



# **Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of the EU Member States' minimum income schemes**

Country Fiche - Cyprus

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# **Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of the EU Member States' minimum income schemes**

Country Fiche - Cyprus

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## Summary

The Cypriot Guaranteed Minimum Income (henceforth GMI - *Ελάχιστο Εγγυημένο Εισόδημα* – EEE) scheme was introduced in 2014. It aims to ensure a socially acceptable minimum standard of living for persons (and families), legally residing in the Republic of Cyprus, whose income and other economic resources are insufficient to meet their basic and special needs. The GMI is provided in the form of monetary support and/or services.

The adoption of the GMI was linked to the 'Memorandum of Understanding' (henceforth MoU), which was signed by the Cypriot government and its international lenders (the so-called 'troika')(Lalioti and Koutsampelas, 2021: 5-6). Due to the constraints set in place in the MoU, the implementation of the scheme required more time. For example, the staffing of the newly created service (the 'Welfare Benefits Administration Authority' – henceforth WBAS) for the administration of the GMI (as well as of all other welfare benefits) started since adoption of the scheme with the recruitment of a permanent Director for the first time only since November 2021.

The aforementioned conditions resulted into the 'phased' introduction of this major reform. More specifically, the GMI, along with all its complementary components and associated policies, was gradually rolled out between the years 2014 and 2019. Long-term care services, for example,, in their current comprehensive form, which distinguishes between institutional and home care and between disabled persons' needs and old age social care needs, had initially been introduced in 2016. Only in 2019 they would be fully developed, however.

The GMI is a means-tested benefit, using a combination of income and asset eligibility criteria, and is available to all households, whose incomes fall below a specified 'minimum income threshold'. Benefit levels reflect both 'means' and 'needs'. Household 'means' are based on all the income available to the household, so as to finance basic consumption (including other social benefits); while 'needs' reflect the cost of attaining a minimum standard of living for all household members, and therefore vary with household size and composition.

The level of basic needs support is estimated, after taking into account a minimum consumption basket. Work incentives are maintained through a combination of work disregard and mandatory participation in Active Labour Market Policies (henceforth ALMPs).

That being said, the scheme consists of three pillars: income support, access to services and activation. The first GMI pillar is based on a monthly cash benefit, which is defined as the difference between the actual income of the recipient unit and a pre-specified basic amount, corresponding to the minimum standard of living accepted by society.

The second and third pillars of the scheme provide access to subsidized or free-of-charge services, deemed to be necessary for preventing material deprivation and activating recipients. These include: healthcare; psychological and career advice services; vocational, educational and training (henceforth VET) programmes ; and, in the case of recipients with dependants, subsidized childcare and long-term care (see e.g. Koutsampelas, 2016).

Broadly speaking, the Cypriot GMI is characterized by a modern and relatively comprehensive design, which is targeted at addressing poverty and social exclusion, through the integration of the above mentioned three components. Monetary support, access to services, and assistance in entering/re-entering the labour market are regarded as being mutually reinforcing. The scheme is therefore designed to provide, in principle, holistic protection to members of vulnerable groups.

While examining the scenarios of a minimum income support scheme Pashardes, Koutsampelas and Polycarpou (2013) found that the scheme in place prior to reforms

would have been able to remove 'absolute poverty' and reducing 'relative poverty' by extending coverage to the 'working poor'. Furthermore, although, up until recently, the data available did not allow us to have a clear picture of the activation component of the GMI (see e.g. Lalioti and Koutsampelas, 2021), which seemed to be less developed than the other two pillars of the scheme, the Ministry interviewed for this study informed about significant progress in this respect since 2020. This progress was largely linked to the development of the so-called 'Social Intervention Mechanism' which, among other things, provides for the institutional link with the Public Employment Services (henceforth PES) and thus for the activation of the able-to-work GMI beneficiaries. As a result, the vast majority of GMI beneficiaries are currently persons who are not able to work (disabled, pensioners and chronically severely ill persons). This outcome is due to the coordinated efforts and services provided to GMI beneficiaries, which enable their exit to work through dozens of complementary and linked services and policies.

Based on the data provided by the Ministry of Labour and Social Insurance, over the course of the last years there has been a substantial increase in the activation of GMI beneficiaries. In coordination with the PES, GMI beneficiaries who are able to work are given priority in the matching performed by the PES officers with suitable jobs. Moreover, since 2018, the PES hired 30 labour market specialists to assist with the activation (and re-activation) of GMI beneficiaries. .

Last, it should be noted that the number of family units receiving the GMI has been constantly decreasing since 2017, when it was at its maximum (appx. 27,550 family units). This decrease is largely associated with the implementation of effective labour activation measures, as the one mentioned above; but also with increased job availability and improved eligibility control methods.

In summary, since 2019 (and especially 2021) the Cypriot scheme seems to have been more successful in attaining its declared objectives, including the labour market activation of GMI beneficiaries

Furthermore, in an attempt to address the various concerns faced by GMI applicants regarding the need for communication with WBAS officers, the Service has a series of actions planned. Besides the request to obtain additional personnel, so as to be able to offer customer service points to GMI applicants and beneficiaries, the WBAS is in the process of re-examining the documents required by GMI applicants. This is part of the effort to simplify the application process and minimize the number of the paperwork needed. A new call centre is also in the final stage of being set up by the Ministry of Labour and Social Insurance. The new centre will enhance communication between GMI applicants/ beneficiaries and the Ministry in charge.

