

The Cypriot GMI scheme and comparisons with other European countries

Christos Koutsampelas*

Economics Research Centre, University of Cyprus

Abstract

This paper examines the Guaranteed Minimum Income (GMI) reform that took effect in Cyprus in 2014 with the aim of substituting the previous public assistance scheme with a new policy. In that period, the economy of Cyprus was experiencing a severe economic contraction with harsh social repercussions. The intended aim of the reform was to increase the effectiveness of social protection as the previous minimum income system was judged to be unequal to the task. After providing a fairly comprehensive description of the new scheme, the paper proceeds to a comparison of its basic statutory requirements and provisions with what pertains in Europe, in general. We find that the institutional commonalities are much more frequent than any particularities, meaning that Cyprus possesses a modern minimum income system. Nevertheless, there is also space for transfusing good practices and innovative approaches from countries with a long tradition in welfare policies and much more sophisticated public administrations.

Keywords: Guaranteed Minimum Income, Cyprus, Minimum Income.

1. Introduction

In 2014, Cyprus switched its existing minimum income scheme (Public Assistance) to a Guaranteed Minimum Income (GMI) scheme by voting in the *Guaranteed Minimum Income and Social Benefits Law of 2014*, which replaced the *Public Assistance and Services Law of 2006–2013*. The reform, which was included in the prerequisites of the Memorandum of Understanding signed between Cyprus and its international lenders¹, had

* Address: Economics Research Centre, University of Cyprus, P.O. Box 20537, 1678 Nicosia, Cyprus. E-mail: koutsampelas.christos@ucy.ac.cy

¹ In the [Cyprus Letter of Intent](#) of August 29, 2013 it is stated (on pg. 9) that: “Our existing system does not in all cases provide benefits to those who are most in need, including the working poor, and its administration has shortcomings. To address these shortcomings and ensure adequate social protection during this economic downturn and beyond, we have developed a comprehensive reform plan to introduce a guaranteed minimum income (GMI) scheme while eliminating duplicate benefits. The GMI will provide assistance to those who do not have sufficient income to cover basic needs, thus effectively expanding the coverage of public assistance, while remaining within the budgetary envelope.”

two basic aims: a) to provide better support to groups who were becoming increasingly more exposed to the risk of poverty, and b) to improve the operational efficiency of the overall system.

Cyprus was not alone in reforming its Minimum Income (MI) system. Indeed, many countries reformed for the better or worse their MI arrangements (Marchal et al, 2016). At the EU level, also, the provision of effective MI protection has gained some prominence in the social agenda.² This is not coincidental. In many countries (especially those hardest hit by the crisis) the social situation has ostensibly deteriorated. This means that the demand for social protection has increased at the same time that the supply for social protection has been de facto constrained due to the public finance tightening that many governments have experienced. Taking these two together implies that giving priority to targeting resources to the needier was, and still is, difficult to avoid. But how exactly are MI systems affected in such situations?

The persistence of high levels of unemployment pushes people to long-term unemployment. In terms of social policy, this means that an increasing number of people, after losing their eligibility to contributory benefits, rely more on last-resort safety nets, as periphrastically the motley collection of non-contributory MI benefits is called. But there is more than that. The Europe-wide increase in the incidence of in-work poverty alongside the gradual rise in atypical forms of employment means that for many people participating in the labour market is a necessary but not sufficient condition for escaping poverty.³ Furthermore, those in non-standard employment are often not entitled at all to contributory unemployment benefits, while transitions into and out of labour markets are frequent with sometimes lengthy low-income spells in the interim. These contingencies call for the provision of extra income support, which typically comes in the form of non-contributory means-tested social transfers targeting individuals in the low part of the income distribution. It should be noted that this latter definition includes a wide array of benefits such as means-tested single-parent benefits, social pensions, non-contributory unemployment assistance, in-kind benefits, etc.; however, the focus of this article is on MI benefits that act as top-ups on the incomes of low-income groups.

Bearing all this in mind, the paper examines and compares the statutory provisions of the Cypriot GMI scheme employing the following structure.

² See, for example, the importance placed on adequate income support in the [European Commission's Communication on Social Investment Package](#).

³ According to the most recent data (2014) about one in ten employees in the EU28 is below the poverty line, with the highest rates observed in Mediterranean countries and Balkans.

The next section provides an overview of the social situation in Cyprus as it stood until 2014.⁴ Section 3 succinctly describes the GMI scheme. Section 4 compares the national scheme with what can be considered as standard practices in Europe trying to identify similarities and deviations. Finally, Section 5 cherry-picks promising ideas and approaches met in European systems whose transfusion into the Cypriot context is, at least, worth considering.

2. The social situation and the demand for minimum income protection in Cyprus

The first signs of the crisis were observed in 2009 after nearly a decade of rapid economic growth and low unemployment rates. But the economic downfall escalated in 2013 when GDP shrank in real terms by 5.9% followed by an additional 2.5% in 2014. Most dramatic was the increase in unemployment. From the lowest unemployment rate in Europe in 2008, Cyprus reached the third highest in 2014. Of course, in this economic context the deterioration of public finances was not a surprise; what was out of the blue was the rapidity of the collapse of the financial sector in 2013, which resulted in a notorious bank deposit haircut causing severe damage to individuals' and firms' capital. The ensuing economic adjustment programme, which was the price of averting a complete economic breakdown, demanded a series of austerity measures, structural reforms and privatisations. The fall in economic activity resulted in a deterioration of the social situation.

