

The social protection system in Cyprus: Recent initiatives and labour market implications[±]

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Abstract

This paper reviews the structure of the Social Protection System (SPS) in Cyprus, as well as the amounts spent per annum, in total and for each of the various functions it supports. We delve further into the functions and policies that most immediately relate to the labour market, paying particular attention to the support of the unemployed, those in financial need, and those who are sick and temporarily or permanently disabled. Important recent reforms are examined in depth, especially the Guaranteed Minimum Income programme and its connection with the pre-existing system of unemployment insurance. Lacking access to publicly available micro data on the use of various facets of the SPS, we consider ideas that could improve its fairness, effectiveness and sustainability, so that it can continue to support individuals in real need.

Keywords: System of social protection, reforms, evaluation, the labour market.

1. Introduction

Most market-oriented countries operate social protection systems (SPSs) designed to take care of important needs of their population, including the needs of those who are unemployed, financially disadvantaged, or temporarily/permanently sick or disabled. An important concern is always that these systems be sustainable, a quality that, given their generosity, depends on the overall economic health of the societies concerned and, importantly, on the architecture of the SPSs themselves. In academic and government assessments of these systems, it is accepted that certain design features can lead to unexpected behaviour and unintended, or even undesired, outcomes. For example, these can include (i) concentration of employment or unemployment durations at certain programme time points (e.g., when qualification for unemployment insurance (UI) is achieved following a spell of employment, or just before the expiry of benefits), (ii) the support of individuals who are not in need, or (iii) prolonged dependence due to disincentives for labour market participation which are built into the SPS. Poor design features may ultimately compromise the SPS itself.

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Studies of SPSs generally take it for granted that certain implementation features hold, namely that these programmes are transparent, not fragmented and subject to diverse administrative oversight, and that administrative registers ensure that records of all participants, their time use of programmes, and their personal characteristics are kept. These records should ensure that programme eligibility is easily checked, 'double-dipping' is avoided, incentives for the able bodied to participate are maintained, and undue programme dependence does not occur. These intermediate objectives of SPSs derive from a sense that aid should be fair, directed only to those in need, and from the desire to avoid unjustified expenditures in order to preserve the sustainability of these systems. Many recent international 'Impact Evaluation' studies (see below) rely heavily on administrative records and data such as those mentioned above, while also maintaining the anonymity of participants. They study the incidence of potentially undesired outcomes and quantify their magnitudes.¹

Cyprus, even while extricating itself from a very dangerous crisis, because of the widespread hardship that it entailed, and with the encouragement of the lenders, introduced the Guaranteed Minimum Income (GMI) programme. This was intended to rationalise pre-existing programmes while at the same time ensuring that people in need did not fall between cracks in the SPS. European Commission (2018, p. 40) notes that '... over two thirds of public social assistance is now channelled through GMI'. About the same time, the First National Strategy for Disabilities 2018-2028 and the Second National Action Plan for Disabilities 2018-2020, were produced. These will be referred to as the FNSD and the NAPD. The GMI, the FNSD and the NAPD were all spearheaded by the Ministry of Labour, Welfare and Social Insurance (MLWSI, sometimes also referred to as MLSI) and amounted to significant alterations to the SPS in Cyprus – see MLWSI (2018a) and MLWSI (2018b). The UI system, which was not modified, experienced substantial increases in the number of registered unemployed and in its outlays during the crisis, but it is now returning to a lower number of beneficiaries and more modest expenditures. A number of Active Labour Market Programmes (ALMPs) are being offered to aid the return to normalcy, many co-funded by the European Social Fund (ESF). For an extensive list of these, see Appendix III in Christofides and Koutsampelas (2018).

In view of (i) the crisis which shook the labour market and produced a new pattern of needs and participant attitudes, (ii) the substantial institutional developments described in the previous paragraph, and (iii) the lack of integrated, publicly available, administrative data that would permit independent 'Impact Evaluations' of the outcomes of particular programmes,² this paper reviews instead the qualitative and

¹ The introduction to Christofides and McKenna (1996) reviews some of these findings.

² An 'Impact Evaluation' requires that a particular programme be designed from the beginning with assessment in mind. In an 'experimental' context, a sufficiently large number of potential participants is randomly and anonymously assigned into a treatment group (which takes part in a programme) and an anonymous control group (which does not), even before the programme begins. Aspects of the behaviour displayed by the two groups can then be meaningfully compared. For instance, in the context of a programme designed to help people find a job, the average job-finding rate in the treatment group can be compared to that in the control group and suitable conclusions drawn. In a 'quasi-experimental' context, the programme must be thought out in the knowledge that anonymous data on a control group of similar individuals will be available when the evaluation proceeds in the future.

statutory architecture of the current form of the SPS, as well as the features, including cost, of its various components and their relationship to the labour market.³

As it turns out, the costliest areas of the SPS are the pension and health care systems. Policies in these areas have developed largely independently of labour market regulation and have either undergone or are in the process of experiencing substantial changes.⁴ While these changes have implications for the labour market (e.g., greater labour cost through higher social insurance payments), they were not undertaken with labour market outcomes (e.g., employment and wage setting) in mind. Because of their strict dependence on age and history of contributions, pension claims are not likely to be characterised by moral hazard and adverse selection behaviour, though such concerns may exist for some aspects of health care. We focus instead on the remaining categories of the SPS, describing how programmes operate and their incentive structures, taking into account their cost and interdependence, and considering their relation to labour market conditions and outcomes.

Aware of the strengths of the current SPS, we focus on a few features that offer the potential for abuse or excessive dependence to emerge, in the hope that these features may receive heightened attention, hopefully improving the sustainability of support for the individuals in genuine need. Thus, attention will not be paid to programmes which are one-off, entail conditionality criteria that are easily ascertained, and do not involve substantial expense. As we focus on our main objectives, it is necessary to discuss separately issues that relate to (i) the ease with which conditionality criteria (e.g., income criteria, sickness, and disability) can be verified at the time of application and throughout the participation in SPSs, (ii) the extent to which subtle seasonal and repeat patterns of use can occur and be sustained through time, and (iii) the level of support received relative to the conditions prevailing in the labour market, given eligibility (i.e. the generosity of the system and incentives to participate).

Section 2 presents Cyprus Statistical Service (CYSTAT) data on the various functions of the SPS and their cost. Section 3 discusses the various programmes in existence. Section 4 considers the three major areas that will be examined in this paper in depth, namely the UI system, the GMI, and the complex pattern of support for persons who are ill and persons with disability (PWD). Section 5 considers the generosity of the GMI relative to labour market benchmarks (the minimum wage and median income). Section 6 summarises the main messages and recommendations of this study.

³ In the language of the evaluation literature, this review may be thought of as akin to a *'Process Evaluation'* of the entire SPS with methods and aims that will be explained below. *'Performance Monitoring'*, a third type of programme evaluation (see World Bank 2002, 2009), is carried out by the administrative units in charge of particular programmes. They report retrospective information on the number of programme participants, the budgets involved, the degree of co-funding if any, and outcomes of interest. Statements such as 'x% of participants have found a job by the end of the programme', which may be found in such evaluations, do not prove that the treatment group would not have done equally well or better if they had not participated in an ALMP. Performance Evaluations do not amount to *'Impact or Process Evaluations'*. These three types of evaluations serve different, mutually reinforcing, goals and are all important.

⁴ The ability to retire before the statutory retirement age of 65 has been curtailed, while contributions, benefits and eligibility have all been affected during the crisis. A General Health System (GHS or GESY in Greek) is in the process of being introduced, with likely effects beginning in 2019.

2. Outlays on the various aspects of the social protection system

Detailed information on the cost of the various functions of the SPS in Cyprus is available for 2016 and earlier years, under Social Protection Expenditures by Function - last updated on December 19, 2018. See the press release in Ministry of Finance and CYSTAT (2017) and the Excel files in Ministry of Finance and CYSTAT (2018).

Table 1, from Ministry of Finance and CYSTAT (2018) shows expenditures on social protection as a percentage of GDP for Cyprus, the EU and select member states representing extreme cases, for 2000, 2015 and 2016. In Cyprus, this percentage was 13.9% in 2000, it peaked (not shown in Table 1) at 22.8% in 2013, but fell to 19.1% by 2016. The rise over 2000-2013 (8.9 pp) was not sustainable. In the EU, this proportion was relatively stable and it was 28.2% in the last available year of 2016. In 2016, France had the highest percentage of GDP (34.3%) devoted to social protection, followed by Finland (32%) and Denmark (31.6%); Romania had the lowest (14.6%) percentage, with Latvia (15.2%) and Lithuania (15.4%) at higher percentages of GDP.

TABLE 1
Social protection expenditure (% of GDP)

Country	2000	2015	2016
EUROPEAN UNION	25.5	28.7*	28.2
ROMANIA	13.0	14.6	14.6
LATVIA	15.4	14.9	15.2
LITHUANIA	15.7	15.6	15.4
CYPRUS	13.9	19.9	19.1
FINLAND	24.3	32.1	32.0
DENMARK	28.1	32.3	31.6
FRANCE	28.9	34.2	34.3

Note: *The 2015 figure for the EU is that for 2014; a figure for 2015 is not available.

Source: Ministry of Finance and CYSTAT (2018) Social Protection 2016, Table C1, December 19, 2018.

Table 2, also from Ministry of Finance and CYSTAT (2018), presents the allocation of social protection expenditures in Cyprus by function. In 2016, GDP in Cyprus was €18.5 billion; the 19.1% noted in Table 1 amounts to the €3.5 billion in Table 2. This includes (Table 2) Administration Costs, and Other Expenditures (€44m and €30m respectively). Of the remaining €3,456m, nearly half was devoted to Old Age (€1,684m, or 48.7%) and nearly a fifth to Sickness/Healthcare (€641m, or 18.5%). The remaining functions absorbed the amounts: Survivors (€259m or 7.5%),⁵ Family/Children (€244m

⁵ The category Survivors concerns another form of pension payment. Thus, in 2016, pensions and health absorbed 74.7% of all social protection expenditures, leaving just over one quarter of the total for all the remaining functions.

or 7.1%), Social Exclusion (€227m or 6.6%), Unemployment (€192m or 5.6%), Disability (€145m or 4.2%), and Housing (€65m or 1.9%).

TABLE 2
Social protection expenditures by function, in current prices, 2012-2016
(millions of euro)

Social Protection Expenditures by Function	2012	2013	2014	2015	2016
Total Expenditures	4,071.89	4,139.12	3,518.63	3,532.32	3,530.34
Social Protection Benefits	3,861.72	3,765.68	3,445.08	3,447.11	3,455.95
Sickness / Healthcare	686.32	663.77	577.11	606.50	641.00
Disability	136.42	128.45	123.72	123.64	145.18
Old Age	1,846.48	1,850.73	1,727.32	1,717.44	1,683.74
Survivors	234.95	238.53	245.15	251.97	258.59
Family / Children	293.55	265.20	250.77	240.97	244.28
Unemployment	321.36	358.41	272.77	215.85	191.50
Housing	111.26	65.53	47.59	64.52	64.70
Social Exclusion	231.37	195.07	200.65	226.21	226.96
Administration Costs	51.40	46.20	37.37	40.74	44.18
Other Expenditure	158.77	327.25	36.18	44.47	30.22

Source: Ministry of Finance and CYPSTAT (2018), Social Protection 2016, Table A1, last updated December 19, 2018.

CYPSTAT provides breakdowns of the eight italicised functions in Table 2 in Ministry of Finance and CYPSTAT (2018). They appear in Excel files for 2016 as Tables B, last updated on December 19, 2018. We present all eight official Tables B in Appendix I, limiting our coverage to a brief introduction of these tables and a discussion of some recent data revisions and their implications. These revisions to the 2015 data on Social Protection were carried out in the December 19, 2018 update and were particularly important for the functions Sickness/Health care and Old Age.