Finally, the online application system that is currently being developed will enhance the transparency of the system.

The following sections, first, outline the features of the Minimum Income (henceforth) MI support in place; secondly, they describe the eligibility criteria and coverage and consider the adequacy of the financial support provided and links with other benefits; thirdly, they examine the extent of integration with labour market measures to help those supported into employment; fourthly, they consider the access provided for GMI beneficiaries to social services; fifthly, they summarize the governance mechanisms in place; and, finally, they review the evidence on the impact upon reducing poverty and assisting beneficiaries to find work.

An annex outlines the underlying situation in terms of the relative number of people at risk of poverty or social exclusion and the changes that have occurred over recent years, as well as the characteristics of the people concerned – their gender, age, employment status, education level, country of birth and the structure of the households in which they live. As such, it provides the context in which MI support is operating and indicates the groups on which support needs to be targeted.

## **1 Description of national schemes providing minimum income support**

In 2014, Cyprus introduced a Guaranteed Minimum Income- GMI(*Ελάχιστο Εγγυημένο Εισόδημα* – ΕΕΕ) –scheme, which replaced the old *suī generis* ‘public assistance’ system, under which discretionary payments were based, inter alia, on the assessment of household means and the existence of dependent relatives. The system had proved indispensable (e.g. for coping with the urgent social needs following the dramatic events of the 1974 Turkish invasion). However, it had many drawbacks, such as the exclusion of the working poor, a wide scope for discretionary payments, imperfect targeting, and the absence of effective activation support (Pashardes, 2009; Pashardes and Polycarpou, 2011).

Against this backdrop, it was decided that, instead of modifying the old system, a completely new system, with a different logic and characteristics, needed to be introduced. The related reform was included in the ‘Memorandum of Understanding’ (henceforth MoU), which was signed in 2012 by the Cypriot government and the international lenders to the country, and was presented as a means to address the shortcomings of the old system and improve social protection.

The new scheme was rapidly designed and came into effect via the 109(I)/2014 GMI and Social Benefits Law, which paved the way for the reform of the entire Cypriot social security system (Lalioti and Koutsampelas, 2021: 5-6). The 2014 law, which in the years that followed would have been complemented by a series of amendments<sup>1</sup>, explicitly referred to the right of all legal residents to enjoy a minimum acceptable standard of living.

A direct consequence of the ties existing between the GMI and the MoU was that, due to the constraints set in place in the MoU, the scheme couldn’t be smoothly introduced. For example, a new service was created (the Welfare Benefits Administration Authority – henceforth WBAS) for the administration of the GMI (as well as of all other welfare benefits), without being able to hire even a single permanent employee until 2019; whereas the Director of WBAS was hired in November 2021 (with the rest of the permanent hierarchy still pending).

The above mentioned conditions dictated that this major reform would have to be introduced in phases. Hence, the GMI, along with all of its complementary components and associated policies, was gradually rolled out between the years 2014 and 2019. For example, services for long-term care, in their current comprehensive form, which distinguishes between institutional and home care and between disabled persons’ needs and old age social care needs, had initially been introduced in 2016; but only in 2019 were they fully developed.

The Cypriot GMI was incorporated into a social protection system, which is characterised, inter alia, by the following: the relatively low level of social expenditure; the relative underdevelopment of minimum income protection; the high reliance on families as care-providers, often substituting for inadequate state provisions; the low level of autonomy for young people (as manifested in the high rates of co-residence of parents and adult children); the high level of inter-generational solidarity (with parents often complementing the income of their adult

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<sup>1</sup> See: <http://www.mlsi.gov.cy/mlsi/mlsi.nsf/All/048229AFBB4B60A6C2258599002E6213> and [http://www.cylaw.org/nomoi/indexes/2014\\_1\\_109.html](http://www.cylaw.org/nomoi/indexes/2014_1_109.html). More specifically, these amendments are mainly included in Laws 135(I)2014; 173(I)2014; 195(I) 2014; 3(I) 2015; 118(I) 2015; 36(I)2017; 114(I) 2017; 2(I) 2018; 135(I) 2019; 164(I) 2019; 23(I) 2020, 3 (I) 2022. Amendments are also accompanied by a series of regulatory administrative acts.



children<sup>2</sup>). Differences from the so-called 'Mediterranean' or 'southern European' welfare regime, on the other hand, included the residual and means-tested route followed by the Cypriot healthcare system for decades – which, nevertheless, was recently transformed to a universal system – or the provision of subsidised childcare, among other things (Lalioti and Koutsampelas, 2021: 2).

Within this context, the Cypriot GMI is, overall, characterized by a modern and relatively comprehensive design, providing, in principle, holistic protection with rather few apparent weaknesses, such as the limited coverage of certain groups, which might be at risk of high poverty; e.g. up until recently of the working poor (Lalioti and Koutsampelas, 2021: 6). The scheme consists of three pillars: income support, access to services, and activation. The first pillar is based on a monthly cash benefit, which is defined as the difference between the actual income of the recipient unit and a pre-specified basic amount, corresponding to the minimum standard of living accepted by society. The amount of the basic monthly cash benefit for a single adult equals €480 (increasing by 50% for each additional adult and by 30% for each additional child).