There are many different ways of quantifying social problems. Table 1 does exactly that by reporting a selective group of indices which, inter alia, might be interpreted as indicators of the demand for minimum income protection. The table also reports the corresponding EU averages so as to help put national figures into a wider perspective. As discussed earlier, a continuous increase in unemployment results in increases in the number of long-term unemployed. This occurred in Cyprus, resulting in both unemployment and long-term unemployment rates standing far above the European averages. Staying for long out of the labour market increases the risk of various forms of deprivation. In Cyprus, the severe material

⁴ A more comprehensive description of the economic, social and political developments of the period is offered by Pegasiou (2013), Pashardes (2014), Clerides (2014) and Demetriou (2015).

deprivation rate (SMD) rose from 9.1% in 2008 to 15.3%, over 6 percentage points above the EU27 average.⁵

TABLE 1

Social and Labour market indicators

Statistical indicators		2008	2009	2010	2011	2012	2013	2014	2015
Unemployment	CY	3.7	5.3	6.3	7.9	11.9	15.9	16.1	15.1
	EU27	7.0	9.0	9.6	9.6	10.4	10.8	10.2	9.4
Long-term unemployment	CY	0.5	0.6	1.3	1.6	3.6	6.1	7.7	n.a.
	EU27	2.6	3.0	3.8	4.1	4.6	5.1	5.0	n.a.
Severe material deprivation	CY	9.1	9.5	11.2	11.7	15	16.1	15.3	n.a.
	EU27	8.5	8.2	8.4	8.8	9.9	9.6	8.9	8.2 ^b
Depth of poverty	CY	21.9	22.3	22.8	22.9	23.3	23.8	24.6	n.a.
	EU27	15.3 ^a	17.2	18.0	19.0	19.0	17.7	18.5	n.a.
At-risk-of-poverty rate anchored at a fixed moment	CY	n.a	9.8	12.1	10.6	11.5	15.2	19.6	n.a.
	EU28	n.a	n.a	12.9	14.2	14.8	15.2	15.6	n.a.
Poverty rate	CY	15.9	15.8	15.6	14.8	14.7	15.3	14.4	n.a.
	EU27	16.5	16.4	16.5	16.8	16.8	16.7	17.2	n.a.
AROPE	CY	23.3	23.5	24.6	24.6	27.1	27.8	27.4	n.a.
	EU27	23.7	23.3	23.7	24.2	24.7	24.5	24.4	n.a.

Notes: ^a Break in series. ^b Estimated figure.

Source: EU-SILC, LFS; Eurostat Online Database, Notes: Years refer to survey years.

On the other hand, the poverty rate (an index widely used in public debates) decreased from 2008 to 2014. However, it is important to note that this indicator is subject to income relativities (the poverty threshold is officially measured as a proportion of the median income, which varies from year to year, with its volatility greatly increasing during a crisis). Indeed, fixing the poverty threshold at a certain point in time gives a different picture (and a more relevant one as far as MI protection is concerned). But an even more relevant statistic when talking about MI is the depth (or intensity) of poverty. It is the depth of poverty that primarily – and realistically – MI schemes aim to ameliorate, rather than its

⁵ Severely materially deprived persons are defined as persons who experience at least four out of the following nine deprivation items: they cannot afford 1) to pay the rent or utility bills, 2) to keep their home adequately warm, 3) unexpected expenses, 4) to eat meat, fish or a protein equivalent every second day, 5) a week's holiday away from home, 6) a car, 7) a washing machine, 8) a colour TV, or 9) a telephone.

incidence.⁶ Finally, the at risk of poverty or social exclusion rate (AROPE) provides an overarching picture as it combines many elements from the other indicators.⁷ The AROPE rate increased by 4 p.p. in 2009–2014 and stands well above the EU average.

Decomposing some of the above indicators may yield important hints about the structure of the demand for income protection, and how it evolves over time. This exercise is useful for the additional reason that averages usually mask significant disparities between population groups. Indicatively only, Table 2 dissects the SMD rate by age, sex and household type.⁸

Considerable differences among the various groups can be detected. The risk of SMD was actually uniform across the age groups in 2009, but as the crisis unfolded the SMD decreased among the elderly (from 9.5% in 2009 to 7.4% in 2014), while it increased for the other age groups. In 2014, a child had more than double the probability of being SMD than an older person. This can be interpreted in two ways: on the one hand, the effect of the crisis was harsher on families with children, and on the other hand, the social protection system (and most importantly the MI system) failed to provide adequate support for children. While the SMD rate was and remained similar between genders, we see that the SMD risk for single persons with dependent children (in most cases single mothers) was not only by far the highest among all groups, but it was also increasing, reaching a very alarming 33.1% in 2014. Finally, the SMD rates for households with children and households comprising of two adults, one of which is an elderly person, echo the previous interpretation. Summing up, the overall picture is that the demand for MI protection increased substantially in Cyprus with some groups being ‘needier’ than others.

⁶ Eliminating the incidence of (relative) poverty through cash subsidisation would be very costly in financial terms with potentially very serious repercussions for labour market incentives.

⁷ The AROPE rate measures the proportion of people who are either at risk of poverty (income poverty) or severely materially deprived or living in households with very low work intensity.

⁸ Ideally, this exercise should be repeated for most of the indicators of Table 1 (as well as other indicators such as the housing deprivation rate, the depth of material deprivation rate, the persistent poverty risk, etc.) using as many relevant sociodemographic characteristics as possible so as to arrive at a relatively accurate picture of the profile of the potential claimants of MI support.

TABLE 2
Severe material deprivation rate in Cyprus (2009-2014)

Severe material deprivation rate	2009	2010	2011	2012	2013	2014
by age:						
less than 18	9.3	12.5	14.8	18.1	18.7	15.6
18-64	9.5	11.5	11.6	15.5	16.7	16.7
above 64	9.5	7.3	7.1	7.5	9.0	7.4
by gender:						
male	9.1	11.5	12	15.1	16.6	15.6
female	9.8	10.9	11.4	14.9	15.6	15.1
by household type:						
single person	11.1	13.0	12.6	13.5	17.3	12.9
two adults younger than 65	9.2	12.6	6	12	16	14.9
households with dependent children	9.1	12	14.1	17.8	18.4	16.8
single person with dependent children	21.4	29.8	30.5	36.6	28.1	33.1
two adults at least one aged above 65	8.2	6.2	6.8	6.1	7.3	6.0

Source: EU-SILC, Eurostat Online Database, Notes: Years refer to survey years.

The following figure shows the results of a microsimulation exercise conducted by the Economics Research Centre regarding the impact of the 2014 reform (switch from public assistance to GMI). The figure shows the composition of recipients of MI benefits by age and economic status before and after the 2014 reform. A general message conveyed from the results is that the reform was geared towards increasing recipiency among the working-age population, including employed and unemployed persons. This also has reverberations for child poverty since children live in households headed by working-age persons.