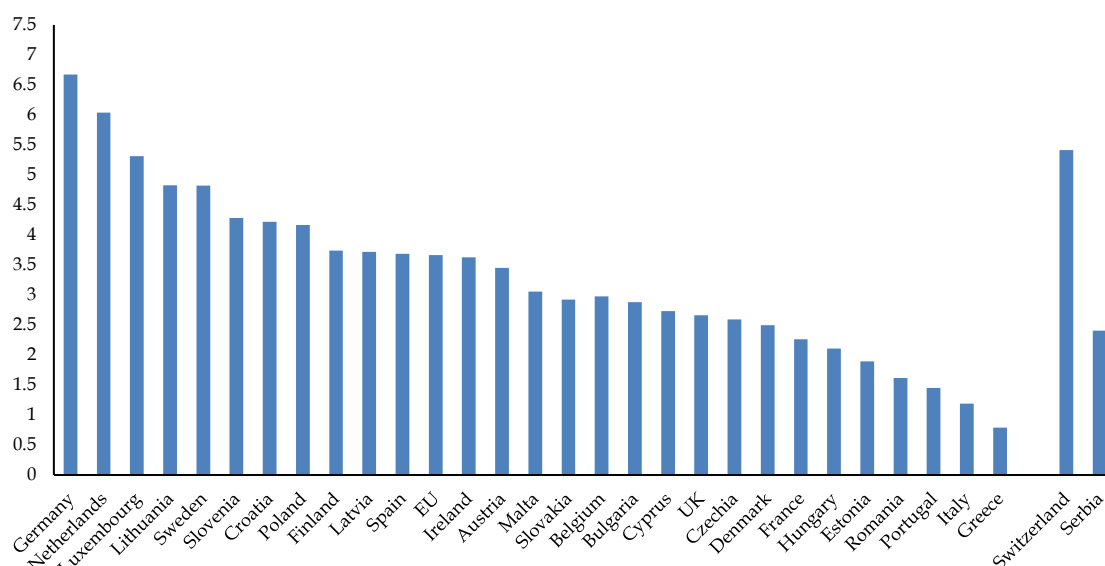
Almost all of the €1,684m devoted to the function of Old Age in 2016 (Appendix I Table I.3) was not means-tested (€1,638m) and was spent on old age pensions and lump sum benefits, of which €1,007m by the contributory Social Insurance Scheme (SIS), and €384m by Civil Service Social Protection (this amount was €543m before the latest revisions, or 29% higher). It is not clear why this revision was so substantial. There is legislated monitoring of the contributory schemes that help support most expenditures on old age. Actuarial evaluations are conducted and the relevant reports are made public periodically. The structure of pension contributions and benefits impacts the labour market indirectly (e.g. through social security contributions and labour demand and supply decisions), but these effects will not be discussed here. Also related to pensions, is the category Survivors (Appendix I, Table I.4). Of the €259m spent in 2016, €255m was spent on the Survivors' Pension, raising issues similar to those mentioned above and also beyond the scope of this paper.

The second largest 2016 function in Table 2 (Appendix I, Table I.1) was Sickness/Healthcare (€641m), expenditures which were not means-tested. This amount divides into €104m Cash Benefits (this was €329.5m before the December 19,

2018 revisions) and €537m of Benefits in Kind (which was not affected by the revisions). Cash Benefits were almost exclusively for Paid Sick Leave (€94m); of this, only €19m was by the private sector category Employer as Provider of Social Protection, an amount which was €229m higher prior to the December 19, 2018 data revisions! The old methodology had assumed usage patterns in the private sector (for which little information was available until the revision) comparable to the much higher ones in the public sector (for which much more was known) – see note 6 below. As Figure 1 shows, the amount of €94m as a percentage of total SPS benefits (€3,530m) is equal to 2.7%, well-below the EU average of 3.7% in 2016. Our Figure 1 was constructed using the methodology in Eurostat (2018) but the revised SPS data by CYSTAT for Cyprus. It is worth mentioning that the Eurostat (2018) version of our Figure 1 has not taken on board the revised data for Cyprus and still shows a percentage for Cyprus equal to 8.4%, placing Cyprus far above all member states (MSs); the percentages for other MSs are very similar to those in our Figure 1.⁶

FIGURE 1

Paid sick leave expenditures as a % of total SPS expenditures



Source: Eurostat, Tables by functions, aggregated benefits and group schemes, [spr_exp_eur], updated December 4, 2018; Tables by benefits - sickness/health care function [spr_exp_fsi], updated December 4, 2018

Turning to Benefits in Kind (€537m), these relate to in- and out-patient use of medical services and pharmaceutical products. Of this amount, only €89m was provided by

⁶ In the CYSTAT data before the December 19, 2018 revisions, expenditure on sick leaves was €321m, of which €248m was for Paid Sick Leave in the private sector by Employer as Provider of Social Protection, €37m for Central Government Health Services and. €29m for SIS contributions. In the revised CYSTAT data (see Appendix I Table I.1), the 2016 expenditure for Paid Sick Leave by the Employer as Provider of Social Protection was only €19m. This is an enormous discrepancy that requires explanation by CYSTAT. The use of sick leaves in the public sector is available by (disguised) department at data.gov.cy – see References. One of many critical journalistic coverages, which also reports leaves by department, is available in Politis (2018). Phileleftheros (2019) reports inadequacies in how sick leave data is collected. Discussions of sick leaves would be more helpful if the amounts spent in the public and private sectors were less subject to change and felt to be more reliable.

the Employer as a Provider of Social Protection. A large portion of the balance (€422m) was absorbed by the Central Government Health Services which are offered to the general public (the elderly, unemployed and those public servants who choose to use the public system). A second Sickness/Healthcare issue (beyond the perplexing revisions of the amounts spent on paid sick leaves in total and in the public and private sectors) relates to the quality of the Health/Sickness services provided by the central government to the general public. Discussions in the media highlight the queues present at public hospitals, the local and Cyprus-wide availability of some services and procedures, as well as a general preference for private hospitals which, of course, are beyond the financial reach of many citizens. These are much-debated issues, particularly as they relate to the GHS, which may be introduced soon. In this paper, pensions and health care will not be discussed in further detail because we wish to focus on SPS areas which more closely relate to the labour market.

The €244m spent in 2016 for Family/Children (Appendix I, Table I.5) was allocated mostly to means-tested benefits (€166m) of which €114m was for the function Family or Child Allowance and €52m for Lump Sum payments. The non means-tested component of the total (€78m), was largely incurred by the SIS (€29m) for Income Maintenance-Childbirth (€25m) and the Birth Grant (€4m). The Parental Leave Benefit registers no expenditures for 2016; considering the downward path of the birth rate in Cyprus and the funds previously devoted to this programme (only €5m in 2015 before the December 19, 2018 revisions), this is surprising, given the positive externalities from raising children well. Moral hazard (children resulting from failure to plan families) and adverse selection (having children in order to take advantage of the social insurance payments) behaviours are not likely to be prevalent in this area of the SPS and these issues will not be discussed further.

Almost all of the €227m spent on the function Social Exclusion (Appendix I, Table I.8) was subject to means-testing (€220m) and almost all of that was for income support. It is possible that the category of Social Exclusion may include expenditures under the GMI, a programme considered in detail in section 4.

Expenditures in support of the function Unemployment (Appendix I, Table I.6) declined from their peak during the crisis year of 2013 to €192m in 2016. No part of these expenditures was means-tested, given the contributory nature of this SIS item. The unemployment benefit absorbed €86m, Redundancy Compensation €87m, and Other Lump Sum Benefits €18m. The UI system will be discussed more extensively in section 4.

Outlays on the function Disability (Appendix I, Table I.2), amounting to €145m in 2016, were largely (€122m) not means-tested and were mostly incurred by the SIS (€47m). The actual expenditures included the Disability Pension (€11m), Care Allowance (€37m), the new item (not present in earlier versions of this table) Early Retirement Due to Reduced Capacity to Work (€45m), and various lump sum and other payments in kind. It is not clear from the CYPSTAT tables what these were exactly, but the DSIPD (2018b) report and Appendix II below provide further information. Until recently, disability programmes were not under one roof but the FNSD and NAPD have produced substantial changes, bringing them under the DSIPD and MLWSI and including new assessment arrangements. Because of these changes, more attention is devoted to this category below (see section 4.3). Relevant issues here are (i) whether the various programmes provide adequate support (an issue not discussed in this

paper), and (ii) whether this support is such that the temptation to overcome the conditionality hurdle becomes too strong, leading to inappropriate claims. We return to point (ii) below.

The last function of Housing (Appendix I, Table I.7) involved 2016 expenditures of €65m which were means-tested and were largely spent on the provision of a Benefit to Owner-occupiers (€43m), Rent Benefit for Social Housing (€2m), and Other Rent (€19m). It is not clear whether some of these outlays include payments to GMI beneficiaries. There is very little detail in this table.

The emphasis in the CYSTAT discussion above and the tables in Appendix I is on function and the institution that is debited with these SPS expenditures. Some specific ALMP information is available on a programme-by-programme basis through the MLWSI, other ministries responsible for them, or institutions like the Human Resources Development Authority (HRDA), and the Cyprus Productivity Centre (CPC). The next section takes a programmatic view of the items in the SPS.

3. Programmes in the Social Safety Network

The SPS in Cyprus consists of an unusually large number of programmes, administered primarily by MLWSI - the Ministry of Education and Culture (MOEC) administers student programmes. Some of these SPS programmes are supported by social security contributions and some are paid for through general government revenues. Some of these programmes are of unlimited duration while others are of finite term and serve a very specific purpose. Below, we focus on the programmes that remain once pensions (including survivors) and health maintenance have been excluded. We will also have very little to say about the functions of Family/Children. These functions are all subject to distinct policy approaches, budgetary dynamics, and demographic, or even political imperatives and preferences. However, in Table 3 below, we do mention certain payments from these functions to give a better idea of the incomes taken into account in order to determine the GMI entitlements.

The backbone of the social SPS in Cyprus is the SIS which is regulated by the [*Social Insurance Law of 2010 \(and subsequent modifications\)*](#) and administered by MLWSI.⁷ The SIS is financed by compulsory contributions made from employees, the self-employed, voluntarily insured persons at home and abroad, employers and the state — for a detailed description see Republic of Cyprus and MLWSI (2013). A contributory

⁷ Paid employees have access to the following programmes through the SIS: Marriage Grant (abolished after 2013), Maternity Grant, Funeral Grant, Maternity Allowance, Sickness Benefit, Unemployment Benefit, Invalidity Pension, Old-Age Pension, Widow's Pension, Orphan's Pension, Missing Person's Allowance, and Employment Injury Benefit which may be Temporary or Continuing in case of disability and also offers a Death Benefit. The self-employed do not have access to UI or Employment Injury Benefits and other categories of contributors are also entitled to a more limited range of benefits. Contributions are compulsory for paid employees and the self-employed. For paid employees they total 20.2% of insurable earnings (7.8% for the employee and employer and 4.6% for the state), while for the self-employed they total 19.2% of which 14.6% by the individual and 4.6% by the state. Contribution rates increased on January 1, 2019 by a total of 1.3 pp of which 0.3 pp by the state and 1 pp shared equally (entirely) by the employee and employer (self-employed). Similar contribution increases continue every five years to January 1, 2039. The amounts for insurable earnings for benefits and contributions are available at MLWSI Insurable Earnings (2017).

programme that is of critical importance to the functioning of the labour market is the UI benefit. There are also a number of non-contributory benefit programmes covering different types of needs and beneficiaries. Prominent among these is the GMI which is regulated by the [GMI and Social Benefits Law of 2014](#) and is administered by the MLWSI. Other important, non-contributory, benefits are listed in Table 3 below. Non-contributory benefits are typically means-tested (with the exception of disability benefits which are granted on the basis of the specific needs of the applicant).

Table 3 provides an overview of important cash benefits in Cyprus. The ones marked with 'GMI group a', in column one, provide income which is taken into account in calculating the level of income below which the GMI supplements household income. Those marked with 'GMI group b' provide income not taken into account for the GMI entitlements. The value of the benefit in column 6, Table 3, refers only to the Basic Benefit; Supplementary Benefit may be possible for high income contributors. In the last column we note the ease of ascertaining that the conditions for drawing benefits are met (e.g. unemployment, inability to work due to injury, etc.) and conditions for continuing to draw benefits (e.g., active search for employment, willingness to work, continuing disability, etc.). The word '*Verification*' is used to refer broadly to *all* these issues. In some cases, repeat use of a programme may be possible, thereby perpetuating a cycle of work long enough to requalify for a programme, and benefits for the rest of the year and there is a need to ensure that repetitions are justified. The word '*Repetition*' is used to refer to this possibility. Where benefits are supported by verifiable conditions, even where justified by policies external to the labour market (e.g. family formation, support of single parents and students, etc.), no entry is made.

Section 4 offers a more detailed discussion of those programmes in Table 3 for which checking qualification (verification), the patterns of use (repetition), and justification of continuance (verification) may present some challenges. In other countries, many studies using micro, anonymised, administrative data document instances and patterns of inappropriate use, where they may exist. These studies have helped to improve the running of these programmes. Since no administrative data are publicly available at the micro level for Cyprus, it is not possible to say whether concerns about verification, repetition and justification of continuance are real, or simply 'theoretical possibilities'. So we focus on the extent to which programme architecture may create the temptation for inappropriate use, stopping short of claiming actual misbehaviour.