The level of the basic amount is calculated using reference budget methodology and varies depending on the size and age structure of the recipient unit. Hence, in 2020, the level of the basic amount was a little bit more than half the monthly at-risk-of-poverty threshold (60% of median equivalized income) for a single person (€835.16 per month or €10,022 per year)<sup>3</sup>.

The GMI is calculated by subtracting the family income from the basic needs (plus housing needs). More specifically:

- Applicant needs = €480
- Spouse and children between the ages of 14 and 28 = €240
- Children under the age of 14 = €144
- Rent or loan interest = Depending on family composition and district
- Disability benefit and social coherence measures

The second pillar provides access to subsidized or free-of-charge services (e.g. healthcare, discounts on electricity, free attendance at government institutes of education, psychological and career advice services, and, in the case of recipients with dependants, subsidized childcare and long-term care). The GMI also covers municipal taxes, sewage taxes, municipal garbage collection charges and certain extraordinary needs. The third pillar includes programmes targeted at the labour market integration of GMI beneficiaries, as exemplified by vocational, education and training (henceforth VET) programmes.

These services and programmes are deemed to be needed for activating recipients (Koutsampelas, 2016). Over two thirds of public social assistance in Cyprus is now reported to be channelled through the GMI, meaning that the services linked to the GMI respond to the two thirds of all the publicly provided assistance in the country (European Commission, 2018: 40).

By the end of 2017, the number of households receiving GMI was 27,550. The total cost (which included expenses on basic and housing needs and the disability benefit, but excluded care, extraordinary needs and municipal taxes) amounted to €211

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<sup>2</sup> Please note, however, that, in the case of the GMI, work-related income from children aged between 18 and 28 is partially excluded from the household income. This acts as an incentive to be work-active, therefore leading those aged 18 to 28 to be independent from their parents.

<sup>3</sup> See: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_li01&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li01&lang=en).

million. The overall cost for GMI, which included payments for all GMI benefits, was €221 million.

The following table includes data on the actual expenditure on the GMI and on the number of family units having access to the scheme between the years 2015 and 2021:

**Year – Actual Expenditure – Family Units**

2015	€75, 404,628	20,700
2016	€194,234,375	25,980
2017	€221,167,521	27,550
2018	€220,182,462	25,078
2019	€197,955,444	22,377
2020	€199,096,807	22,179
2021	€200,509,134	20,882

Based on the data provided by the Ministry of Labour and Social Insurance, the number of the family units receiving the GMI has therefore been constantly decreasing since 2017, when it was at its maximum (appx. 27,550 family units). This outcome is due to the implementation of effective labour activation measures, alongside increased job availability and improved eligibility control methods.

The above data should be viewed in conjunction with relevant national concepts, and especially the absolute poverty threshold, which is calculated, on a regular basis, in accordance with the results of a minimum consumption basket survey (by using the budget standards method). The absolute poverty level represents the minimum income level required for achieving a decent standard of living and goes beyond a subsistence standard of living. In 2017, the number of people in severe poverty in Cyprus was estimated at 23,000, while the number of those in poverty was much higher, at approximately 134,000 (defining the severe poverty threshold as 40% of median household disposable income and the poverty threshold as 60%).

Hence, given that the number of GMI beneficiaries for the year 2017 was estimated to be 48,955, the Cypriot scheme seems to have been quite successful in 'covering' those in severe poverty. . (See also European Commission, 2020a: p.5, p.16, p.43, p.45, which concluded that: '*Strong economic growth and the introduction of a guaranteed minimum income have had a significant positive impact on poverty and quality in Cyprus*').

A similar conclusion could be reached for more recent years, when taking into account that the number of those at risk of poverty in 2020 was 127,000 (with a cut-off point equal to 60% of median equivalized income after social transfers)<sup>4</sup>; and 23,000 (with a cut-off point equal to 40% of the median equivalized income)<sup>5</sup>

## **1.1 Eligibility**

Based on the GMI-related legislation, access to the GMI is determined on the basis of income, age, nationality, residency, employment status, and the financial assets of applicants and beneficiaries<sup>6</sup>. Applicants and beneficiaries must also satisfy a number of job-related conditions, such as being registered with the PES and accepting

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<sup>4</sup> See: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_li02&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li02&lang=en).

<sup>5</sup> See: [https://ec.europa.eu/eurostat/databrowser/view/ILC\\_LI02\\_\\_custom\\_1565249/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ILC_LI02__custom_1565249/default/table?lang=en).