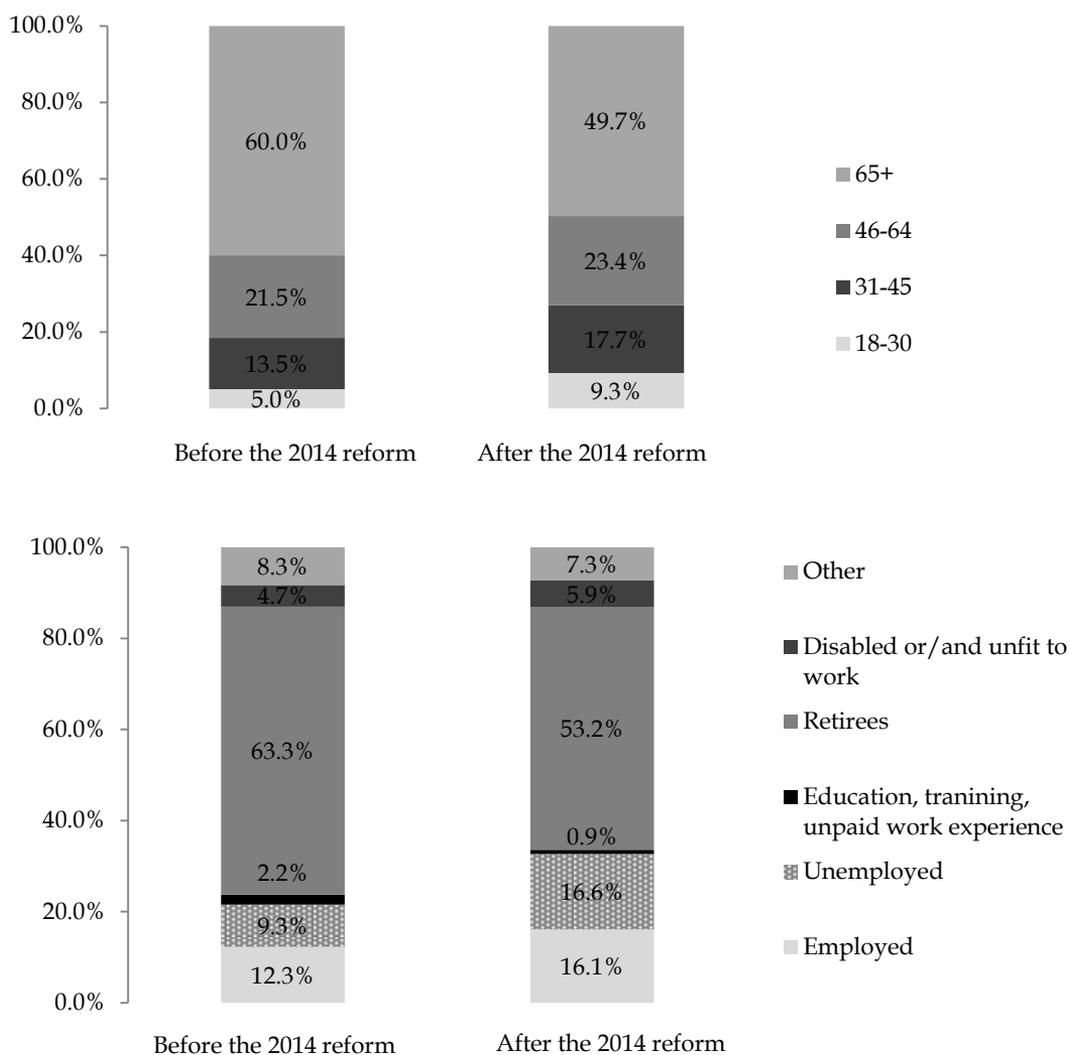
An important caveat of this analysis is that it is based on microsimulation methods and thus is subject to simulation and statistical errors.⁹ A much more conclusive picture would be obtained by comparing the detailed age and economic profiles of potential and actual beneficiaries (before and after the reform) using administrative data. Such analysis would yield

⁹ Simulation errors result from an imperfect simulation of policy rules (for example, the GMI scheme sets some rather demanding asset criteria for determining eligibility. These cannot be checked by the model since its informational base is the EU-SILC database, which does not include information on households' assets).

robust evidence of whether some groups overparticipate or underparticipate in the MI system.¹⁰

FIGURE 1

Profile of recipients of MI benefits by age and economic status



Source: Own calculations using EU-SILC database.

¹⁰ This may happen as a result of certain parts of the legislation that might create barriers to access for certain types of recipients (for example, very strict residency or nationality conditions may deter migrants).

3. Short description of the system

Level of the benefit

The GMI is a top-up benefit calculated as the difference between a pre-specified minimum threshold set by the law and the actual income of the recipient. This minimum threshold (henceforth basic income) varies with the structure of the recipient unit and is objectively determined through reference budget methods that are aimed at ensuring that the recipients will enjoy, at least, a minimum acceptable standard of living. The recipients are also entitled to a housing allowance, several cash allowances (which subsidise the care needs of certain categories of recipients) and other minor in-kind benefits. Thus:

$$\text{Total benefit} = \max(\text{basic income} - \text{family income}, 0) + \text{housing allowance} + \text{care-related allowances} + \text{in-kind benefits}$$

The current value of the basic income is equal to €480 for a single individual and increases with the size of the recipient unit in accordance with the standard equivalence scales¹¹ used by Eurostat. The family income is defined as the sum of the monetary incomes of all the members of the family unit; however, certain incomes are excluded.¹² Most importantly, income from employment is partly excluded from the definition of family income according to the schedule shown in Table A.1 in the appendix.

The housing allowance is aimed at reducing the housing costs of deprived households. Eligible for the housing allowance are GMI recipients who either live in rented accommodation or are homeowners experiencing difficulties in repaying their mortgage loan. The allowance varies according to regional location and the size/structure of the recipient unit as shown in Table A.2 in the appendix.

The particular needs of certain categories of recipients (e.g. families with children, elderly with limited capacity to care for themselves) can be subsidised through a series of specialised allowances:

¹¹ These scales assign a value of 0.5 to each additional adult and 0.3 to each additional child. Children are defined as persons below 14 years old. Thus, for example, the basic income for a couple without children is €720 and it is €864 for a couple with a child below 14 years old.

¹² Specifically the following incomes are not counted in the means-testing: funeral grant, birth grant, student grant, military grant, financial aid for low-income pensioners, donations to philanthropic institutions, alimonies, benefits for disabled persons, the first €512 from participation in employment/training schemes, and assistance through the welfare lottery fund.