TABLE 3

Overview of main contributory and non-contributory benefits

.....	Conditionality	Potential Beneficiaries	Duration	Eligibility Criteria	Value of the benefit	Potential Implementation Difficulties
Contributory under SIS						
Birth grant (GMI group b)	Birth of a child	Mother of a new-born	one-off	Contributions by father or mother	Flat rate (€544)	
Funeral grant (GMI group b)	Death of household member	Family of the deceased	one-off	Contribution conditions	Flat rate	
Maternity benefit (GMI group a)	Birth of a child	Paid employee, or self-employed mother	18 weeks	Contribution conditions	Earnings-related, max replacement rate=72%	
Paternity benefit (GMI group a)	Birth of a child	Paid employee or self-employed father	2 weeks	Contribution conditions	Earnings-related, max replacement rate=72%	
Sickness benefit (GMI group a)	Sickness	Paid employee or self-employed	156 days	Contribution conditions	Depending on insurable earnings and dependants	Verification, repetition
Unemployment benefit (GMI group a)	Unemployment	Paid employee but not self employed	156 days	Contribution conditions	Depending on insurable earnings and dependants	Verification, repetition
Invalidity pension (GMI group a)	Illness>156 days and inability to earn sufficiently	Paid employee or self-employed	Potentially indefinite	Contribution conditions	Depending on insurable earnings and dependants	Verification
Old age pension (GMI group a)	Pensionable age of 65	Paid employee or self-employed	Till death	Contribution conditions	Depending on insurable earnings and dependants	
Widows pension (GMI group a)	Death of insured person	Widow of insured person	Till death	Contribution conditions	Depending on insurable earnings and dependants	
Orphan's benefit. (GMI group a)	Under conditions, death of insured parent	Payable to a minor	Must be a minor unless disabled	Eligible parent	Depending on insurable earnings	None if a minor. Verification if on permanent support
Missing person's allowance (GMI group a)		Not specified in MLSI (2013)				
Employment Injury benefit, Temporary (GMI group a)	Occupational hazards	Paid employee, but not self employed	1 year	Contribution conditions	Depending on insurable earnings and dependants	Verification, repetition
Employment injury benefit, disability grant or pension (GMI group a)	Occupational hazards	Paid employee, but not self employed	Potentially indefinite	Contribution conditions	Depending on insurable earnings and dependants	Verification
Employment Injury, death (GMI group a)	Occupational hazards	Widow, orphan or substitute parent		Contribution conditions	Depending on insurable earnings	

Non-contributory

GMI	Income deprivation	All citizens	Unlimited duration	Means-tested	Needs-based	Verification of income and property, willingness to work if able
Child allowance (GMI group a)	Cost of children	families with children	Unlimited	Means-tested	Income related	
Single parent benefit (GMI group a)	Cost of children (single parent family)	Single parent	Unlimited	Means-tested	Income related	
Student Allowance (GMI group b)	Cost of studies	Families with students	Normal duration of studies	Means-tested	Income related	
Mother allowance (GMI group a)	Honorary benefit-	Mothers of three or more children	Unlimited duration	Residence/other	Income related	
Disability pension (GMI group a)	Disability	Disabled	Unlimited	Depends on the degree/type of disability	Depends on degree/type of disability	Verification, justification of continuance
Various disability payments ⁸ (GMI group b)	Needs arising from disability	Disabled	Ad hoc	Specific need	Specific need	Verification, justification of continuance
Social Pension (GMI group b)	Aged 65, permanent resident, other	All meeting conditionality	Unlimited	Conditionality	Reduced if other pensions	
Payments to low income pensioners (GMI group b)	Low income	Pensioner	Unlimited	Pensioner		
Honorary payments (GMI group b)	Achievement	Members of artistic, literary, cultural activity	Unlimited	Relevant activity		Verification, justification of continuance

Notes: The list is non-exhaustive as there are various other benefits provided by various authorities (e.g. military grant provided by the Ministry of Defence, etc.).

4. Programmes with possible implementation challenges

The notation in the last column of Table 3 suggests that the implementation challenges concern three general areas: The UI system, the GMI, and areas of the SPS where

⁸ These include a series of benefits related to disability such as: Allowance for severe forms of movement disability, Care allowance to persons with paraplegia, tetraplegia, Grants to blind persons, Financial assistance to the disabled for purchasing a motor vehicle, Financial assistance for the purchase of a wheelchair and several other disability-related schemes (see the FNSD, the NAPD).

sickness, invalidity, or disability are involved. We take a closer look at these three areas in turn.

4.1 Unemployment insurance benefit

The UI benefit scheme is administrated by the MLWSI and is available for involuntarily unemployed and adequately insured persons, aged between 16 and 63, and legally residing in Cyprus. Self-employed persons are not eligible. The duration of the benefit is 156 working days for each period of employment interruption. Repeat spells of UI benefit receipt are possible once re-qualification is ensured through further employment.

The unemployment benefit is calculated on a weekly basis and consists of a basic and a supplementary part.⁹ The weekly rate of the basic benefit is equal to 60% of the weekly basic insurable earnings¹⁰ of the last year. This rate increases to 80%, 90% and 100% for one, two or three dependants respectively (maximum three dependants). The weekly rate of the supplementary part is equal to 50% of the average weekly insurable earnings in excess of the basic insurable earnings of the last year, up to a maximum equal to the basic insurable earnings.

On the basis of the current level of basic insurable earnings, the lowest unemployment benefit paid is €40.70 per week (for a beneficiary without dependants) and the highest reaches €348.76 per week (for a beneficiary with three dependants). Thus the range of unemployment benefits in monthly terms is from €163 to €1,395.

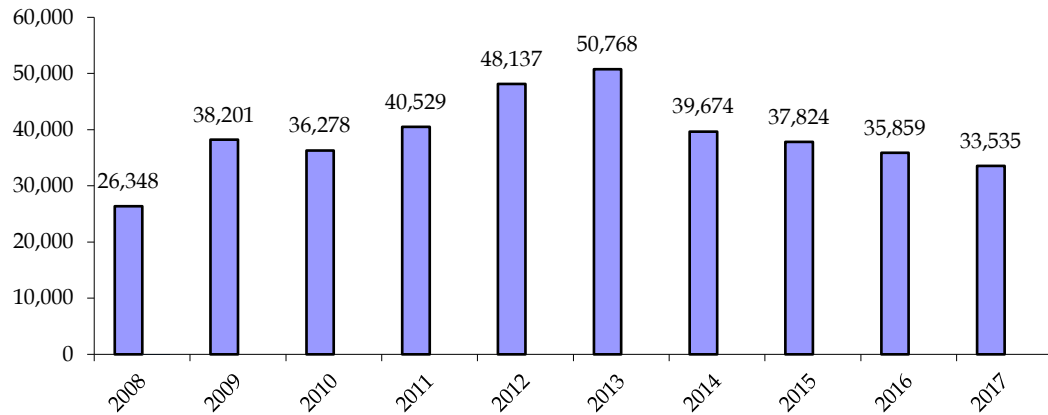
Figure 2, sourced from Statistics Section, Social Insurance Services, MLWSI (2018), shows the number of accepted claims for the UI benefit per annum during the period 2008-2015, (SIS). These peaked in 2013 (almost double compared to 2008), stressing the capacity of Public Employment Services (PES) to deal with the increasing number of unemployed persons and the budget of SIS. Total spending peaked at €150m in 2013 and subsided to €86m in 2016 due to the improvement of the economy (CYSTAT, Table A12, last revised on 19/12/2018). The use of UI is clearly cyclical. The overall unemployment rate has been falling but registered LTU as a proportion to total registered unemployment was increasing until June 2018 and the question is whether unemployment rates of the order of those prevailing before the crisis can be attained. This is an issue that will concern us further as we examine the disincentives to work that may exist in the SPS.

⁹ An employee with monthly earnings of €1,500 (approximate median earnings in 2016) who is laid off loses his job is entitled to the basic part of $0.6 * €174.38$ (basic weekly insurable earnings) = €104.63 or €418.51 monthly. This amount can increase in the presence of dependants (i.e. for a dependent spouse the basic weekly amount is $0.8 * €174.38 = €139.50$ or €558.02 monthly. The supplementary part is $0.5 * (€1,500 / 4 - €174.38) = €100.31$ or €401.24 monthly. Thus, the total amount is $€104.63 + €100.31 = €204.94$ or 819.76 monthly for a single person. In case of a dependent spouse the total amount is $€139.50 + €100.31 = €239.81$ or €959.24 monthly.

¹⁰ Basic insurable earnings were approximately €174.38 per week in 2018. The maximum amount of earnings for contribution purposes is €1,046 per week.

FIGURE 2

Accepted claims for unemployment benefits 2008-2017



There is a vast international literature on the patterns of use that individuals make of their UI schemes. Because all such schemes provide the UI benefit for a period of time, individuals may prefer to use their off-work period in the home, to hold another ephemeral job illegally, to search for a 'good' job only, or even to search for a job with serious intensity only when their benefits are about to expire. In some cases, the propensity to exit unemployment increases just before the expiry of benefits. Of course, better job matches may result from longer job search. This type of behaviour may be more serious and costly to the state when the UI benefit is large relative to the previously earned wages (a high replacement rate) and when the duration of benefits is long. There is, in general, an issue of *verification* of the willingness to work, defined broadly enough to cover the strategic behaviours above. Another pattern of behaviour which may be followed by individuals who, for their own reasons, have a strong preference for a seasonal pattern of work (not necessarily in the strict time-of-the-year sense), is to cycle in and out of work, working long enough to qualify for the next cycle of support, and drawing UI benefits for the rest of the year.¹¹ There can be a pattern of *repetition* if the parameters of the UI system are favourable to this behaviour. These possible patterns were noted in the last column of Table 3.

Since no anonymised administrative data at the micro level are publicly available in Cyprus on the duration of UI support, no studies parallel to those in the international literature are available to inform policy formation. In Cyprus the average gross replacement rate, i.e. the ratio of the UI benefit entitlement to earnings before unemployment, is around 60%, the average net replacement rate slightly below 60% and the duration of benefits 156 working days or 26 weeks. These parameters are roughly comparable to those in the EU,¹² and the incentives to engage in strategic behaviour are not unusually strong.

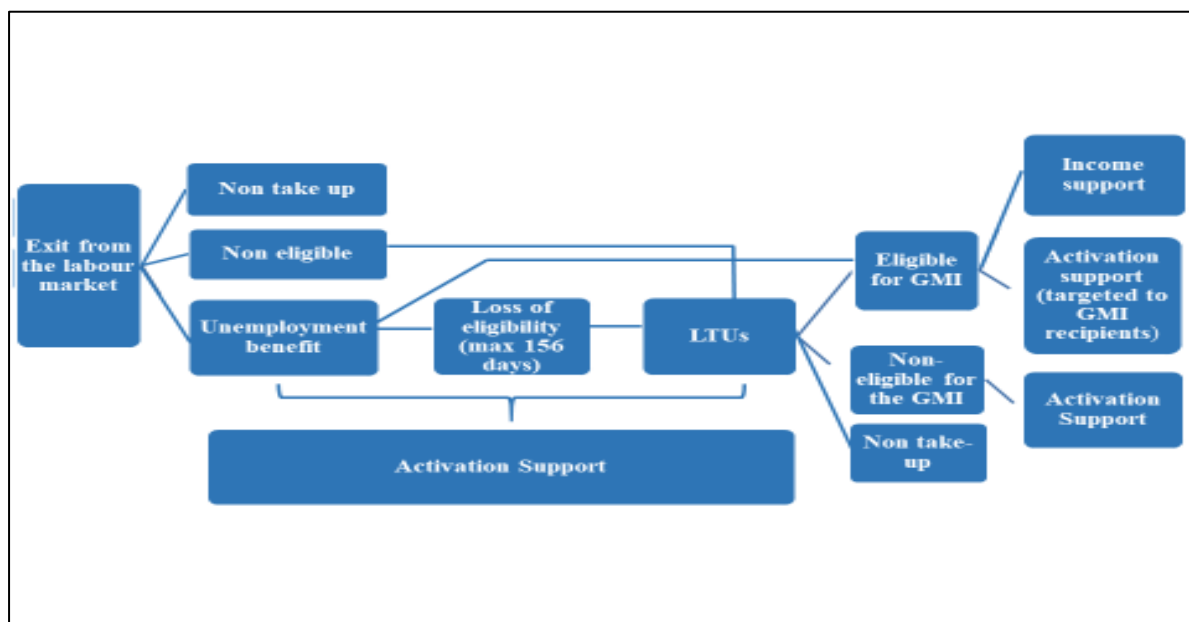
¹¹ Christofides and McKenna (1996) study this pattern of behaviour theoretically and empirically.

¹² However, Esser et al (2013) show that the qualifying period for UI (26 weeks) is unusually low in Cyprus. The European mode is 50 weeks. The Cyprus requirement increases the possibility of the cycling behaviour discussed earlier. Note that these authors do not give separate information for repeat

There is, however, a new development that may be viewed as *extending the duration* of UI benefits, and this is the establishment of the GMI scheme – for an early description and comparison with the UK’s Universal Credit, see Christofides (2015). This was an important and needed step, but it does change the landscape of support. It is, therefore, important to consider how the UI benefit programme blends into the GMI system.

Figure 3 provides an overview of the policy paths an unemployed person may follow in Cyprus. Though not all unemployed persons avail themselves of UI benefits and some may have not been employed long-enough to qualify for UI benefits, most do register with the PES, where they can be informed about the various ALMPs in operation. They also have access to information about job vacancies published on the PES website. Furthermore, through this system, they can visit the webpage of the European Employment Services (EURES) network and get information about employment opportunities in other MSs. Income support to the qualified unemployed is provided by the UI benefit but the unemployed can now also claim the GMI benefit if their family income is below the specified threshold. In this sense, the GMI has extended both the generosity and the duration of benefits while unemployed. However, this might also have happened under the old Public Assistance (PA) system (but see below). In most cases, when UI benefits expire and if the eligibility criteria discussed below are satisfied, unemployed individuals can join the roll of GMI recipients, also continuing to qualify for ALMPs. Various employment and training programmes are available, usually organised by the HRDA but also by some other authorities (MLWSI, CPC, and the Ministry of Energy, Commerce, Industry and Tourism). Some ALMPs give priority to the LTU.