<sup>6</sup> See the attached link, giving access to a document discussing all conditions for access to the GMI (in Greek): [http://www.mlsi.gov.cy/mlsi/mlsi.nsf/01D602B67BF349BEC2257E8F0044ABF7/\\$file/%CE%92%CE%B1%CF%83%CE%B9%CE%BA%CE%AD%CF%82%20%CE%A0%CF%81%CF%8C%CE%BD%CE%BF%CE%B9%CE%B5%CF%82%20%CF%84%CE%B7%CF%82%20%CE%9D%CE%BF%CE%BC%CE%BF%CE%B8%CE%B5%CF%83%CE%AF%CE%B1%CF%82%20%CE%95%CE%95%CE%95.pdf](http://www.mlsi.gov.cy/mlsi/mlsi.nsf/01D602B67BF349BEC2257E8F0044ABF7/$file/%CE%92%CE%B1%CF%83%CE%B9%CE%BA%CE%AD%CF%82%20%CE%A0%CF%81%CF%8C%CE%BD%CE%BF%CE%B9%CE%B5%CF%82%20%CF%84%CE%B7%CF%82%20%CE%9D%CE%BF%CE%BC%CE%BF%CE%B8%CE%B5%CF%83%CE%AF%CE%B1%CF%82%20%CE%95%CE%95%CE%95.pdf)

'suitable' jobs. Not conforming to these conditions endangers eligibility (Lalioti and Koutsampelas, 2021: 6).

A social impact assessment carried out in 2013-2014 played a role in shaping the eligibility criteria for the GMI. According to the various decision parameter inputs and the relevant outputs of the models used, the optimal solutions were reported to be chosen. The main objectives pursued by the authorities responsible were to eliminate and/or reduce the number of people living in absolute poverty, reduce the poverty gap by focusing on the most vulnerable, and lift number of households above the relevant poverty threshold<sup>7</sup>.

After running various sets of decision parameters, the final GMI design chosen was expected to have significant effects on the desired outcomes, while remaining nearly budget-neutral. More specifically, by the second half of 2015, the incidence of poverty (share of poor people in the general population, meaning the share of those in poverty in the total population) was predicted to fall by 3.2%; and the intensity of poverty (i.e. the gap between the income of the poor and the relative poverty threshold) by 16.8% (with reductions of up to 32.7% for the most vulnerable groups). Finally, a reduction of 70% was predicted in the number of households living below the absolute poverty threshold in the second half of 2015 (ILO, 2016).

During the very first stages of implementing the Cypriot GMI, several stakeholders (mainly trade unions, but also civil society organisations: see Soumel, 2014) claimed that they were not given adequate time to effectively participate in the consultation process and to contribute to the design of the scheme. However, the 'teething problems' of the GMI are reported to have been quickly corrected through small-scale legislative interventions, which were targeted at increasing the coverage/inclusivity of the scheme.

Examples of such interventions included a legislative modification providing the Minister of Labour and Social Insurance with discretionary power to grant eligibility to cases of applicants, who were deemed to be in extreme need, even if they failed to satisfy the formal eligibility criteria; and also a subsequent amendment, based on similar logic, and which offered the discretion to award eligibility to people facing 'extraordinary personal circumstances', when justifiable. Additionally, after taking into account the large number of households that had experienced significant income reductions during the crisis, while also possessing immovable property that made them ineligible for the GMI support, the government relaxed the asset criteria for access to the scheme. This modification, once again, improved the coverage/inclusivity of the scheme, while also encountering public criticism regarding the strictness of the eligibility criteria (Koutsampelas and Pashardes, 2015).

The greatest concern, however, was the scheme's impact on poverty alleviation. In 2013, an *ex ante* impact assessment of the GMI, conducted by the University of Cyprus, in collaboration with the International Labour Organization (ILO) and the Ministry of Labour and Social Insurance indicated that the new scheme was clearly more effective and comprehensive than the previous system of public assistance. Assuming full take-up, the simulations showed that the GMI could almost eliminate absolute poverty, while significantly reducing relative poverty (Pashardes, Koutsampelas, and Polycarpou, 2013).

A subsequent micro-simulation exercise verified these results (Pashardes and Koutsampelas, 2016; European Commission, 2019). Critics of the GMI argued, however, that the scheme did not eradicate every form of deprivation, as exemplified by the fact that beneficiaries still faced nutritional risks, which intensified in the case of multi-member families (Chrysostomou and Andreou, 2017).

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<sup>7</sup> See the relevant GMI legislation (the entire list is included at the end of this report).

Additional criticism concerned rising housing costs, prompting the government to upgrade the GMI-related housing allowance (Koutsampelas, Andreou and Tsolaki, 2019). It should be also noted nevertheless that, following a study by the Ministry of Labour and Social Insurance, in August 2019 the rent allowance was increased. The magnitude of the increase varied across cities, but averaged to 50%.

Last, according to research by Chrysostomou, Andreou and Polycarpou (2017) a food basket fulfilling physical and non-physical needs is reported as not being affordable amongst low-income families (mainly with children) on the GMI scheme.

**Income/assets taken into account:** The GMI-related legislation refers to the methods used for setting the income and the assets thresholds used to determine eligibility<sup>8</sup>. The amounts provided as part of the GMI are regarded as being in line with the minimum living needs for beneficiaries and their families, which are defined as those necessary to live a 'descent' life. These standards are not related in any way to beneficiaries' salaries, which depend on their profession and are often determined through collective agreements.