- *Home care* includes the provision of assistance with normal daily tasks (e.g. bathing, dressing, personal hygiene). The value of the subsidy cannot exceed €400 per month.
- *Day care* is provided by adult day care centres and is subsidised by a cash benefit of up to €137 per month.
- *Residential care* is offered by residential homes and is subsidised via a cash benefit that varies from €625 to €745 per month depending on the needs of the beneficiary.
- *Respite care* is a temporary/short-term type of care enabling GMI recipients with caring responsibilities to take a break from their daily tasks.
- *Child care* is also subsidised by a maximum monthly amount of €102.

Eligibility

Claimants should satisfy a rather complex set of eligibility criteria:

- **Age conditions:** The applicant must be at least 28 years old. However, this restriction does not apply to married persons, single parents, orphans, disabled persons and persons who are under the legal care of the Director of Social Welfare.
- **Nationality conditions:** Third country nationals are eligible if they are permanent residents, refugees or victims of human trafficking.¹³
- **Residency conditions:** Recipients should have been legally residing in the controlled area of Cyprus continuously for at least five years before the date of the application.
- **Employment conditions:** Unemployed and low-paid employees are eligible for the benefit, but a set of conditionalities should be fulfilled. In particular, the recipients should register with Public Employment Services (PES), be willing to accept employment provided that they have the required skills for the particular job, not have resigned six months before the date of their application, not resign after submitting their application, not resign while being GMI recipients, participate in vocational/educational seminars, participate in special schemes of community service (in case they're asked to participate), accept the provision of personal tutoring from

¹³ The legal definition of permanent resident is set by the *Aliens and Immigration Law*. The legal status of refugee is defined by the *Refugee Law of 2000*.

vocational counsellors, participate in seminars of personal/social development and finally accept in-house visits from welfare officers if this is deemed necessary.

- Asset conditions¹⁴: Both the movable and immovable assets of the recipient unit are means-tested:
 - Movable property: Assets other than deposits (including bonds and shares) cannot exceed €5,000. The recipient can have cash deposits up to an amount of €5,000 (this threshold increases by €1,000 for each additional dependent). Nevertheless, this threshold may increase up to €20,000 if the amount is blocked to secure a loan, deposited in the name of a minor child or belongs to disabled persons.

Immovable property: The recipient should not have immovable property that exceeds a value of €100,000.¹⁵

4. What pertains in Europe and how Cyprus compares?

All European countries offer some sort of MI package consisting of either a comprehensive minimum income scheme or a combination of categorical minimum income transfers.¹⁶ Although there is significant variation in terms of the institutional characteristics of these programmes, all of them are designed on the same principle of providing a last-resort safety net that protects people from falling below a certain standard of living that is considered as the minimum acceptable in each society. All of them are also means-tested; that is, eligibility is contingent on the financial resources of the applicants. The observed institutional differences among European MIs stem from differences in the broader welfare state arrangements that have long been established in each country, which in turn depend on historical, political and economic factors. Countries with traditionally strong social protection systems (Scandinavian as well as several central European countries) offer relatively adequate and comprehensive programmes, which contribute significantly to keeping extreme forms of material

¹⁴ The initial asset criteria of the 2014 GMI Law were criticised as being too strict. Yet they were slackened after a Law amendment that took effect in 2015 (Law 118(5)/2015).

¹⁵ But home ownership is not taken into account in the means-testing when the house does not exceed 300 square metres, thus after August, anyone with a house of up to 300 square metres is eligible to apply for the benefit; the amount of €100,000 can be disregarded from means-testing when the property in question cannot be transferred or sold due to mortgages or usufructs placed on the property.

¹⁶ Greece and Italy deviate from this rule. Greece has recently launched a pilot GMI programme, yet its expansion at the national level is highly uncertain. In Italy, minimum income schemes operate only in a number of regions.

deprivation at low levels (Bahle et al, 2010; Figari et al, 2013). On the other hand, southern countries often operate fragmented and complex systems whose adequacy and effectiveness can be questioned (Matsaganis et al, 2003). As will be argued in the following paragraphs, the Cypriot welfare state operates a scheme that stands somewhere in between: not being of 'Mediterranean type' but also not being completely on a par with the most advanced European schemes. Table 3 compares the Cypriot GMI with what can be considered as standard practice in post-crisis Europe in terms of various characteristics (type, coverage, level of benefit, conditionalities, etc.):

Type: Most European countries operate non-categorical (in the sense that their application is not confined to certain parts of the population) schemes. These schemes might be complemented by several categorical benefits targeting special groups. However, there are also countries that operate networks of non-overlapping categorical schemes (which might be construed as quasi non-categorical comprehensive systems). The Cypriot GMI is a non-categorical, simple and comprehensive system that covers every citizen residing in the non-occupied area of the country.

Determination of the level of the benefit: In most countries the level of the basic benefit (the amount for a single person) is objectively calculated either as a function of predefined welfare indicators or on the basis of a social protection minimum (minimum wage, social pension, etc.).¹⁷ However, it is not uncommon, in a number of countries, to set the benefit level on an ad hoc basis, usually as a result of political compromises and bargaining procedures among the basic stakeholders. Cyprus has adopted reference budget methods to define the basic amount, which are scientifically rigorous and remove arbitrariness to a considerable degree.¹⁸ It should be noted that the European Commission (2013), as part of its Social Investment Package, proposed the use of reference budgets as the most appropriate instrument for designing adequate income support in member states. Finally, household composition is taken into account by adjusting the basic benefit using a set of equivalence scales.

Uprating practices: The MI benefits are casually reviewed and uprated in order to take into account changes in consumption patterns and prices. There is a great variety of uprating techniques in Europe, despite the fact that due to austerity policies most price indexation mechanisms have been frozen in recent years. The Cypriot MI benefit is one of the rare cases of

¹⁷ A commonly used indicator is the poverty line. In this case the benefit is calculated as a proportion of the line.

¹⁸ Reference budgets are illustrative priced baskets of goods and services that correspond to a given living standard (Bradshaw, 1993).

social benefits that actually increased during crisis. The social assistance scheme, the predecessor of the GMI, provided a monthly amount of €452 to a single person. In 2014, the introduction of the GMI increased the amount by around 6%, to €480. This increase might be viewed as unsubstantial but taking into consideration the reductions in many commodity and service prices that took place in recent years, it signifies a rather worthwhile increase in the real purchasing value of the benefit.