FIGURE 3
Policy paths for unemployed persons



Note: LTU is an abbreviation for long-term unemployed

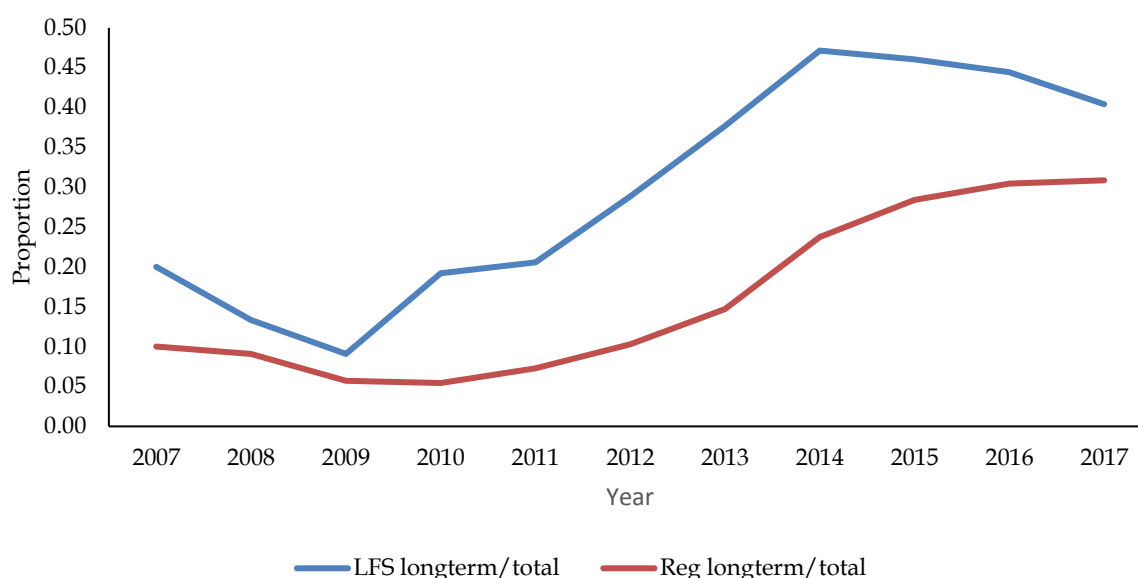
qualification, possibly because the number of weeks required is the same as for initial qualification, as is the case in Cyprus (i.e. 26 weeks).

Prior to the crisis, upon expiry of the UI benefit, individuals in need would have resorted to a separate institution, the PA programme. If there was any stigma to receiving PA prior to the crisis, the experience of high unemployment during the crisis has all but removed it. In addition, the loss of share capital through the banking failures and the bail-in of deposits and provident funds has created a sense of entitlement which has made individuals less reticent to seek support. For all these reasons, labour market participants who qualify for the GMI may view it as an extension of the UI benefit period which gives them more time to search, while at the same time engaging in other valuable to them non-market activities. Of course, the level of support under the GMI is related to the household's needs and resources, not to prior employment income and social security contributions. In addition, claimants must remain registered with the PES.

These considerations may prolong periods of unemployment and maintain the unemployment rate above pre-crisis levels. Figure 4 shows that the proportion of those registered as unemployed for 12 months or more (LTU) in total registered unemployment continued to increase until 2018 (annual data). More recent, monthly, data from CYPSTAT show that this proportion reached 0.34 in May 2018, up from 0.26 in December 2017. It has been declining since then, falling to 0.29 in October 2018, but it is still above its December 2017 level. The much higher proportion based on LFS data (new entrants do not qualify for UI and, if not in the GMI, they may not register) began declining after 2014.

FIGURE 4

Proportion of LTU in total unemployment



Source: Eurostat and CYPSTAT

4.2 The Guaranteed Minimum Income Programme

4.2.1 General provisions of the GMI

The GMI is a means-tested, non-contributory, top-up benefit covering all persons legally residing in Cyprus for at least five years. The scheme was introduced in 2014 to replace the old PA programme, incorporating into its procedures a number of pre-existing and largely autonomous programmes (i.e. those in Group a of Table 3 and any not explicitly mentioned in Group b), thus ensuring simplicity and lower administrative costs, as well as no double-dipping. The GMI attempts to ensure that no persons in need fall between the cracks in the SPS, while at the same time incentivising people to work and to avoid long-term dependence on the state. This last objective is to be achieved through Phase III of the GMI, which has only recently begun, presenting new and more difficult challenges to the PES.

Applicants must be at least 28 years old.¹³ Persons who are under 28 and do not belong to one of the categories just specified in the footnote, can only participate in the scheme as dependants of an eligible recipient. The GMI is calculated as the difference between a specified basic family income level and the family income of the recipient unit. The value of basic income is currently set at €480 per month for a single person and it increases with the size of the recipient unit (i.e. by 50%, or €240, for each additional adult and by 30%, or €144, for each additional child aged below 14 years).¹⁴ The duration of the benefit is unlimited, as long as the eligibility conditions continue to hold. GMI beneficiaries also have access to other benefits such as a housing allowance, child care subsidisation,¹⁵ in-kind healthcare benefits (e.g., acquisition of the medical card), and long-term, care-related, cash benefits.¹⁶

Personal income¹⁷ and the immovable and movable property of the recipients¹⁸ are taken into account in order to determine eligibility for the benefit. The family income, defined as the sum of monetary incomes of all members of the recipient unit, including

¹³ Until the age of 28, individuals are treated as part of their original family unit. 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 Services. This age cut-off is an issue to which we return.

¹⁴ For example, for a couple with one child aged below 14 the basic monthly income would be €864. If the monthly family income were €500, then a GMI payment of €364 per month would bring total income up to the GMI for this family unit.

¹⁵ The specific childcare needs of the recipient are evaluated by the Department of Social Welfare Services (SWS). Based on the GMI legislation and a 2016 Directive, the recipient can receive a subsidy not exceeding €102 per month.

¹⁶ It should be noted that these provisions pre-existed the GMI in various forms and levels of support. The GMI incorporated them into a single framework.

¹⁷ Excluded from the calculations are the following items, some of which were noted as belonging to Group b, in Table 3: The Funeral grant, Birthing grant, Student grant, National Guard Service grant, Financial support to low-income pensioners, Honorary stipend to individuals in the arts and letters, court-ordered alimony payments, disability benefits, grants by the DSIPD, the first €512 from a child's monthly income which comes from training programmes or apprenticeships, any economic support from the Welfare Lottery Fund, and any extraordinary economic support from the MLWSI after approval of the Minister.

¹⁸ The applicant's property may not exceed €100,000 - excepting the value of the primary residence (if any and only up to 300 square meters) and property which is mostly mortgaged but only up to €100,000. The applicant may not have net bank deposits exceeding €5,000 (plus €1,000 for each additional household member) or financial assets exceeding €5,000.

benefits from the programmes in Group a, Table 3, is used for determining the level of the benefit according to the following formula:

- $GMI\ payment = \max((basic\ income - family\ income), 0)$

Income from employment is partially excluded from means-testing to incentivise labour market participation. GMI recipients may have access to other extraordinary support at the discretion of the Minister.

4.2.2 Housing allowance

The housing needs of GMI recipients (renters and families with inability to pay their mortgage) are partially covered by cash subsidies. These vary by family type and region of residence, as shown in Table 4:

TABLE 4
Housing allowance (maximum monthly amounts)

Family Unit type	Nicosia/Limassol/ Famagusta	Larnaca	Paphos
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 an additional ¹⁹	€70	€61.25	€43.75
For larger families (for each additional child or two additional minor children of the same sex) an additional	€56	€49	€35

4.2.3 Comparison of GMI with PA

Table 5 compares the provisions of the GMI with the previously existing PA system. Most of the GMI provisions pre-existed albeit in different form and generosity.

An attempt at quantification of the relative generosity of the PA and GMI systems would be hazardous, as many parameters have changed. In addition, the formal definition of the GMI household to include, in the general case, all children up to the age of 28, did not exist under the previous PA system, where a looser approach was used. However, the following numbers may provide comparative information of some value. Total spending under the PA was €219.8m, €244.8m, €253m and €202m during

¹⁹ 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 of the recipient.

the four (respective) years of 2009, 2010, 2011 and 2012. The number of recipient units in the same years was 28,700, 31,000, 32,000 and 30,600—see Koutsampelas and Polycarpou (2014). The average PA spending *per recipient unit* over the period 2009-2012 was €7,522. Adjusted for inflation of 4.4% between 2011-2017 inclusive, this figure was €7,854 at 2017 prices. Although MLWSI does not systematically report official data on the number and cost of GMI recipients, MLWSI information provided to us via email suggests that the 2017 average number of beneficiary family units was 32,032. The total cost (which includes basic and housing needs and disability benefit but excludes care, extraordinary needs and municipal taxes) was €211m, or €6,587 *per family unit* annually. An alternative estimate of the annual total cost, based on data from the 2017 government budget,²⁰ is €253m. Using the number of beneficiary units from MLWSI above, the annual cost for 2017 was €7898. Again, it is not clear if the budget GMI cost figure includes all support to GMI recipients. The upper GMI estimate of €7898 is only slightly higher than the PA cost of €7854 per family unit in 2017. It must be noted, however, that GMI covers more family units. The best that can be said from the available information is that the GMI does not appear to be significantly costlier than the PA.

4.2.4 Incentives to work

In light of the changed circumstances in the economy and society referred to in section 4.1, it is important to check the incentives provided by the GMI to participate in the labour market. According to the information in note 20, GMI supports about 48,000 persons (recipients plus dependants). According to MLWSI officials, 3 out of 4 GMI recipients are not fit for work (pensioners, persons with disabilities and/or persons assessed as unfit for work by medical councils).²¹ This means that about 12,000 GMI individuals are able to work. Excluding about 25% of them as being under age or in the army, leaves about 9,000 recipients who may be able to work. The MLWSI has developed policies to encourage these individuals into employment or to increase their employability. We now elaborate on these policies.

The GMI law explicitly specifies that able-bodied recipients have the legal obligation to participate in the labour market if appropriate job opportunities are offered to them, and to exert efforts to improve their employability. In particular, article 18 of the GMI Law specifies that a recipient (i) must register with the PES, (ii) must accept suitable jobs offered, (iii) must not quit a job unless he/she is willing to accept a 6-month delay before applying for GMI, and (iv) must participate in vocational training programmes, communal service, seminars on personal/social development, personal tutoring from PES counsellors, conditional on the availability of these provisions. Failing to satisfy these legal provisions might result in temporary or complete loss of entitlement.

²⁰ The GMI expenditure is from Republic of Cyprus (2017). For September 2017, European Commission (2018, p. 40) reports “about 28,000 households (approx. 48,000 people, up from approx., 14,000 covered by the previous public assistance system).” It is not clear what the figure of 14,000 under the PA refers to, given the data in Koutsampelas and Polycarpou (2014). For a broader, European, perspective, see Frazer and Marlier (2016).

²¹ See also the journalistic report in Politis (2017).

TABLE 5

Type and level of support in minimum income schemes in Cyprus

	Public assistance	Type and level of support	GMI	Type and level of support
Basic amount	yes	€452 per month	yes	€480 per month (maximum)
Additional amount for dependants	yes	€226 per month for every dependent over 14 and €135.6 per month for every dependent under 14 (maxima)	yes	€240 for each dependant above 14 , €144 for each dependant below 14 (maxima)
Housing allowance	yes	Rent for recipients without access to free accommodation, subject to a limit of 50% of the amount required for their basic needs. For a single person, the basic needs amount was €452 pm and the maximum rent allowance was 0.5x€452=€226 pm. A monthly mortgage instalment for owner occupiers was payable.* The Director of the SWS can provide residence and care services to persons of advanced age, disability, or need of care, in addition to medical or hospital care. The SWS pays the difference between the amount agreed with the provider of the residence/care and the amount that the recipient can afford, based on an evaluation by SWS.	yes	see Table 4
Long Term Care	yes		yes	See section 3.1.1 Supplementary Support
Child care	no		yes	Subsidy of €102 per month (max.) Electricity subsidisation, extraordinary needs, house repairs, municipality taxes and other
Other	yes	Heating, contributions to the Social Insurance Fund, municipality and similar taxes, extraordinary needs and other.	yes	

Sources: Information about PA from Pashardes (2009) and about GMI from Pashardes and Koutsampelas (2015). *: The Director of SWS could augment these amounts at his/her discretion.