In order to define the amounts connected with the GMI, the competent authorities took into account the costs (at market prices) of all the goods and services needed to live, meaning those needed so as to attain a specified level of minimum living. The following income is taken into account for the purposes of entitlement to GMI: from work (including self-employment); from alimony; from allowances/grants given by the government, and other social benefits; from any pension plan, pension fund, social insurance plan or occupational plan; and from real property and movable assets. If claimants and/or any members of their family units own property worth more than €100,000, they are not eligible for the GMI. If they own a residence that does not exceed 300 m<sup>2</sup>, it does not count towards the value of family property used to determine eligibility for the GMI. If there is a claim (encumbrance) on the immovable property of GMI applicants or a right to use it (usufruct), immovable property of €100,000-€200,000 in value is likewise not taken into account. Moreover, any transferred assets are still considered to be owned by claimants, if the transfer is regarded as being unnecessary. Deposits up to €5,000 for one individual and €1,000 for every dependant are excluded (up to a total of €20,000 for additional monetary assets, such as those regarding study loans and scholarships, for people with disabilities, and accounts of under-aged persons, before the GMI law was enacted). Family units or individuals only lose access to the GMI, when they exceed these amounts.

**Exempt income/assets:** The following categories of income are excluded from the calculations relating to access to the GMI: soldier's allowance; allowances and grants provided due to disability; contributions related to charity organizations/institutions; students' grants; funeral allowance; childbirth allowance; any scheme supporting pensioner households with low income; income relating to training allowances or to acquiring vocational experience; monthly allowances granted by the Ministry of Education and Culture to people actively engaged in the field of literature and arts; amounts provided by people belonging to the family unit from the Welfare Lottery Fund; and economic assistance granted by the Deputy Ministry of Social Welfare, as emergency financial aid approved by the Deputy Minister.

Furthermore, when calculating the level of income from work, a series of discounts (income disregards) are given as a work motive.

Larger disregard for income from work for children: if the monthly income from work of either applicants or their spouses exceeds €500, the first €170 is excluded. For monthly income less than €500, the first €50 is not taken into account; for income between €50 and €200, 40% is excluded; and for income between €200 and €500,

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<sup>8</sup> See the relevant legislation at the end of this report.

20% is excluded. If applicants or their spouses have disabilities, the first €512 is excluded. From the monthly income for all adult children under 28, 50% of the first €480 is excluded; of income between €480 and €1,000, 10% is excluded; of income between €1,000 and €2,000, 15% is excluded; and for income exceeding €2,000, 20% is excluded.

GMI applicants are expected to submit detailed data and the necessary supporting documents on their income and assets. These documents will accompany their application for a GMI. For example, if applicants are dependent employees, they need to submit tax declarations for the four previous years, among other things. Furthermore, if GMI applicants/beneficiaries and/or any members of their family units claim to be incapable of work, due to physical disability, mental disability and/or special personal situations, they may be referred for social intervention. This includes a medical examination or the provision of other care, depending on the case.

In an attempt to minimize the number of the data submitted by GMI applicants, the WBAS has over 30 data connections in effect with other organizations, including banks, Land and Surveys Departments, as well as Social Insurance Departments.

**Residence:** GMI beneficiaries must be citizens of the Republic of Cyprus, EU citizens or third-country citizens (with an immigration permit and the right to long-term stay in the country). Valid temporary residence permits are also required for family members of third-country nationals who are not GMI applicants. Refugees and victims of trafficking can also apply for the GMI. Refugees must be authorized to reside in Cyprus, meaning that they need an acceptance from the asylum service and a valid residence permit. By contrast, asylum-seekers are not eligible for the GMI. The same goes for applicants residing in a monastery; but not for homeless people, who are eligible. All GMI applicants must have resided in Cyprus for a continuous five-year period. The five-year residency requirement applies to all applicants, except for recognized refugees, subsidiary refugees, and victims of trafficking.

A specific article of the legislation addresses the issue of absence from the country. If applicants have been absent from the country for more than one calendar month per year, they might lose access to the GMI (unless deemed to be justified). All cases are assessed by either the Director of the Service or the Committee designated for this. Exceptions include being away for reasons of health or study.

**Age:** GMI applicants must be over the age of 28 (there is no upper bound). Exceptions to this rule include: married couples; single parents; orphans; disabled people; and people under the age of 28 who, on reaching 18, were under the care of the Welfare Services Director, and are studying within or outside the borders of Cyprus. The GMI is reported not to address the specific needs of young people (for school fees, professional training, etc.).

Professional training is offered for free within the context of training programmes offered in cooperation with the Human Resource Development Authority (henceforth HRDA); an authority which is also under the supervision of the Ministry of Labour and Social Insurance

The family unit consists of the applicant, the spouse/partner, children under the age of 18 who live under the same roof and children between the ages of 18 and 28 living in Cyprus or studying abroad.

The reason those aged 18-28 are excluded from access to the GMI is partly associated with the idea that this population group has very much stronger incentives to work than their parents do. It should be kept in mind that youth unemployment was very high when the GMI was introduced. Furthermore, an earlier cut-off would arguably force young beneficiaries with very low income to set up separate households sooner, thereby increasing the cost to the state (relative to current arrangements). On the other hand, however, an earlier cut-off would reduce the period during which differential earning disregards between the old and the young within the same

household prevail, signalling to parents and other adult children that they cannot rely on other family members for support. In this case, those concerned may be encouraged to seek employment sooner, moderating the depreciation of skills during unemployment and improving future employability – thus ultimately costing the state less money. Changing the cut-off point for access to the GMI is therefore accompanied by both pros and cons (Christofides and Koutsampelas, 2019: 26).