Discretionary elements in administration: The standard international practice is that recipients' rights are based on strict criteria clearly set out in legislation and the rather limited discretionary power of public officials. This is also the case in Cyprus where the 2014 GMI Law constrained the room for manoeuvre that the previous Public Assistance Law endowed to public administrators. Yet, an amendment of the Law in 2015 added an element of discretionary power as the 2014 legal framework was considered too inflexible. Nevertheless, the Cypriot scheme offers limited power to welfare officers as is also the case in many European countries.

Activation strategy: The socio-economic integration of MI recipients has gained much importance in the last decade in an effort to transform the passive welfare states of the past into investment states. European MI schemes employ a large variety of activation toolboxes with a focus on reducing dependency and promoting employment. Conceptually, activation instruments can be divided into financial, demanding and enabling. Financial elements refer to monetary incentives, demanding elements refer to behavioural conditions imposed on continued benefit receipt (e.g. requirement to take up offered jobs) and enabling elements refer to policies that enhance recipients' abilities to gain economic autonomy in a sustainable way (e.g. education and training). The European Commission's Social Investment approach clearly tips the scales in favour of enabling activation tools; however, as we will discuss in the next section, many states have accentuated the demanding dimension of their activation strategies, most probably in an effort to politically redress their MI systems. Table 3 shows some typical examples of activation tools met in European systems (Marchal & Van Mechelen, 2013).

Participation of employed persons: A discernible difference from the old regime of minimum income protection is that the new system (GMI) facilitates the participation of working poor in the scheme. The public assistance allowed the participation of employed persons but only under certain restrictive requirements, which have been relaxed in the current scheme.¹⁹ In that regard, the Cypriot system is more like the European

¹⁹ According to the Public Assistance Law, full-time employed persons were not eligible for social assistance unless they were disabled, single parents, parents of at least four

systems, which are usually open to working poor. Indeed the current trends in the labour markets are such (increase in forms of atypical employment, low pay contracts) that often employment does not necessarily guarantee an escape from poverty.

Age limits: Overall, the Cypriot GMI is very similar to most European systems. Yet, there are differences too, the most obvious of which regards its age limits (i.e. the legal age above which one may become a GMI recipient). Cyprus has one of the highest age limits in Europe. Eligible recipients should be above 28 years old to apply for the benefit (excluding married persons, single parents, orphans, disabled persons and people under legal care of the Director of Social Welfare, who may apply even if they are below 28 years old). This idiosyncrasy was caused by the specificity of the societal structures in Cyprus. A high proportion of adult young people are either living with their parents or receive considerable intra-household cash transfers. According to the most recent Eurostat data (2012), the proportion of young people (aged 20–29) living with their parents was 68.4% in Cyprus when the EU28 average was 55.6%. Delaying autonomous household formation has become more common due to the crisis, which had a severe impact on young people's labour market opportunities (in 2008 only 60.7% of young people aged 20–29 lived with their parents). It is widely believed that young Cypriots delay the formation of their own households in order to sustain a higher living standard than if they lived separately from their parents. It appears that the lawmakers, obviously sharing this belief, imposed this age threshold so as to avoid the oxymoron of affluent GMI recipients, i.e. eligible beneficiaries with very low reported incomes but at the same time enjoying high living standards due to cohabiting with their well-to-do parents.

Coverage and non-take-up: The defining characteristic of a comprehensive MI system is that it covers the entire population. However, in practice, several groups are either explicitly excluded or face barriers due to the strictness of the eligibility criteria. Not surprisingly, the groups that most often fall into this category are migrants and people belonging to marginalised ethnic groups. In Cyprus, third country nationals can be granted eligibility only if they are considered 'long-term residents' as the term is defined by the Aliens and Immigration Law. Refugees are also eligible. Asylum seekers are excluded by the GMI legislation, yet they do receive income support albeit at lower levels than GMI beneficiaries.

dependent children or other persons who for extraordinary reasons need economic support to fend off urgent family risks. The GMI law has removed these restrictions: employed persons are eligible if their income falls below the minimum level.

Non-take-up is a typical problem of means-tested social transfers and indeed many European systems are plagued by it. Unfortunately, there is a complete lack of studies rigorously examining issues of non-take-up in Cyprus. However, an informed guess could be that the complexity of the system and the ensuing bureaucracy surrounding it may deter a number of ill-informed and/or low-educated persons from pursuing and/or comprehending their rights to income support.

Adequacy and impact on poverty: MI schemes ought to have a worthwhile impact on recipients' living standard. Yet the concept of adequacy and what can be considered a decent living standard are vague and open to many interpretations. The usual international practice is to assess the adequacy of MI benefits in terms of comparisons with some other minimum standard, usually the poverty threshold or the minimum wage. In Cyprus, the hypothetical annual GMI amount for a single person with zero reported income is currently set at €5,760, nearly 60 per cent of the respective poverty threshold.²⁰ However, certain incomes are excluded from the definition of income that is used in the means-testing. On top of that, the recipients might be entitled to a housing allowance and a series of other benefits (e.g. reduced electricity bill), thus their actual income might not fall very far away from the poverty threshold, which in turn means that the Cypriot GMI performs rather well compared to its European counterparts as far as its adequacy is considered. Indeed, according to the MIPI data set, MI benefits in Europe very rarely exceed the poverty line (Denmark, Ireland and the Netherlands are the only cases where MI recipients' benefits may reach the poverty threshold).²¹ Thus, it is not surprising that typically they have a rather negligible impact on the incidence of poverty (Nelson, 2004; Bahle et al, 2010). On the other hand, they do contribute in significantly ameliorating the intensity of poverty as well as reducing the incidence of absolute poverty. A microsimulation exercise conducted by the Economics Research Centre of the University of Cyprus showed that in regard to its poverty impact, the Cypriot GMI does not deviate from the international norm. Basing our analysis on 2012 EU-SILC data, under the assumption of full take-up, we found that: a) the scheme is expected to have a negligible impact on the incidence of relative poverty, b) but a considerable impact on the intensity of relative poverty, and, finally, c) a very strong effect on reducing absolute poverty.

²⁰ The poverty threshold (for a single person) stood at €9,524 in 2013.

²¹ Van Mechelen, N., Marchal, S., Goedemé, T., Marx, I. and Cantillon, B. (2011), The CSB-Minimum Income Protection Indicators (MIPI) data set, CSB Working Paper No. 11/05, Antwerp: University of Antwerp.