While these obligations are clear, the PES have, until very recently, been severely understaffed and were, therefore, hard pressed to implement these provisions. Suffice it to say that (i) as the LFS unemployment rate quadrupled during the Cyprus crisis peaking at 16.7% in September-October 2016, (ii) as the LTU rate increased from its pre-crisis level of 1% to 7.7% in 2014, and (iii) as the GMI was introduced in 2014 with the obligations for recipients listed above, the PES was operating with the same number of officers. More officers have now been hired and it remains to be seen how quickly the PES can exert the kind of pressure that would lead recipients who may be reluctant, or face difficulties, to enter active participation.²²

²² The capacity of the PES to deal with the large number of heterogeneous needs has been questioned mostly due to the lack of staff. The number of PES staff providing services to the unemployed, was 61

In view of what must have been rather loose enforcement of these activation provisions until now, it is important to examine the incentives to work as they might be reflected in the impact of work on GMI support. Table 6 describes the earnings disregard or retention ratio (the ratio of the amount of income earned that will be forgiven and not counted in the calculation of family income, to total earned income) for different categories of dependants and it is clear that very modest retention rates are permitted for household members other than dependants aged 18-28.²³ The latter have very much stronger incentives to work than their parents because youth unemployment was very high when the GMI was introduced. There may, therefore, be a tendency for the main recipient to shun work, providing services at home and counting on the children to support the family, while also receiving a GMI payment. More discussion on the definition of the family unit, the structure of retention rates by age within the household, and their consequences appears below.

TABLE 6
Earnings disregard or retention rates

Other than dependants aged 18-28		Dependants 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%

Source: MLWSI (2018b). Note: For recipients (or spouses of recipients) with disabilities the first €512 from employment is exempted.

The following examples of how the earnings disregard works may illuminate aspects of the GMI programme. The examples below are summarised in Tables 7 and 8.

In the first example, a single GMI recipient without dependants and not eligible for any other GMI payments, aged 35, finds a part-time job paying €364 per month.²⁴ The GMI payment (before working) is €480. Suppose that the person has no other income

(April, 2018), compared to 85 persons in 2009. The reduction in personnel, in combination with the large increase in registered unemployment especially LTU, stressed the capacity of the PES to respond effectively to the needs of the unemployed, especially those in need of personalised services such as GMI recipients. Currently, the PES is hiring 30 officers on temporary contracts (resulting in a 50% increase in their human resources). It is expected that this will increase organisational efficiency and the quality of services offered. The improvement in the labour market will further contribute toward this aim by reducing the number of the unemployed seeking assistance.

²³ Based on Table 6, column 2, earned income of €500 per month will entail an earnings disregard of €170. This is the maximum amount that can be retained without beginning to reduce the GMI entitlement by a euro for each additional euro earned.

²⁴ Assuming working 4 hours per day at the hourly rate of €4.55 (equal to 80 hours per month times €4.55 or €364 per month).

source. Accepting the part-time work and earnings exempts €143²⁵ from the income earned (the earnings disregard), leaving a GMI Counted Work Income of €221 that will reduce the GMI payment to €259 (€480 minus €221). His/her total income is now: €364 (earnings) plus €259 (GMI payment) or €623 and the gain from work is €143. The average retention rate is €143/€364=0.39. Thus, accepting work, reduced the GMI payment from €480 to €259 (by €221), but increased total income from €480 to €623 (+€143) per month.

TABLE 7

Summary of example 1

	GMI family entitlement	Actual Earnings	GMI Counted Work Income	Total income (after GMI if any)
Before accepting work	€480	0	0	€480
After accepting work	€259	€364	€221	€623
Gain from work				€143

In example 2 a number of more complex family structures are considered, all summarised in Table 8. Suppose, first, that the recipient is offered a full-time job paying the starting minimum wage (€870) and consider the following cases involving dependants. For a single individual with no dependants (Case 1), the first €500 earned produces an earnings disregard of €170 and a balance of €330 that will count, along with the €370 above €500, as earned income. This will result in a Counted Work Income of €700 which exceeds the GMI and he/she is not eligible for GMI support.

This outcome changes if the recipient unit has dependants, especially if they are old enough to work. In Case 2 with one dependant (e.g. a spouse with no income who is entitled to €240 per month), the GMI Entitlement becomes €720 and the GMI payment becomes €20 (GMI Entitlement-Counted Income). Note that Counted Income is the same as in Case 1. Total income after the GMI is now €870+€20= €890. The gain from work falls to €170 per month because the no-work GMI would now be higher (€720 instead of €480).

In Case 3 of a couple with two children under 14 (each entitled to €144 per month), the GMI threshold becomes €1,008 and the GMI payment becomes €308. Total income increases from €1008 before work to €1,178 (€870 plus €308) after work. But the gain from work remains at €170 per month. Table 8 also examines (Case 4) the amounts for an additional two children and still the same one earner, so that two children are under 14 years of age and two children are over 14 years of age (each entitled to €240 per month). The total GMI Entitlement is, therefore, €1,488. Total income is now €1,658 and the gain from work remains at €170 per month.

²⁵ This is calculated as follows: €50+0.40*€150+0.20*€164=€143.

TABLE 8

Summary for example 2

	GMI family entitlement	Actual Earnings	GMI Counted Work Income	Total income (after GMI, if any)
<i>Case 1: Single person with no dependants (GMI=€480)</i>				
Before accepting work	€480	0	0	€480
After accepting work	€0	€870	€700	€870
Gain from work				+ €390
<i>Case 2: Head who works and partner who does not work (GMI=€480+€240)</i>				
Before accepting work	€720	0	0	€720
After accepting work	€20	€870	€700	€890
Gain from work				+170
<i>Case 3: Head works, partner not, 2 no-work kids <14 (GMI=€480+€240+€144x2=€1,008)</i>				
Before accepting work	€1,008	0	0	€1,008
After accepting work	€308	€870	€700	€1,178
Gain from work				+€170
<i>Case 4: Head works, partner not, 2 no-work kids <14, 2 no-work kids >14 (+GMI=€240x2)</i>				
Before work	€1,488	0	€0	€1,488
After accepting work	€788	€870	€700	€1,658
Gain from work				+€170
<i>Case 5: Non-working couple with 4 children, 2 below and 2 over 14 one of whom works</i>				
Before work	€1,488	0	0	€1,488
After accepting work	€1,121	€1,500	€367	€2,621
Gain from work				+€1,133
<i>Case 6: Non-working couple with 4 children, 2 below 14 and 2 above, both of whom work</i>				
Before work	€1,488	0	0	€1,488
After two older children accept work	€639	€1,500 plus €2,200	€849	€4,339
Gain from work				+€2,851

We now consider cases where adult children are the household's sole earners. In Case 5, Table 8, we have a family with two non-working adults and four children (as in Case 4), one of whom is over 14 and under 28 and earns €1,500 per month. This is the household's sole employment income and there are no other benefits. The GMI Counted Work Income for the working child is only €367 ($€480 \times 0.5 = €240$ plus $€520 \times 0.10 = €52$ plus $€500 \times 0.15 = €75$) as per Table 6), leaving a GMI support payment of €1,121. Total income is now €2,254 ($€1,500 + €1,121 = €2,621$) and the gain from work is equal to €1,133 per month. This scenario is much more lucrative for the household because the working child is allowed to retain a lot more of his/her working income. In Case 6, Table 8, the adult children both work, one making €1,500 per month and the other €2,200 per month; in other respects, the household situation is as in Case 5. The total GMI entitlement continues to be €1,488 per month. The first working child's salary of €1,500 per month implies a Counted Work Income of €367 (as in Case 5), while that of the second is equal to €2,200 per month and implies a Counted Work Income of €482 per month. So the total counted income for the two children is €849. Then, the GMI payment received by the household will be $€1,488 - €849 = €639$ per

month. Total household income will be $\text{€}1,500 + \text{€}2,200 + \text{€}639 = \text{€}4,339$ per month. The gain from work is, at $\text{€}2,851$, much higher because both working children are allowed to keep a large proportion of their work income which, in this possibly extreme example, is very high.

Overall, the mechanism of 'earnings disregard' reduces penalisation of work, although it does not eliminate it. It does not reduce penalisation very much for the head/spouse in the household, while it does so most generously for any working children under 28. The head/spouse GMI recipient has to weight the benefit of extra income taking into account the broadly defined cost of working and, on the other hand, the risk of GMI disqualification if he/she refuses to work (article 18 of GMI Law). This trade-off favours the choice of avoiding work as the number of dependants increases. Indeed, opting for home production and avoiding market work becomes very attractive if family-loving children can find work and share their earnings.

The examples in Tables 7 and 8 were chosen to probe the implications of the size and structure of families for the incentives to work of its members. It is not possible to judge how prevalent such cases may be, given that no data is publicly available. But, focusing on Case 5, Table 8, brings a number of issues to the forefront. Consider the situation where a 27-year-old (say) daughter is about to become 28 and no longer be in the GMI household. While under 28 and still in the household, she costs $\text{€}240$ to keep which is recognised by the GMI in its entitlements and payments. So the rest of the household is no worse off with her in than out. Since she works, income to $\text{€}480$ implies a counted income of $\text{€}240$ (Table 6), leaving her with $\text{€}240$ in-pocket. Her real income is still $\text{€}480$ as she gets to be kept (worth $\text{€}240$) by the household unit. When her income rises beyond $\text{€}480$, the GMI payment is reduced progressively (by 10% to 20%) and for the $\text{€}1,500$ per month in Case 5, the loss will be a further $\text{€}127$, or a total Counted Income of $\text{€}367$ (based on Table 6). There now arise some sharing issues: The rest of the household is now making a 'loss' because the GMI entitlement has been reduced by $\text{€}127$ but the working daughter still has to be kept (costing $\text{€}240$). The presumption in the GMI system must be that she will make up this loss to the household from her income. Most offspring probably would and might even share their remaining income. Indeed, sharing might create disincentives to work for the rest of the family.

At 28, she ceases to be a member of her family's GMI household and her $\text{€}240$ GMI entitlement is discontinued. If her income continues to be $\text{€}1,500$, she would not be in the GMI system. The remaining 5-member household would receive a GMI payment of $\text{€}1,248$ regardless of how much the daughter earns at work. How sharing the total family income before 28 ($\text{€}2,621$ in Case 5) and how the new GMI plus daughter's labour income ($\text{€}1,248 + \text{€}1,500 = \text{€}2,748$) is shared after 28, may affect the work incentives for the rest of the household. Theory and the international empirical literature suggest that outside income (such as that of the daughter's) tends to reduce labour force participation and hours of work by members of the household. Where the age cut off is set may be of importance; it may be presumed that the earlier the cut off the less time there is for the rest of the family to modify their labour supply because of the daughter's income. These are difficult empirical issues; administrative data on household behaviour while on the GMI would shed invaluable light on how families share income and supply labour, thereby guiding the setting of policy parameters.

Summing up the discussion in this sub-section, the GMI effectively modifies the UI system, as it has operated until 2014, by increasing (i) its generosity for some family unit types even during the six months of UI support, and (ii) the effective duration of support. For the GMI system itself, the following points can be made: (i) Incentives to take up work through the earnings disregard are lower for the head/spouse and much higher for cohabiting adult children, (ii) setting the age cut-off at 28 may provide work disincentives (arising from sharing the adult children's income) for the head/spouse and other adult children, and (iii) these disincentives last longer and are more likely to affect labour supply when the age cut-off is set at an older age (currently at 28).

We understand that considerable discussion took place at the planning stage about the GMI family cut-off at age 28. An earlier cut-off would indeed force young beneficiaries to set up in separate households earlier if their income is very low, thereby increasing the cost to the state (relative to current arrangements) and this would be an undesirable consequence. On the other hand, it would reduce the period during which differential earning disregards between the old and the young within the same household prevail, and signal to the parents and other adult children that they cannot rely on other family members for support. The postponement of labour supply may decline and this would moderate the depreciation of skills during unemployment and improve future employability, thus ultimately costing the state less money. Which forces dominate and the impact of different choices for the age of the child cut-off can only be determined using the administrative data which exist within MLWSI. The setting of the GMI parameters should be re-examined in light of the experience so far.

4.2.5 Active labour market programmes

In light of the obligation of GMI recipients who are capable of work to search for employment, a number of ALMPs, also available to non-GMI recipients, are typically offered by HRDA, MLWSI, the CPC, and other relevant authorities – see Christofides and Koutsampelas (2018), Appendix III. Current programmes explicitly designed for GMI recipients include the 'Scheme for providing incentives for the recruitment of GMI recipients in combination with three months training', and, the 'Scheme for the placement of GMI recipients in the (wide) public sector for acquiring work experience'. The first scheme targets 850 GMI recipients with a budget of €0.4 million. The second scheme targets 2,000 recipients. According to data recently submitted to Parliament, as of April 2017, 530 GMI recipients were participating in the latter scheme. As noted in section 1, no 'Impact Evaluation' of these programmes has been planned for; the best that can be hoped for without relevant micro data is Performance Monitoring,²⁶ which may come once these programmes are completed.

Having reviewed features of the UI and GMI systems, we now turn to the third major area of the SPS under review, namely programmes for PWD.

4.3 Programmes concerning sickness and disability (beyond general health care)

The development of policies regarding disabilities received an impetus from the 2011 ratification of the UN Convention on the Rights of Persons with Disabilities and its optional Protocol. The Pancyprian Council for Persons with Disabilities (PCPD) has

²⁶ The HRDA conducts Performance Monitoring for its programmes.

been the coordinating mechanism for the provisions of this Convention. The Department for the Social Integration of Persons with Disabilities (DSIPD), in MLWSI, oversees the implementation of disability policy. The DSIPD orchestrated the *First National Action Plan for Disabilities (2013-2015)*, approved by the Council of Ministers (No. 75.537) on July 26, 2013. The *First National Strategy for Disabilities (2018-2028)* and the accompanying *Second National Action Plan for Disabilities 2018-2020*, involving seven Ministries, were issued by the Ministry of Labour, Welfare and Social Insurance (2018a) – referred to as the FNSD and NAPD.