Students cannot apply for GMI. However, some exceptions are in place (e.g. for people with disabilities).

. Furthermore, given that the student grant is not included in the means-testing related to the scheme, recipient families whose members are in tertiary education are implicitly subsidized – or at least not penalized. Similarly, applicants who are on military service do not have access to the scheme.

**Employment status:** As also discussed in Section 2 of this report on labour market activation, the GMI is provided on the condition that beneficiaries and all family unit members are actively seeking employment and are therefore registered as unemployed with the PES. This condition only applies to people who are capable of working, meaning that they are aged 18-65, not in education or employment, and are not disabled (and not regarded as being incapable of working for other justified reasons).

More specifically, based on the GMI-related legislation, any GMI applicant or beneficiary is obliged to: be registered as unemployed with the PES; accept a job offer that they are deemed to be capable of carrying out and conforms with their skills; not voluntarily terminate their employment, six months prior to applying, following their application and during receipt of the GMI; participate in occupational training and/or educational programmes, when required; participate in a community service scheme approved by the Minister of Labour and Social Insurance; accept the personalized services provided by employment counsellors at the PES; participate in development and social autonomy programmes; accept meetings and visits by competent officers at their residence, aimed at assessing their situation and scheduling activities of occupational counselling, psycho-social support, and social rehabilitation (for their sake); and accept 'social intervention'. If the GMI recipient fails to satisfy these conditions, then the GMI may be terminated immediately (depending, however, on the specific circumstances of each recipient).

As already mentioned above, these conditions do not apply to GMI applicants and/or beneficiaries who submit evidence that they are unable to work (due to physical and/or mental and/or psychological frailty, and/or specific personal situations). The competent authority refers these people to 'social intervention', including a medical examination or other type of care, which would be considered appropriate after assessing recipients' situation. If GMI recipients are considered after social intervention (applicable for six months from the date of decision) to be voluntarily unemployed, then they lose access to the GMI.

There is a periodic assessment of entitlement to the GMI. The competent authorities review, for example, information on people who are not registered as unemployed; the income and deposits of GMI beneficiaries; and the family units benefiting from the GMI. Data on income and assets are collected every month<sup>9</sup>. Other kinds of data are collected daily (labour market participation data, job rejection and quitting) or ad hoc (e.g. updating of address and family composition).

The data collected are used internally by the WBAS. The list of the administrative data collected includes the following: time between application and first payment; entitlement amount; reason for rejection; duration of benefit spell; compliance with any behavioural requirements (e.g. contact with benefit agency, active job-search,

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<sup>9</sup> The information mentioned in this and the next paragraph is based on an OECD questionnaire.

and availability for work); sanctions (number and reasons); amount and date of final payment; and reasons for the end of benefit receipt (changes of residence, household circumstances, or assets/income; employment or self-employment; retirement; death; and sanctions). The data on benefit claimants and the claims process are kept in digital form (in a suitably structured database, so that individual records can be linked across sources).

Overall, access to the GMI might appear complex and involves significant checks. A major issue that the WBAS faces is that most applications are incomplete, forcing the competent authority to contact applicants for clarifications or specific documents.. The WBAS also attempts to implement various checks, so as to limit cases of fraud. .

In an attempt to address the various concerns faced by applicants regarding the need for communication with the Ministry officers, the WBAS has a series of actions planned. A new call centre is currently in the final stage of being set up by the Ministry of Labour and Social Insurance. The establishment of this new centre will enhance the level of communication with GMI beneficiaries/applicants.

The WBAS is also in the process of re-examining the documents required by GMI applicants, so as to simplify the application process and minimize the number of the paperwork needed. Moreover, the Service is planning to be reinforced with additional personnel. This initiative will provide the WBAS with the ability to offer customer service points to both GMI applicants and beneficiaries.

Last, the online application system, which is currently being developed, is likewise expected to enhance both communication and transparency; while the recent launch of a website, which includes detailed descriptions of all the requirements, documents, manuals, checklists and hundreds of answers to 'Frequently Asked Questions', regarding all the benefits offered by the WBAS (the GMI included), should improve the overall level of the services provided

GMI beneficiaries have the right to appeal for a series of reasons (within 60 days after receiving a notification about the decision to which they appeal). These include, inter alia, the following: the rejection of their application for the GMI; the termination of their right to access the GMI; the amount of the GMI-related allowance; the provision of housing; or the decision stating that they or any of their family members are intentionally unemployed. To substantiate their appeal, GMI beneficiaries need to submit the necessary supporting documents. Next, the Deputy Minister of Social Welfare (or the people to whom it delegates authority to decide on the appeal) will reach a relevant decision (normally within three months after receiving the appeal).

As far as disability is concerned, the GMI legislation clearly specifies the term 'disability'. Disabilities are evaluated by a Medical Board.

**COVID-19-related changes:** A relatively recent note of the Ministry of Labour and Social Insurance (dated 26 November 2020) refers to the labour market reintegration of long-term unemployed people, and especially of GMI beneficiaries, who are able to work, as one of the key means to cope with the consequences of the pandemic. This attitude towards GMI beneficiaries should be viewed alongside the series of measures taken to alleviate the consequences of the crisis triggered by the pandemic.