TABLE 3
Minimum Income systems in Cyprus and Europe

Institutional characteristic	What is the standard practice in Europe?	What is the practice in Cyprus?
Governance	At the national level but with regional elements	At the national level
Coverage of the population	Non-categorical schemes which cover the majority of the population	Non-categorical scheme
Level of benefit	The level of benefit is usually defined on the basis of a predefined indicator which also takes into account household composition.	The basic amount is calculated using budget reference methods. The amount is then increased according to Eurostat equivalence scales.
Duration of payments	No time limit	No time limit
Discretionary power of officials	Very limited	Very limited
Activation strategy:		
(a) Financial elements	Earnings disregard, tax incentives, in-work benefits	Earnings disregard
(b) Demanding elements	Time limits, Sanctions (benefit reductions), activity requirements, job-related conditionalities (varying strictness)	Job-related conditionalities, other activity requirements
(c) Enabling elements	Training, access to services, counseling	Training and vocational programmes, access to services, counseling
Coverage of working poor	Yes	Yes
Age limits for eligibility (age at which persons become eligible)	None or above 18+	Very high (28+), but with some exceptions
Population groups with problematic or insufficient or no coverage	migrants, asylum seekers, undocumented migrants, homeless, Roma	asylum seekers, undocumented migrants, third country nationals
Sources of non take-up	stigma, bureaucracy, inadequate information and publicity, lack of knowledge about eligibility rules, very low benefit levels, lack of effective outreach and mediation to potential beneficiaries	bureaucracy, stigma
Adequacy:		
i) relative to poverty line	below the poverty line	below the poverty line
ii) relative to min wages	below the min. wage	below the min. wage
Poverty impact:		
i) on incidence of poverty	negligible	negligible
ii) on intensity of poverty	significant	significant

Sources: Pashardes and Koutsampelas (2016), Marchal and Van Mechelen (2013), Frazer and Marlier (2016).

5. What we can learn from European Systems

Many European countries, particularly those located in continental and northern Europe, can boast of having the most developed and extensive systems of social protection in the world. The process of European integration creates an opportunity for other countries, especially those on the periphery and in eastern Europe, which have less sophisticated welfare states to benefit from the dissemination of good practices and the know-how of the more advanced member states. In this spirit, here, we review a number of innovative MI-related policies that have already been adopted in other countries and whose implementation in the Cypriot context is perhaps worth considering.

Intrusion of ICT technologies: In general, public administrations are not particularly receptive to absorbing new technologies due to a culture of organisational inertia as well as other institutional hindrances. This is unfortunate, but also implies the possibility of substantial gains in productivity provided that barriers to change are tackled. Nowadays, one of the most promising routes to technological innovation is the intensive use of ICT technologies. A prime goal of these technologies is to reduce bureaucratic costs. In some countries claimants can submit their application via the Internet. This practice serves an additional purpose: limiting face-to-face contact with welfare officers might reduce the (perceived) stigma, especially in local communities where anonymity is not easily safeguarded.²² The practice of applying online for claiming benefits is found in Finland, Estonia and the Netherlands. In trying to reduce the red tape, the Belgian government introduced legislation that prohibits public institutions from asking for data that have already been requested in the past, thereby effectively pushing them to upgrade their informational infrastructure. In a similar vein, other countries (e.g. Estonia) have passed laws that treat electronic signatures as being equivalent to written signatures from a legal point of view (Eurofound, 2015). Again the idea is to reduce face-to-face contacts as well as to simplify procedures.

Being proactive vis-à-vis being reactive: One of the distinct characteristics of modern welfare states is the emphasis on proactive (preventive) social policies whose aim is to spot and treat a problem before it intensifies. In the wider context of MI protection, some countries have adopted proactive initiatives so as to rapidly and effectively reach out to marginalised

²² Recent studies show that the most frequent reasons for not claiming a benefit are the lack of information, high transaction costs (arising from the complexity of bureaucratic procedures) and stigmatisation (either factual or perceived) (Eurofound, 2015).

persons (such as homeless persons, illiterate persons, drug addicts and alcoholics). A paradigm of proactive measure is the 'social neighbourhood teams' in the Netherlands. Operating in many municipalities, these social support teams, by exploiting their local knowledge, are in a position to identify problems at an early stage and thereafter guide targeted persons toward various forms of support (Blommesteijn et al, 2016). Another example of proactive measure for increasing take-up is the 'entitlement meetings' in France. Entitlement meetings are held between potential beneficiaries and welfare officers during which the targeted individuals are informed about their legal rights relevant to their personal/family situation (Eurofound, 2015). In the field of employment policies a large variety of proactive policies have been used, several of them targeting explicitly MI beneficiaries, others doing it implicitly by reducing potential claimants. These include labour market matching, rapid job-to-job transitions, skill development, early intervention models and programmes explicitly focusing on groups at high risk of labour market marginalisation (e.g. older workers, immigrants). Some other countries have taken more drastic action. In the Netherlands some local authorities have used a work-first approach according to which an applicant must make an active contribution to the community before taking up the benefit (e.g. participate in a subsidised community work scheme). The aim is to keep people in (or get them used to) a pattern of normal working routine and to let employment/social services rapidly identify claimants' skills. The underlying idea is to intervene before patterns of welfare dependency and inactivity emerge.

The political economy of activation: The consequences of welfare dependency appear to worry a large number of policymakers in Europe. As a matter of fact, there is an increasing emphasis in many countries on implementing active labour market policies (ALMPs) for MI recipients as well as enforcing strict job-related conditionalities (Marchal et al, 2016; Weishaupt, 2013). These policies are not always effective and certainly the current harsh labour market conditions do not help. Nevertheless, in many countries pushing recipients harder toward employment is politically attractive in an era of fiscal conservatism where the rhetoric of 'giving money for nothing' easily finds avid listening ears among the frustrated taxpayers. From this point of view, adopting a workfare approach in social policy (with all its associated advantages and disadvantages) might prove a *sine qua non* for safeguarding the political feasibility of MI programmes. Indeed, as several political analysts argue, non-contributory benefits are more vulnerable to cost-cutting exercises because their beneficiaries consist of fragmented sections of the electorate that are typically not well organised and represented in the political arena (Korpi & Palme, 1998). In

the end, placing strong emphasis on recipients' activation might be an exercise of political realism for saving MIs from retrenchment. Of course, activation is not always a pretext for the median voter; on the contrary, one can trace across Europe innovative and genuine initiatives for enhancing recipients' labour market prospects.