The implementation of the *National Strategy* and the *Second Action Plan* have required modifications to existing legislation as well as new legislation, administrative decisions, budgetary provision for certain measures and actions, and the commitment of personnel to particular units. Of particular interest are (i) a new system of assessing disability based on the World Health Organisation’s International Classification of Functioning, Disability and Health (ICF), (ii) the 2009 law establishing a quota of 10% for suitably qualified, disabled, applicants for jobs in the wider public service,²⁷ and (iii) the complex pattern of help provided to persons with disabilities (PWD).

This last area of the SPS to be discussed in this paper requires a brief review of what programmes are currently offered and by whom. In section 2, Appendix I, Table I.1, mention was made of the issue of Paid Sick Leaves and the data revisions that occurred at the end of 2018. The SIS covers €35m of this programme (Appendix I, Table I.1, column 2), with a roughly equal amount spent by the Central Government Health Services on the elderly, the unemployed, civil servants, and others (Appendix I, Table I.1, column 3). From section 2 and Appendix I, Table I.2, of the €145m spent in support of PWD in 2016, €47m came under the auspices of the SIS, €63m under Other Governmental Social Protection,²⁸ and €33m under Non-governmental Organisations which will not concern us. We consider three contributory programmes offered under the SIS, followed by Other Governmental Social Protection.

4.3.1 Sickness benefit (SIS)

Employed and self-employed persons who are incapable of work are entitled to the contributory Sickness Benefit. The duration of the benefit cannot exceed 156 days for each period of employment disruption; however, the payment may be extended if the insured person meets certain insurance requirements and he/she is not expected to remain permanently incapable of work.

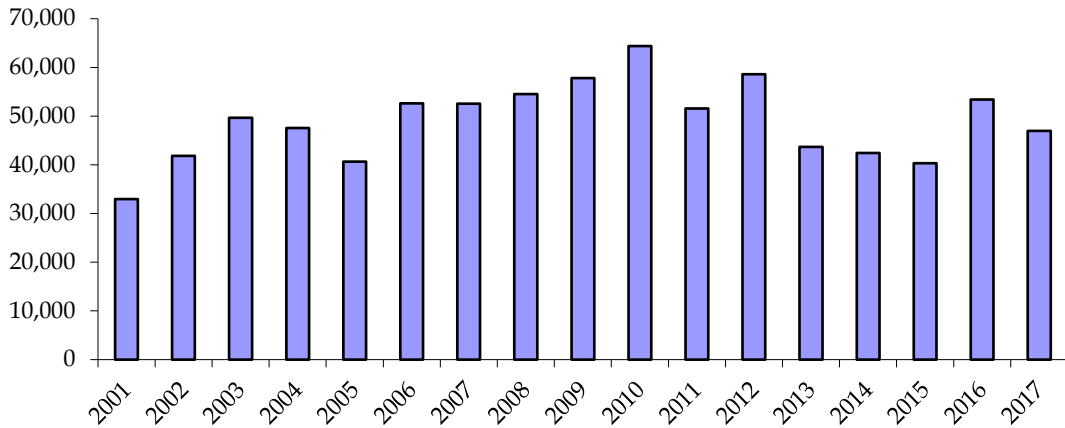
The level of the benefit depends on the insurable earnings and the number of dependants of the recipient and is calculated with the same formula as the UI benefit (see footnote 9 for a numerical example involving the median earner). The number of accepted claims in 2017 was just under 50,000. Figure 5, from Statistics Section, Social Insurance Services, (2018), shows the number of accepted claims by year.

²⁷ Law N.146(I)/2009, Department for the Social Integration of Persons with Disabilities (2018a).

²⁸ Of this amount, €31m is spent on ‘Cash benefits’, an amount which very closely corresponds to the expenditures by DSIPD shown for 2016 in Appendix II – note that the latter data have not been revised.

FIGURE 5

Accepted claims for sickness benefits



4.3.2 Invalidity pension (SIS)

This pension is payable when an individual has been incapable of work for at least 156 days and is expected to remain permanently in that state; this state is defined as the inability to earn more than one third of what might be expected if this individual were healthy and in the same line of work as previously. Qualification depends on the record of contributions and the size of the pension has a ‘basic’ and ‘supplemental’ form. ‘The basic weekly pension is 60% of the weekly average of actual and assimilated basic insurable earnings over the relevant period, increased to 80% for a dependant spouse and 90% or 100% for two or more dependants, respectively’ — see Republic of Cyprus and Ministry of Labour, Welfare and Social Insurance (2013). When the loss of earnings is partial, the pension will range between 60-85%.

The above publication does not specify how the degree of disability is determined. It is in principle possible that errors by the assessment process will be made, both in the direction of accepting disability when it should not be and rejecting it when it should. More on this issue appears below.

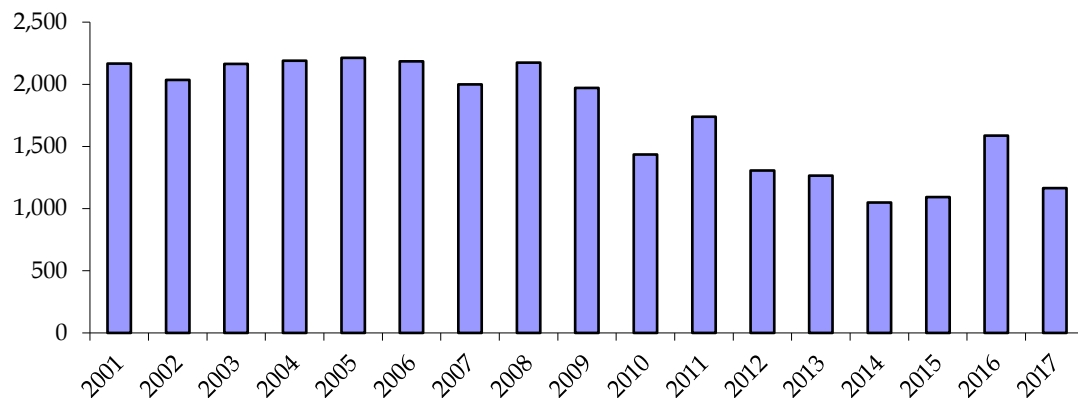
4.3.3 Employment injury benefit (SIS)

This benefit is payable to any employed person who is incapable of work because of an employment accident or occupational disease. The benefit is payable for up to 12 months from the date of accident/disease. The recipient should be employed on the day he/she had the accident/disease and, because of the injury, must not be able to work and does not receive a full wage. For entitlement, it is necessary for the accident to have taken place at the workplace and during work hours for reasons related to work or during transit from/to the workplace. The rate of injury benefit is the same as the rate of sickness benefit.

In Figure 6, sourced from Statistics Section, Social Insurance Services, (2018), the number of recipients is shown to fluctuate around 1,500, while the total cost of the programme in 2015 was estimated to be €1.2 million.

FIGURE 6

Accepted claims for employment injury benefits



4.3.4 Other payments made to PWD by the government

In 2016 (the year analysed extensively in section 2), these amounted to €63m of which €31m were Cash Benefits and €9m were Benefits in Kind (Appendix I, Table I.2, column 3). The Cash Benefits break down to periodic payments (€27m) and payments in a lump sum (€4m). The former includes the Disability Pension (€8m), Care Allowance (€19m), and payments to support the Economic Integration of the Handicapped (€0.3m). The latter includes the Care Allowance (€2m), and Other Lump Sum Benefits (€2m). The Benefits in Kind consisted of Accommodation (listed as zero in 2016), Rehabilitation (€2m), and Other Benefits in Kind (€7m) – see Appendix I, Table I.2.

The level and type of care support varies and depends on the specific needs of the claimant: It includes (i) Home Care (bathing, dressing and personal hygiene, maintenance of the house hygiene and cleanliness, etc.) and the value of the cash benefit is up to €400 per month per beneficiary, (ii) Day Care (access to approved adult day care centres is subsidised by a cash benefit that cannot exceed €137 per month), (iii) Residential Care, the subsidy for which varies from €625 to €745 per month, depending on the needs of the beneficiary, (iv) Respite Care, a short-term benefit which allows an informal carer to take a break from his/her responsibilities, and (v) Extraordinary Needs.

Appendix II lists other benefits in kind which include the provision of a wheelchair, help to purchase a car modified for use by the disabled, and funds to cover other equipment that may be needed by PWD. Also available are other in kind benefits which include (i) free access to the medical card, (ii) access to vocational and education programmes, (iii) inclusion in the electricity company's special tariff category for

vulnerable groups, and d) the subsidisation²⁹ of infant-related basic goods and equipment (baby cribs, care items, etc.).

The support of persons in need is something that every caring society must do and the level of this support must be calibrated correctly. An essential element of this process is the assessment mechanism which determines whether disability exists and the extent and nature of it. The FNSD and NAPD note the development of new disability assessment centres beyond the one in Nicosia. The assessment procedures involve a number of specialists. These individuals determine a disability level relevant to the generosity setting of several SPS benefits. It is important to have some information on the number of cases examined and the outcomes of these reviews with the aim of ensuring regional consistency between the three districts (Nicosia, Limassol, and Larnaca) and between experience in Cyprus and other countries. It is also important to maintain records for these individuals over time and to periodically review past decisions to determine whether they are still appropriate (up or down). Undoubtedly, considerable care and professionalism are applied, but information on the outcomes of these assessments is not publicly available.

A broader issue which concerns all three of the functions surveyed in sections 4.1, 4.2 and 4.3 is the generosity of the SPS relative to the fiscal capacity of the state. Note was made in section 2 of the growth, as a percent to GDP, of expenditures on the SPS during the early to mid-2010s. However, with the Cyprus crisis, this growth was reversed by 2014. Fluctuations in support do not serve well the unemployed, those who are ill, and PWD. So, it is useful to compare the generosity of the SPS to conditions prevailing in the labour market.

5. GMI income scenarios and comparisons to benchmarks

As already noted, the replacement rate through the UI system is in the region of 60%, limited to 156 working days, and unlikely to create widespread abuse, noting, however, the possibility of cycling through the system repeatedly where seasonal work might be involved. Similarly, we do not stand on the possibility that the assessment procedures for disability may tolerate undue dependence, given that no information is publicly available on this score. Instead, we focus our comparisons on the provisions of the GMI both because it is a new programme that may, at some point, be re-fined and because of its interaction with the UI system.

Table 9 associates various levels of GMI support with benchmark earnings (the minimum wage levels and median earnings). Comparison of the basic GMI benefit with the minimum wage is not straightforward as *The Minimum Wage Order of 2012* covers only certain non-unionised occupations (e.g. shop assistants, clerks, child care workers, personal care workers, security guards, cleaners, etc.). The minimum monthly wage upon recruitment is €870 per month and it rises to €924 pm for employees who have completed six months of employment. Thus, for a single person, the GMI level amounts to 51%-55% of the minimum wage. To put this figure in a European perspective, minimum income payments (for a single person) range

²⁹ This programme, entitled 'Baby's Dowry', was initiated in April 2017. The program is financed by EU funds (Fund for European Aid to the Most Deprived).

between 21%-36% in the worst performing countries and 73%-88% in the best performing one.³⁰ The distance between the basic GMI level for a single person and the minimum wage should not create work disincentives. This is even more so in comparisons with the 2016 median earnings (€1,498 pm).

Table 9 shows that work disincentives are larger for recipients with dependants. For individuals with five dependants (partner and four children) the comparisons with minimum wages and median earnings are unfavourable. This is especially so when one considers the value of home production of a GMI recipient if not at work, and the possibility that adult children under 28 may be able to work and retain most of their earnings without impacting the household GMI payment substantially — see Table 6. These calculations assume that the amount of any other benefits made available through the SPS would be comparable to those available through the GMI.

6. Summary, conclusions, and recommendations

The SPS in Cyprus is extensive both in scope and in terms of the proportion of GDP devoted to it: In 2016, it was 19.1% of GDP, even after the substantial reductions occasioned by the recent crisis in 2014 (it had risen to 22.8% of GDP by 2013); however, this proportion is lower than that prevailing in the EU (28.2%). Its expenditures are highly concentrated in two areas, namely pensions (including the survivors' pension) and sickness/health care. These two areas absorb about 74.7% of SPS expenditures, leaving a quarter of the total SPS outlays for all the other areas. This may suggest that the functions 'health/sickness' and, particularly, 'pensions' should be constantly monitored and re-optimised. This is, of course, true, but it does not preclude reviews of the remaining SPS areas.

We concentrate on functions of the SPS other than pensions and health care, because (i) these two areas which, while posing enormous policy challenges, are less connected with the labour market than the remaining functions of the SPS, (ii) the preferences, policies, and institutions concerning them have developed rather independently of labour demand and supply issues, (iii) moral hazard and adverse selection issues are likely to be less serious for pensions, and (iv) a narrower focus on the remaining one quarter of expenditures may be more useful in a study of this size. We also note that this kind of Process Evaluation has not been conducted since the major reforms introduced during the Cyprus crisis.