An example is the reduction and/or freezing of housing rents for a limited period of time, in order to reduce the burden of housing costs. As a result, all tenants are eligible for a rent reduction, on the condition that landlords accept tax credits (granted if they agree to reduce the rent by 30-50% for a specific number of months) (Baptista *et al.*, 2021: 82).

## **1.2 Coverage**

The Cypriot GMI is a non-categorical (i.e. universal) national scheme offering, in principle, relatively comprehensive coverage – although there are certain population groups, who are either explicitly excluded, such as undocumented migrants, or partly

covered, such as third-country nationals (who are eligible, if they fulfil residence-related criteria). Furthermore, after taking into account the ratio of actual beneficiaries to the total number of people living in poverty or severe poverty, as an indicator of the relative diffusion of GMI-related benefits (and thereby of the coverage or inclusiveness of the scheme), the available data indicate the relative high coverage offered by the Cypriot scheme for severe poverty and its good performance in terms of poverty alleviation. (Lalioti and Koutsampelas, 2021: 17).

Broadly speaking, the criteria utilized to determine the population covered by the GMI are predictable and transparent. The same holds true for the methods used to determine the foregoing population. Furthermore, both the criteria and methods utilized in Cyprus conform with the international practice on the issue. The determination of need is based on the financial resources of applicants and on the current levels of the minimum subsistence basket and housing. The amount of minimum resources allocated under the GMI is decided after considering the amount of the minimum living needs of applicants and their family units. To this end, the competent authorities have taken into account the relevant studies and calculations of experts on these subjects.

Please note that in 2018, 2019 and 2020, low-income pensioners, who chose not to apply in 2014 for a GMI, were given the right to apply. Non-take-up is a typical problem of means-tested social transfers, which plagues many European countries' systems. There is a lack of studies rigorously examining issues of non-take-up in Cyprus. Broadly speaking, there are no data available on the complexity of the system and the ensuing bureaucracy surrounding it, aside from the data included in sections of this report. Furthermore, there are essentially no data on the effects of the aforementioned variables on the take-up of the scheme. Similarly, there are no scientific studies addressing these issues in particular.

The complexity of the system and the ensuing bureaucracy surrounding it may arguably deter, however, a number of ill-informed and/or low-educated people from comprehending, and therefore pursuing, their rights to income support (Koutsampelas, 2016: 16). On the other hand, the relatively high coverage rate of the scheme may be regarded as implicit evidence of a satisfactory take-up rate (Lalioti and Koutsampelas, 2021: 9). Simplifying the application procedure and improving the communication between GMI applicants and the national authority in charge of the scheme may increase the take-up rate.

### **1.3 Adequacy**

Following Nelson's (2013: 391) definition of minimum income adequacy (minimum income benefits for a given household as a percentage of the country's equivalised median income), the adequacy of the Cypriot scheme is similar to that of other EU member states (equal to 40% for a single adult, based on a median equivalized net income in 2018 of €15,336). Similarly, based on 2020 data from the OECD database on the adequacy of GMI benefits for Cyprus, the relevant indicator (i.e. the GMI amount as a percentage of the median disposable income) for jobless people without children and two children equalled 31% and 29%, respectively<sup>10</sup> (46% and 43% if housing benefits are included). The generosity of the Cypriot scheme, defined as a percentage of median income, is also reported to equal 44% (Coady *et al.*, 2021: 19).

Moreover, as mentioned in a previous section, according to a 2013 *ex ante* impact assessment of the GMI and a subsequent micro-simulation exercise, the new scheme was found to be clearly more effective and comprehensive than the previous system. Despite criticism and assuming full take-up, the GMI was found to be capable of almost eliminating absolute poverty and significantly reducing relative poverty (Pashardes, Koutsampelas and Polycarpou, 2013; Pashardes and Koutsampelas, 2016;

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<sup>10</sup> See: <https://stats.oecd.org/viewhtml.aspx?datasetcode=IA&lang=en>.



European Commission, 2019; Chrysostomou and Andreou, 2017; Koutsampelas, Andreou and Tsolaki, 2019).

In addition, as noted in previous sections, the GMI-related benefit is differential, varying according to applicants' income and family composition (i.e. the number of dependent people). Special needs (e.g. housing costs/rent/interest on loan) are also taken into account.

Households are defined as the heads of households and any household members who are dependants. When it comes to family composition, the level of the GMI-related benefit is affected by the number and age of dependent people (spouses and children) in the household. It is, moreover, affected by instances of co-habitation with people other than members of the family unit.

The basic amount for the GMI-related benefit is, as already mentioned, set at €480 monthly (single person) and 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 under 14). For example, for a couple with one child under 14, the basic monthly income would be €864. If the monthly family income was €500, then a GMI payment of €364 per month would bring total income up to the GMI for this family unit.