Do activation policies really work?: The existing literature shows that the impact of activation policies varies considerably between different types of programmes and countries. It is difficult to arrive at robust findings regarding the effectiveness of these policies, but a general finding is that training programmes and on-the-job training usually have a positive impact on unemployment while other measures such as public sector job placements, private sector employment subsidies, self-employment support and start-up incentives exhibit rather ambiguous outcomes (Card et al, 2010). However, what most experts suggest is that the essence of activation is in producing positive interactions between different policies (Immervohl & Scarpetta, 2012). In that sense, it makes much more sense to talk about successful activation strategies (rather than successful activation policies) that will encompass an optimal mix of financial, enabling and demanding elements in the overall design of policies so as to exploit positive synergies between the different dimensions of activation (Marchal & Van Mechelen, 2013). This means that a well-designed training programme might yield disappointing results if it is not accompanied by a reasonable degree of 'demandingness' so as to boost participation, or that strengthening the demanding elements of a system (as is fashionable in many countries today) without offering access to enabling services (for example without offering child care support to single mothers) might be meaningless.

The 'Qualification Programme' implemented in Norway is a good example of how different dimensions of activation can be combined so as to produce commendable results. The programme targets working-age persons at high risk of becoming welfare-dependent due to lacking even basic employability skills. The particularity of the programme is that it combines meticulously prepared individualised activation plans with generous income support. The qualification programme lasts two years and the participants are expected to fully participate in all phases of the programme otherwise they lose all benefit entitlements. The rationale is to provide recipients with a stable and stigma-free economic basis over a sufficient period in order to seriously enhance their human capital. Markussen and Røed (2015) find that participation in the programme increases the employment probability of a population group that otherwise would have an almost zero employment rate by up to 18 per cent. The programme is costly in the short term but its financial cost should be

weighed against the long-term benefit of reduced social spending (fewer cases of welfare dependency) and higher tax revenues (supposing that otherwise economically inactive persons would now take up regular employment).

Impact assessment, public transparency and the dissemination of information:

The effectiveness of public policy not only requires the designing of policies that are in principle optimal, but also having the capacity to assess their impact both *ex ante* and *ex post*. The assessment of social policies is – in general – a problematic area in Cyprus. The chief hindrance is the lack of data (such as information on the socio-economic, behavioural and demographic characteristics of social benefits recipients). In that respect, the Cypriot authorities could imitate other European countries with sophisticated public administrations that provide (or facilitate the extraction of) consistent, detailed and systematic data on the various functions of the welfare state. A commendable paradigm is the Statistical Service of Denmark, which provides monthly, quarterly and annual information on the socio-economic and employment status of claimants by type of benefit, area, country of origin and descent (e.g. Danish, immigrants, offspring of immigrants). Similarly, the Ministry of Labour of the same country, through its online web page, provides very detailed information on claimants' unemployment spells, flows between benefits and activation record. In other countries, longitudinal data on the past, current and future earnings of welfare programme participants are gathered. This type of dynamic data is absolutely necessary for pinpointing the causal effect of policies. Unfortunately such informational sources are not available in Cyprus, thereby severely restricting researchers' capacity to provide robust results. To remedy this, a concerted effort between governmental agencies and the research community is necessary.

Should we consider the idea of unconditional minimum income transfers?: Very recently a number of initiatives for introducing unconditional basic income schemes have emerged. According to the Unconditional Basic Income Europe (UBIE) network, an unconditional basic income is:²³

“an income unconditionally granted to all members of a political community on an individual basis, without means test or work requirement. Unlike existing minimum income schemes in European countries, UBI is universal, individual, unconditional, and high enough to ensure an existence in dignity and participation in society.”

²³ <http://basicincome-europe.org/ubie/>

The rationale of these schemes is to provide minimum income support but in a way that does away with the complexities of traditional social security systems, thereby delivering the benefit of offsetting the economic and social costs associated with means-testing and work requirements (stigma, bureaucracy). Such a project may appear utopic, however some countries are seriously considering it. Specifically, the government of Finland has decided to run a basic income experiment in the period 2017–2018 (for detailed information see: Kangas & Kalliomaa-Puha, 2016). At the local level, the Dutch city of Utrecht is preparing to experiment with a similar scheme (Blommesteijn & van Waveren, 2015), while Switzerland will hold a basic income referendum on 5 June, 2016 (Bonoli, 2016). Would it work? It is difficult to say. The obstacles are formidable. First, the employment effects of these programmes should be checked. Second, there is an inevitable trade-off, either establishing a very costly programme or containing costs at the risk of letting the transfer degenerate to an insufficient amount given to all. In any case, our understanding is that the reliance of European MI systems on conditional income transfers is highly unlikely to change in the foreseeable future.

6. Conclusions

In short, the Cypriot GMI is a non-categorical, means-tested benefit that targets the entire population including working-age able-bodied persons who nonetheless should conform to a series of job-related conditionalities and other activity requirements. Its level varies greatly with respect to the size, composition and needs of the recipient units; however, a general assessment is that at its current levels it provides adequate income support. The scheme also provides access to a number of services either directly or through in-cash subsidisation.

At its core, this article compares the statutory provisions of the Cypriot GMI with what can be considered, or tend to become, standard practices in MI systems in Europe. It should be noted that such comparisons can only be generic due to considerable divergence in the institutional characteristics of the European social protection systems. In the presence of institutional heterogeneity one can only discern broad patterns that constitute what can be called standard practice. The Cypriot system was found to share more commonalities in its structural characteristics than differences with most European systems. A further assertion of the article is that there is considerable scope for learning from the experiences of other countries with much more mature social protection systems. In that respect, Section 4 reviewed some interesting practices, trends and ideas found elsewhere in Europe whose transfusion might be worth considering.

Nevertheless, it should be clear that these are mere suggestions; indeed, policies that are feasible and/or desirable in certain contexts cannot be guaranteed to be feasible (or even accepted as desirable) in a different context. To give an example, Scandinavian countries are well known for aptly investing in social policy. This reflects not only the capacity of their strong economies but also political preferences. It would be absurd to hypothesise that a Mediterranean country could replicate their *modus operandi*. Nevertheless, there is always a good lesson to learn from others.