We begin by noting that once the capacity of a society to support its SPS has been established and the system fine-tuned, it is best to avoid fluctuations in social expenditures stemming from political considerations, so that a stable and sustainable environment can be maintained and sound policies developed.

Apparently, administrative data that follow all recipients in the SPS do exist within the MLWSI. During the period when Cyprus was under the Memorandum of Understanding, pressure was exerted by the lenders to unify and rationalise data systems that had, until then, been fragmented. Progress has apparently been made but this information, appropriately anonymised, is not publicly available and its quality, ease of access, and implications for various programmes in the SPS cannot be judged.

³⁰ Frazer and Marlier (2016).

An urgent priority is the integration and development of an anonymised administrative micro data base on all beneficiaries in the SPS that can be made available, under controlled conditions, to independent researchers. A coarser time series, with information on users and amounts spent by programme should be publicly available at all times. Data revisions such as those experienced in December 2018 should be adequately explained so that independent researchers can continue to be informed and use data appropriately. If necessary legally, SPS beneficiaries should be asked to sign a waiver that gives the right to government and its agents to use beneficiary data anonymously for research and policy development.

TABLE 9

GMI maximum levels and comparisons with min wage and median earnings, (monthly amounts)

Family Unit type	GMI (1)	Housing allowance ^a (2)	Total (3)	GMI/Min wage (1)/870, (3)/870	GMI/median earnings ^b (1)/1,498, (3)/1,498
Single person	€480	€154	€634	0.55, 0.73	0.32/0.42
Couple without children	€720	€154	€874	0.83, 1.00	0.48/0.58
Couple with two children (one 7 and one 14 years old)	€1,104	€224	€1,328	1.27/1.52	0.74/0.89
Single parent with one 2 year old child	€624	€224	€848	0.72/0.97	0.41/0.57
Couple with four children (two below 14 and two above 14)	€1,488	€330	€1,824	1.71/2.1	1.00/1.22

Notes: ^aAssuming residence in Nicosia, Limassol and Famagusta. Rates in Paphos and Larnaca are lower; ^bMedian earnings (2016): 1,498 (before the deduction of social insurance contributions), Statistical Service of Cyprus. Other benefits (i.e. LTC and child care) are assessed on an individual basis.

The paucity of publicly available information, anonymised to guard the identity of SPS users, precludes 'Impact Assessments' of individual programmes in the SPS. Because a culture of impact assessment has not familiarised our society with its benefits, we list a number of questions that could be answered by such assessments. Is the proportion of sick leave expenditures in SPS total expenditures, which has just been revised from 8.4% to approximately 2.7%, now correctly defined and how does it vary by sector (public/private)? Is the media coverage of paid sick leaves, which presents public sector experience unfavourably, justified? Does qualification for the invalidity pension get reviewed and how often is this changed? What are the patterns of occupational hazards and the associated disability pensions over time and across sectors, and have employer and employee organisations been apprised of them? How do decisions on the degree of disability compare regionally in Cyprus and to those made in other countries? Is there a tendency for some unemployed job seekers to delay accepting job offers, holding out for that elusive good job? Do UI recipients tend to use their enforced 'leisure' in other ways until their benefits expire? Is cycling behaviour which might be seasonal (long-enough employment to qualify for UI, followed by UI benefit receipt, followed by more employment, and so on) observed and what are the implicit

subsidies to the seasonal industries that employ these individuals? Has the introduction of the GMI effectively prolonged the duration and generosity of UI benefits from the statutory 156 working days? Has the new system had a different impact on different classes of family units? Has the crisis removed any stigma associated with SPS support, increasing the tendency for participation? Do the GMI parameters imply that some individuals, particularly heads and their spouses, may be better off at home than at work? Does this vary by family size and the presence of adult children, especially if the latter work?

These are all questions where 'Impact Assessments' of particular programmes could shed light, as they have in studies abroad.³¹ 'Performance Assessments' are often made, notably by the HRDA, but these exercises, absolutely necessary as they are from an accounting and transparency point of view, do not amount to 'Impact Assessments' and do not help to establish causality.

We were, therefore, led to something akin to a 'Process Evaluation' of the SPS in Cyprus, and especially its portion which is particularly entwined with labour market behaviour. Within this portion, we concentrated on issues related to the UI system, the GMI programme and the complex pattern of provisions to support persons who develop sickness and persons with disability. We were able to make some comments touching on the questions raised above and to identify issues which should be studied at greater length using administrative data.

The UI system is modest and of finite duration, thus guarding against prolonged participation. It is not possible to say whether concentration of use at duration or repetitive cycling through the system occurs, though there are strong suspicions of the latter in the hospitality industry due to the seasonal nature of its work and the fact that many establishments close during the winter months. It is possible that these seasonal patterns may vary in such a way that cycling through the UI system can be avoided if the PES are aware of them and can direct UI claimants appropriately. It should be noted that Cyprus has an unusually low qualifying period of 26 weeks, which facilitates cycling; the European mode is 50 weeks.

The establishment of the GMI was a major revision of the SPS, made possible by the hardship occasioned by the crisis, the support of the Troika, but also the dedication and political savvy shown by MLWSI. Our comments here are not intended to diminish this social programme achievement but, by raising some questions, we hope that the system might be calibrated more appropriately over time, as non-crisis conditions get re-established.

The GMI was introduced at a time when societal values were undergoing major changes due to the crisis. Most individuals lost income, many became unemployed, some lost their savings and access to retirement funds as a result of the bail-in and bankruptcy or near bankruptcy of major banks, some holders of convertible instruments feel that they were misled, and a new sense of entitlement has generally set in. All these forces have reduced or removed any stigma that participation in the SPS might have had and the finite duration of the UI benefit may have lost its expiration bite. It is now possible not only to supplement the UI benefit with GMI entitlements if family circumstances warrant it, but, upon expiry of the UI benefit, to

³¹ For one example, see Lemieux and Milligan (2008).

shift seamlessly into the GMI for support. This support is no longer tied to the insured's past income and contributions but depends instead on the size and composition of his/her family unit and may continue indefinitely. GMI support appears to be roughly comparable to that previously available under the PA programme but it covers more family units. An administrative (perhaps temporal) break between UI and GMI receipt, for which entitlements are reimbursed, would stress the urgency to seek employment between participation in UI and GMI entitlement.³²

It is also very important to set the parameters of the GMI with great care in order to avoid undesirable behaviour. Indeed, parameter revisions based on experience should be expected and planned for. We have identified several issues that need to be thought about again as the circumstances of the economy in Cyprus return to normalcy: (i) While the generosity of the system for a single person is modest and not likely to discourage participation in the labour market, the picture at the household level changes as the number of dependants increases, particularly if adult children who can work are present in the family unit. (ii) For these adult children (18-28 years), the earnings disregard starts at 50%, jumps to 90%, falls gradually to 80%, and can continue until the age of 28. The abrupt changes in the marginal disregard rates and their high level relative to those for family members over 28 should be reconsidered. (iii) Once adult children are considered as independent households at 28, or perhaps earlier because of marriage, the parents may experience considerable declines in household income if they had previously shared in their children's good fortune. (iv) Sharing the children's labour income while in the same household and for a long period of time may intensify non-participation habits, encourage the depreciation of skills, and reduce the likelihood of re-employment. Thought might be given to shortening the cut-off of 28 years of age following study of the actual patterns of GMI dependence by family type. (v) For large families with one adult earner, a stay-at-home partner, and a number of minor children, the GMI support can exceed twice the minimum wage rate and the incentive for the head of household to work weakens. (vi) For adults over 28 years of age in the household, the earnings disregard is too low (0% beyond €500, with high claw-backs between €50-€500), thus providing limited incentives to find work; the retention rates should be re-considered and be made initially much more generous, declining over earnings and time. Housing support is modest and should not pose problems beyond those prevailing under the previous public assistance programme. More data on recipient units, their family structure and personal characteristics would have helped to document and quantify these points, instead of pointing them out in the abstract, as we were forced to do here.

In the area of sickness, invalidity and disability, one issue that calls for further investigation is the pattern of sick leaves taken, with or without a doctor's certificate. Until the December 19, 2018 data revisions, the proportion of SPS expenditure devoted to sick leaves in Cyprus was the highest in the EU and more than 2 pp higher than in Germany. The recent data revisions have reduced the proportion for Cyprus to under 3% from over 8%, now placing Cyprus below the EU average. The revisions may have been warranted but more explanation of the old and new methodologies and data reconciliations must be offered to users of CYSTAT. The sectoral breakdowns (public,

³² The recent paper by Bolhaar et al (2019) should be useful in considering this possibility.

private sector) of paid sick leave use should be examined with the view to modifying unjustified behaviour.

If there are any other concerns in the area of invalidity and disability they relate to the lack of information on the assessment procedures followed, the degrees of invalidity and disability established, the extent to which prior decisions are changed over time, and the regional as well as overall incidence of these cases in Cyprus. New procedures have recently been introduced but information on these issues is lacking. There is no a priori view of the existence of problems in these areas, but data that allow regional comparisons (between Nicosia, Limassol and Larnaca, where separate assessment units operate) and comparisons with international benchmarks should be available and used.

Finally, SPS provisions, such as the obligation to look for work if unemployed and/or in receipt of the GMI, need to be enforced in order to avoid eventual abuses. The PES will be called to play an even more important role for which they have, until now, been badly understaffed. More resources, albeit temporary, have been forthcoming but the challenge of implementing Phase III of the GMI will be continuing and substantial.

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APPENDIX I

Tables in this Appendix are from Ministry of Finance and CYPSTAT (2017b), Social Protection by Function. Tables I.1-I.8, correspond to the CYPSTAT Tables B1-B8. These refer to itemised expenditures on each of the eight functions in Table 2 in the text and in the same order. That is, Table I.1, refers to expenditures for the function Sickness/Health care, Table I.2, refers to expenditures on the function of Disability, and so on to the eighth function of Social Exclusion

TABLE I.1
Social protection benefits for the function of sickness / healthcare by scheme, 2016 (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Central Government Health Services	Local Government Schemes	Semi-autonomous Social Insurance Institutions	Non-governmental Organisations	Employer as Provider of Social Protection
Social Protection Benefits	641.00	36.03	457.27	2.52	25.44	12.51	107.23
<i>Non Means-Tested</i>	641.00	36.03	457.27	2.52	25.44	12.51	107.23
Cash Benefits	104.48	36.03	35.29	1.14	5.00	8.43	18.58
<i>Periodic</i>	96.03	36.03	35.29	1.13	5.00	0.00	18.58
Paid Sick Leave	94.34	34.47	35.16	1.13	5.00	0.00	18.58
Other Cash Periodic Benefits	1.68	1.56	0.13	0.00	0.00	0.00	0.00
<i>Lump Sum</i>	8.45	0.00	0.00	0.02	0.00	8.43	0.00
Other Cash Lump Sum Benefits	8.45	0.00	0.00	0.02	0.00	8.43	0.00
Benefits in Kind	536.52	0.00	421.98	1.38	20.45	4.08	88.64
<i>In-patient Care</i>	351.20	0.00	307.62	0.55	4.88	0.00	38.14
Direct Provision	346.02	0.00	307.62	0.42	3.80	0.00	34.17
Reimbursement	5.18	0.00	0.00	0.13	1.08	0.00	3.97
<i>Out-patient Care</i>	181.58	0.00	114.36	0.82	15.56	0.34	50.50
Direct Provision of Pharmaceutical Products	110.60	0.00	103.92	0.00	4.49	0.00	2.19
Other Direct Provision	21.02	0.00	9.91	0.00	6.38	0.00	4.72
Reimbursement of Pharmaceutical Products	13.11	0.00	0.52	0.14	0.82	0.00	11.62
Other Reimbursement	36.86	0.00	0.00	0.68	3.87	0.34	31.97
Other Benefits in Kind	3.74	0.00	0.00	0.00	0.00	3.74	0.00

Source: CYSTAT, Social Protection 2016, Table B1, updated December 19, 2018.

TABLE I.2

Social protection benefits for the function of disability by scheme, 2016 (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Other Governmental Social Protection	Local Government Schemes	Semi-autonomous Social Insurance Institutions	Non-governmental Organisations
Social Protection Benefits	145.18	47.22	62.54	0.26	1.78	33.39
<i>Non Means-Tested</i>	122.13	47.22	39.48	0.26	1.78	33.39
Cash Benefits	98.47	47.22	30.58	0.24	1.78	18.65
<i>Periodic</i>	92.97	47.22	26.67	0.24	0.20	18.65
Disability Pension	10.52	2.98	7.53	0.01	0.00	0.00
Early retirement due to reduced capacity to work	44.66	44.23	0.00	0.23	0.20	0.00
Care Allowance	37.46	0.00	18.81	0.00	0.00	18.65
Econ. Integration of the Handicapped	0.33	0.00	0.33	0.00	0.00	0.00
<i>Lump Sum</i>	5.50	0.00	3.91	0.00	1.58	0.00
Care Allowance	2.41	0.00	2.41	0.00	0.00	0.00
Econ. Integration of the Handicapped	0.00	0.00	0.00	0.00	0.00	0.00
Other Cash Lump Sum Benefits	3.09	0.00	1.50	0.00	1.58	0.00
Benefits in Kind	23.66	0.00	8.90	0.02	0.00	14.74
Accommodation	0.01	0.00	0.00	0.00	0.00	0.01
Rehabilitation	1.84	0.00	1.84	0.00	0.00	0.00
Other Benefits in Kind	21.81	0.00	7.06	0.02	0.00	14.73
<i>Means-Tested</i>	23.06	0.00	23.06	0.00	0.00	0.00
Cash Benefits	23.06	0.00	23.06	0.00	0.00	0.00
<i>Periodic</i>	23.06	0.00	23.06	0.00	0.00	0.00
Disability Pension	14.00	0.00	14.00	0.00	0.00	0.00
Care Allowance	0.06	0.00	0.06	0.00	0.00	0.00
Economic Integration of the Handicapped	9.00	0.00	9.00	0.00	0.00	0.00

Source: CYSTAT, Social Protection 2016, Table B2, updated December 19, 2018.

