The methodological aspects presented with regard to defining the poverty line and binding protected social payments to it concern number of debatable questions. The suggested methodology takes into account two important points: real distribution of households according to the income size and possibility for intervention by the government in differentiation the minimal necessities and defining the percentage of median income respectively. Thus, the objective distribution of income in the society is taken into account and the role of government in its defining as well.

Not only the economic, but also the social function of minimum salary/wage should be considered in its defining. The methodology proposed is based on social dialogue, which means that it can be detailed and modified according to the social partners' views. In this context, it is an open system, giving a possible way the poverty line to be taken into account in negotiating minimum salaries/wages.

The above discussed and presented conceptual and methodological solutions for binding the social benefits to the poverty line make poverty easier for the risk social groups, offering better direction and definition of the corresponding benefits levels; they may increase fiscal transparency and reduce overlapping different social protection programmes. The social assistance system, based on the presented methodology ensures equality and better justice in distribution goods amongst persons who need assistance.

4.IV.2006