Appendix

TABLE A.1
Earnings disregard

Other than children aged 18-28		Children aged 18-28	
Monthly earnings	retention rate	Monthly earnings	retention rate
Up to €50	100%	Up to €480	50%
€50 - €200	40%	€480 - €1,000	90%
€200 - €500	20%	€1,000 - €2,000	85%
€500 and above	0%	€2,000 and above	80%

Notes: for recipients (or spouses of recipients) with disabilities the first €512 from income from employment are exempted, The retention rate measures the proportion of earnings which is not included in the means-testing.

Sources: Ministry of Welfare, Labour and Social Insurance.

TABLE A.2
Level and Structure of Housing Allowance

Family Unit type	Nicosia/Limassol/Famagusta (€2.80/m ²)	Larnaca (€2.45/m ²)	Paphos (€1.75/m ²)
Single or couple without children	€154	€134.75	€96.25
Couple/single parent with 1 child	€224	€196	€140
Couple/single parent with two minor children of the same sex	€224	€196	€140
Couple/single parent with 2 adult children	€280	€245	€175

Couple/single parent one adult child and one minor child	€280	€245	€175
Couple/single parent with one adult child and two minor children of different sex	€280	€245	€175
-> for each person with disability*	additionally €70	€61.25	€43.75
-> larger families (for each additional child or two additional minor children of the same	additionally €56	€49	€35

Notes: minor child=child<18, adult child>=1; *After the 118(1) 2015 amendment of the GMI Law, the value of the housing allowance for disabled persons can increase by 20%-50% depending on the circumstances.

References

- Bahle T., M. Pfeifer, and C. Wendt, (2010), 'Social Assistance', in Castles F. G., S. Leibfried, J. Lewis, H. Obinger, and C. Pierson (eds.) *The Oxford Handbook of Welfare State*, Oxford University Press.
- Blommesteijn M., and B. van Waveren, (2015), 'Dutch municipalities announce experiments with "basic income"', ESPN Flash Report. Available [online](#).
- Blommesteijn M., L. Mallee, and B. van Waveren, (2016), 'ESPN Thematic Report on Minimum Income Schemes [The Netherlands]', European Social Policy Network, Brussels: European Commission. Available [online](#).
- Bonoli G., (2016), 'Swiss to vote on the introduction of a universal "basic income" on 5 June 2016', European Social Policy Network, Brussels: European Commission. Available [online](#).
- Bradshaw J., (1993), 'Budget Standards for the United Kingdom', Aldershot: Avebury.
- Card D., Kluve J., and A. Weber, (2010), 'Active labour market policy evaluations: A meta-analysis', *Economic Journal*, 120(548): F452-F477.
- Clerides S., (2014), 'The Collapse of the Cypriot banking system: A bird's eye view', *Cyprus Economic Policy Review*, 8(2): 3-35.
- Cyprus Letter of Intent, (2013), 'Memorandum of Economic and Financial Policies, Technical Memorandum of Understanding, and Memorandum of Understanding

on Specific Economic Policy Conditionality', European Commission, 28 August, 2013.

Demetriou C., (2015), 'The impact of the crisis on fundamental rights across Member States of the EU: Country Report on Cyprus', Directorate General for Internal Policies, European Parliament. Available [online](#).

Eurofound, (2015), 'Access to social benefits: Reducing non-take-up', Publications Office of the European Union, Luxembourg.

European Commission, (2013), 'Towards social investment for growth and cohesion - Including implementing the European Social Funds 2014-2020', Brussels, COM(2013) 83.

Figari F., M. Matsaganis, and H. Sutherland, (2013), 'Are European social safety nets tight enough? Coverage and adequacy of Minimum Income schemes in 14 EU countries', *International Journal of Social Welfare*, 22(1): 3-14.

Frazer H., and E. Marlier, (2016), 'Minimum Income Schemes in Europe - A study of national policies', European Social Policy Network, Brussels: European Commission. Available [online](#).

Immervoll H., and S. Scarpetta, (2012), 'Activation and employment support policies in OECD countries. An overview of current approaches', *IZA Journal of Labor Policy*, 1:9.

Kangas O. and L. Kalliomaa-Puha, (2016), 'Basic income experiment in Finland', ESPN Flash Report. Available [online](#).

Korpi W., and J. Palme, (1998), 'The paradox of redistribution and strategies of equality: Welfare state institutions, inequality, and poverty in the Western countries', *American Sociological Review*, 63(5): 661-687.

Marchal S., Marx I., and N. Van Mechelen, (2012), 'Minimum income protection in the austerity tide', *IZA Journal of European Labor Studies*, 5:4.

Marchal S., and N. Van Mechelen, (2013), 'Activation strategies within European minimum income schemes', GINI Discussion Paper 87.

Markussen S., and K. Røed, (2015), 'Leaving poverty behind? - The effects of generous income support paired with activation', *American Economic Journal: Economic Policy*, 8(1): 180-211.

Matsaganis M., M. Ferrera, L. Capucha, and L. Moreno, (2003), 'Mending nets in the South: Anti-poverty policies in Greece, Italy, Portugal, and Spain', *Social Policy & Administration*, 37(6): 639-655.

Nelson K., (2004), 'Mechanisms of poverty alleviation: Anti-poverty effects of non-means tested and means-tested benefits in five welfare states', *Journal of European Social Policy*, 14(4): 371-90.

Pashardes P., and C. Koutsampelas, (2016), 'ESPN Thematic Report on Minimum Income Schemes [Cyprus]', European Social Policy Network, Brussels: European Commission. Available [online](#).

Pashardes P., (2014), 'An evaluation of the social and employment aspects and challenges in Cyprus: A policy note', Directorate General for Internal Policies, Economic Governance Support Unit. Available [online](#).

Pegasiou A., (2013), 'The Cypriot economic collapse: More than a conventional south European failure', *Mediterranean Politics*, 18(3): 333–351.

Weishaupt T., (2013), 'Origin and genesis of activation policies in 'old' Europe: towards a balanced approach?', in Marx I., K. Nelson, (eds) *Minimum income protection in flux*, Palgrave Macmillan, Hampshire, pp. 190–216.

Legal Sources:

[The GMI and Social Benefits Law of 2014 to 2015](#)

[Aliens and Immigration Law](#)

[Refugee Law of 2000](#)

[The Public Assistance and Services Law of 2006 to 2013](#)