TABLE I.3

Social protection benefits for the function of old age by scheme (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Civil Service Social Protection	Other Governmental Social Protection	Local Government Schemes	Semi-autonomous Social Insurance Institutions	Non-governmental Organisations
Social Protection Benefits	1,683.74	1,007.46	383.58	146.71	7.76	126.26	11.96
<i>Non Means-Tested</i>	1,638.38	1,007.46	383.58	101.36	7.76	126.26	11.96
Cash Benefits	1,619.91	1,007.46	383.58	95.59	7.01	126.26	0.00
<i>Periodic</i>	1,524.12	1,007.46	344.53	95.59	6.80	69.74	0.00
Old-age Pension	1,370.88	919.84	284.28	95.59	6.27	64.89	0.00
Anticipated old age pension	153.25	87.62	60.25	0.00	0.52	4.85	0.00
Care Allowance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Lump Sum</i>	95.78	0.00	39.05	0.00	0.21	56.52	0.00
Other Cash Lump Sum Benefits	95.78	0.00	39.05	0.00	0.21	56.52	0.00
Benefits in Kind	18.47	0.00	0.00	5.77	0.75	0.00	11.96
Accommodation	0.49	0.00	0.00	0.00	0.49	0.00	0.00
Assistance in Daily Tasks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Benefits in Kind	17.99	0.00	0.00	5.77	0.26	0.00	11.96
<i>Means-Tested</i>	45.36	0.00	0.00	45.36	0.00	0.00	0.00
Cash Benefits	45.36	0.00	0.00	45.36	0.00	0.00	0.00
<i>Periodic</i>	45.36	0.00	0.00	45.36	0.00	0.00	0.00
Other Cash Periodic Benefits	45.36	0.00	0.00	45.36	0.00	0.00	0.00
<i>Lump Sum</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Cash Lump Sum Benefits	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Benefits in Kind	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accommodation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assistance in Out Daily Tasks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Benefits in Kind	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: CYSTAT, Social Protection 2016, Table B3, updated December 19, 2018.

TABLE I.4

Social protection benefits for the function of survivors by scheme, 2016 (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Civil Service Social Protection	Local Government Schemes	Semi-autonomous Social Insurance Institutions	Employer as provider of social protection
<u>Social Protection Benefits</u>	258.59	207.81	40.28	0.73	9.75	0.02
Non Means-Tested	258.59	207.81	40.28	0.73	9.75	0.02
Cash Benefits	258.57	207.81	40.28	0.73	9.75	0.00
<i>Periodic</i>	254.84	205.65	40.28	0.73	8.19	0.00
Survivors' Pension	254.84	205.65	40.28	0.73	8.19	0.00
<i>Lump Sum</i>	3.73	2.16	0.00	0.01	1.56	0.00
Death Grant	2.16	2.16	0.00	0.00	0.00	0.00
Other Cash Lump Sum Benefits	1.57	0.00	0.00	0.01	1.56	0.00
Benefits in Kind	0.02	0.00	0.00	0.00	0.00	0.02
Other Benefits in Kind	0.02	0.00	0.00	0.00	0.00	0.02

Source: CYSTAT, Social Protection, 2016, Table B4, updated December 19, 2018.

TABLE I.5

Social protection benefits for the function of family / children by scheme (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Central Government Health Services	Other Governmental Social Protection	Local Government Schemes	Semi-autonomous Social Insurance Institutions	Non-governmental Organisations	Employer as Provider of Social Protection
Social Protection Benefits	244.28	29.03	5.78	190.09	0.95	0.35	10.61	7.47
<i>Non Means-Tested</i>	78.12	29.03	5.78	23.93	0.95	0.35	10.61	7.47
Cash Benefits	38.92	29.03	5.16	1.26	0.01	0.28	0.00	3.18
<i>Periodic</i>	33.69	25.34	5.16	1.04	0.01	0.28	0.00	1.85
Income Maintenance-Childbirth	32.65	25.34	5.16	0.00	0.01	0.28	0.00	1.85
Parental Leave Benefit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Family or Child Allowance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Cash Periodic Benefits	1.04	0.00	0.00	1.04	0.00	0.00	0.00	0.00
<i>Lump Sum</i>	5.22	3.68	0.00	0.21	0.00	0.00	0.00	1.33
Birth Grant	5.22	3.68	0.00	0.21	0.00	0.00	0.00	1.33
Other Cash Lump Sum Benefits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Benefits in Kind	39.21	0.00	0.62	22.68	0.94	0.07	10.61	4.30
Child Day Care	0.44	0.00	0.00	0.00	0.44	0.00	0.00	0.00
Accommodation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Benefits in Kind	38.76	0.00	0.62	22.68	0.49	0.07	10.61	4.30
<i>Means-Tested</i>	166.16	0.00	0.00	166.16	0.00	0.00	0.00	0.00
Cash Benefits	166.16	0.00	0.00	166.16	0.00	0.00	0.00	0.00
<i>Periodic</i>	114.28	0.00	0.00	114.28	0.00	0.00	0.00	0.00
Family or Child Allowance	114.28	0.00	0.00	114.28	0.00	0.00	0.00	0.00
<i>Lump Sum</i>	51.88	0.00	0.00	51.88	0.00	0.00	0.00	0.00
Other Cash Lump Sum Benefits	51.88	0.00	0.00	51.88	0.00	0.00	0.00	0.00
Benefits in Kind	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Child Day Care	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Benefits in Kind	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: CYSTAT, Social Protection 2016, Table B5, updated December 19, 2018.

TABLE I.6

Social protection benefits for the function of unemployment by scheme, 2016 (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Other Governmental Social Protection	Semi-autonomous Social Insurance Institutions	Labour Market Social Protection
Social Protection Benefits	191.50	85.90	18.47	34.54	52.59
Non Means-Tested	191.50	85.90	18.47	34.54	52.59
Cash Benefits	190.12	85.90	17.64	34.54	52.05
<i>Periodic</i>	85.90	85.90	0.00	0.00	0.00
Full Unemployment Benefit	85.90	85.90	0.00	0.00	0.00
Other Cash Periodic Benefits	0.00	0.00	0.00	0.00	0.00
<i>Lump Sum</i>	104.22	0.00	17.64	34.54	52.05
Redundancy Compensation	86.59	0.00	0.00	34.54	52.05
Other Cash Lump Sum Benefits	17.64	0.00	17.64	0.00	0.00
Benefits in Kind	1.38	0.00	0.83	0.00	0.54
Vocational Training	0.83	0.00	0.83	0.00	0.00
Placement Services and Job-search Assistance	0.54	0.00	0.00	0.00	0.54
Other Benefits in Kind	0.00	0.00	0.00	0.00	0.00

Source: CYSTAT, Social Protection, 2016, Table B6, updated December 19, 2018

TABLE I.7

Social protection benefits for the function of housing by scheme, 2016 (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Semi-autonomous Social Insurance Institutions	Housing
Social Protection Benefits	64.70	0.51	64.19
Means-Tested	64.70	0.51	64.19
Benefits in Kind	64.70	0.51	64.19
<i>Rent Benefit</i>	21.52	0.00	21.52
Social Housing	2.38	0.00	2.38
Other Rent Benefit	19.13	0.00	19.13
<i>Benefit to Owner-occupiers</i>	43.18	0.51	42.67

Source: CYPSTAT, Social Protection, 2016, Table B7, updated December 19, 2018.

TABLE I.8

Social protection benefits for the function of social exclusion by scheme, 2016 (in current prices, millions of euro)

Social Protection Benefits by Type	Total	Social Insurance Scheme	Other Governmental Social Protection	Local Government Schemes	Non-governmental organisations
Social Protection Benefits	226.96	0.87	223.95	0.16	1.97
Non Means-Tested	7.00	0.87	4.13	0.03	1.97
Cash Benefits	4.49	0.87	3.62	0.00	0.00
<i>Periodic</i>	4.49	0.87	3.62	0.00	0.00
Income Support	4.49	0.87	3.62	0.00	0.00
Other Cash Periodic Benefits	0.00	0.00	0.00	0.00	0.00
<i>Lump Sum</i>	0.00	0.00	0.00	0.00	0.00
Other Cash Lump Sum Benefits	0.00	0.00	0.00	0.00	0.00
Benefits in Kind	2.51	0.00	0.51	0.03	1.97
Rehabilitation of drug and alcohol abusers	0.03	0.00	0.00	0.03	0.00
Other Benefits in Kind	2.49	0.00	0.51	0.00	1.97
Means-Tested	219.96	0.00	219.82	0.13	0.00
Cash Benefits	219.96	0.00	219.82	0.13	0.00
<i>Periodic</i>	219.73	0.00	219.70	0.02	0.00
Income Support	219.73	0.00	219.70	0.02	0.00
<i>Lump Sum</i>	0.23	0.00	0.12	0.11	0.00
Other Cash Lump Sum Benefits	0.23	0.00	0.12	0.11	0.00
Benefits in Kind	0.00	0.00	0.00	0.00	0.00
Accommodation	0.00	0.00	0.00	0.00	0.00
Other Benefits in Kind	0.00	0.00	0.00	0.00	0.00

Source: CYSTAT, Social Protection, 2016, Table B8, updated December 19, 2018.

APPENDIX II

TABLE II.1
Beneficiaries and expenses (in euro) by DSIPD for the social integration of persons with disabilities 2010-2017

Monthly Benefit	Benef. 2010	Expense 2010	Benef. 2011	Expense 2011	Benef. 2012	Expense 2012	Benef. 2013	Expense 2013	Benef. 2014	Expense 2014	Benef. 2015	Expense 2015	Benef. 2016	Expense 2016	Benef. 2017	Expense 2017
Advanced Mobility Disability (€337,66)	1548	5.999.300	n/a	6.483.125	1615	6.549.014	1637	6.698.563	1656	6.869.229	1729	7.269.070	1810	7.528.407	1968	8.239.240
Stipend for the Care of Tetraplegics (€854,30)	498	5.623.007	557	6.102.398	558	6.037.185	579	6.173.934	596	6.273.912	619	6.635.845	659	7.013.471	704	7.571.722
Stipend for the Care of Paraplegics (€350)	306	1.544.876	475	2.432.651	538	2.419.960	559	2.499.754	575	2.630.845	634	2.913.526	672	3.092.284	792	3.708.252
Blindness Benefit (€316,37)	Δ/E	Δ/E	2804	11.341.813	2816	10.415.256	2625	10.386.596	2437	9.683.360	2285	9.349.425	2171	8.704.359	2051	8.294.560
Transportation Benefit (€51 η €102)	Δ/E	Δ/E	454	301.506	430	303.410	527	631.170	574	648.968	629	654.578	1071	971.699	1150	1.105.122
TOTAL	2352	13.167.183	5892	26.661.493	5957	25.724.825	5927	26.390.017	5838	26.106.314	5896	26.822.444	6383	27.310.220	6.665	28.918.896
One-off Financial Assistance	Benef. 2010	Expense 2010	Benef. 2011	Expense 2011	Benef. 2012	Expense 2012	Benef. 2013	Expense 2013	Benef. 2014	Expense 2014	Benef. 2015	Expense 2015	Benef. 2016	Expense 2016	Benef. 2017	Expense 2017
For Purchase of a Disability Car	Δ/E	Δ/E	183	1.585.800	184	1.457.477	73	553.465	162	615.946	234	910.500	311	1.306.121	395	1.652.700
For Purchase of Aids	531	899.665	449	743.572	446	699.784	694	688.388	514	799.997	573	838.467	716	1.201.695	861	1.012.760
For Purchase of Wheel Chairs	250	361.745	205	522.156	234	599.798	200	599.973	202	824.998	370	749.227	355	1.205.712	380	788.715
TOTAL	781	1.261.410	837	2.851.528	1048	2.757.059	967	1.841.826	878	2.240.941	1177	2.498.194	1382	3.713.528	1636	3.454.175
OVERALL TOTAL	3133	14.428.593	6729	29.513.021	7005	28.481.884	6894	28.231.843	6716	28.347.255	7073	29.320.638	765	31.023.748	8301	32.373.071

Source: DSIPD (2018b), Annual Report 2017. Available in Greek, see references. The table has been translated into English, maintaining the original format.