Hence, based on an at-risk-of-poverty threshold (60% of the median equivalized income) for a single person of €835.16 per month (€10,022 per year) in 2020, the basic monthly GMI-related benefit was 57.47% of the threshold. In the case of a couple with two children under 14, the at-risk-of-poverty threshold for the same year was €1,753.90 per month (€21,047 per year)<sup>11</sup>, and the basic monthly GMI-related benefit of €1,008 was 57.5% of the threshold.

Additionally, a comparison of the basic GMI benefit with the minimum wage is not straightforward, as the legislation regarding the minimum wage in Cyprus covered, up until recently, only certain non-unionized occupations (e.g. shop assistants, clerks, childcare workers, personal care workers, security guards, and cleaners)<sup>12</sup>. The forthcoming introduction of a minimum wage of €950 in the country is expected, however, to make the basic GMI amount equal to almost half the aforementioned wage.

Moreover, although there is no clear definition of people on low incomes used for the delivery of several services in Cyprus (e.g. water, sanitation, energy, public transport, and digital services), eligibility for the GMI is one of the most common criteria for accessing support measures; meaning that being a GMI beneficiary provides access to different support measures (Batista and Marlier, 2020: 32). The monthly amounts can be adjusted every two years, after taking into account the actual prices of items included in the reference budgets.

Following the review of the data presented in a previous subsection, the competent authorities may decide to investigate further the newly acquired information and re-adjust the amount allocated to GMI beneficiaries and family units or to terminate the access of those who are found not be eligible anymore for the GMI. If the data provided by GMI recipients and family units remain the same, the amounts allocated do not change.

Last, as discussed in more detail in the following sub-section, GMI beneficiaries typically have access to a series of benefits, such as housing benefits (rent support or loan interest payment), other care support, health support, and access to VET programmes. Taking into account the above, the GMI in Cyprus is found to be characterized by a relatively satisfactory level of adequacy, as reflected in the scheme's performance in reducing severe poverty, among other things.

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<sup>11</sup> See: [https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_li01&lang=en](https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li01&lang=en).

<sup>12</sup> See: [https://www.ilo.org/dyn/natlex/natlex4.detail?p\\_lang=&p\\_isn=66696](https://www.ilo.org/dyn/natlex/natlex4.detail?p_lang=&p_isn=66696).

## **1.4 Links with other benefits**

In accordance with the relevant legislation, a housing allowance is granted, when GMI beneficiaries live in either a rented property or in an owned property for which they pay mortgage interest. The level of the housing allowance is calculated, after taking into account the composition of the family unit/family size and the district of residence. More specifically, the estimated area of residence is as follows: 55 m<sup>2</sup> for single people or couples; an additional 25 m<sup>2</sup> for GMI applicants staying with a disabled person, or, in the case of dependants, one minor, two minors of the same sex and/or an adult child; and an additional 20 m<sup>2</sup> for every two additional minors of the same sex and/or for every additional child.

As already mentioned in a previous section, in 2019, the housing allowance was re-assessed and substantially increased. The amounts of the housing allowance granted for each district of residence are as follows: Nicosia, €4.06/m<sup>2</sup>; Limassol, €4.41/m<sup>2</sup>; Famagusta, €2.94/m<sup>2</sup>; Larnaca, €3.50/m<sup>2</sup>; and Paphos, €2.94/m<sup>2</sup>.

Additionally, GMI beneficiaries may be provided with care services. Should a person apply for care, her/his needs will be assessed by the Social Welfare Services and, depending on them, she/he will receive the corresponding care. The care provided includes various care services, such as home care, institutional care, daycare, respite care, childcare and protection (even incontinence pants where required) (see e.g.: Koutsampelas, 2016; Lalioti and Koutsampelas, 2021). More specifically, a 'baby dowry package' is, inter alia, provided to GMI recipients. This package includes basic consumer goods, such as equipment, linen, baby diapers and personal hygiene and baby care items. It is a measure action co-financed by the European Structural and Investment Funds.

GMI beneficiaries are also entitled to free access to emergency medical services, and care and assistance schemes, in the form of cash or services for care and assistance (as required), as well as to various VET programmes.

## **2 Links with labour market activation**

Overall, although the activation component of the scheme seems, at least up until the very recent past, to have been less developed than the other two GMI components (Lalioti and Koutsampelas, 2021:7), during the last 2-3 years there has been significant progress. Progress largely concerns the development of the 'Social Intervention Mechanism' which, among other things, provides for the institutional link with the PES and thus for the activation of the able-to-work beneficiaries.

As a result, the vast majority of GMI beneficiaries are currently persons who are not able to work (disabled, pensioners and chronically severely ill persons). This outcome is due to the coordinated efforts and services provided to beneficiaries, enabling their exit to work through dozens of complementary schemes and other policies..

According to the data provided by the Ministry of Labour and Social Insurance, there was a substantial increase in the activation of GMI beneficiaries. In coordination with the PES, the GMI beneficiaries who are able to work are given priority in the matching performed by PES officers with suitable jobs. As a result, the number of GMI recipients who are able to work and need to be activated amounts to only 6% (compared to the initial 30%).

Based on the relevant legislation, GMI recipients must: register with the PES; accept any suitable jobs<sup>13</sup> offered; not quit a job; and participate in (where available) VET

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<sup>13</sup> In theory, this means a job that people are able to do, after taking into account their skills and level of education. In practice, however, especially during periods of higher unemployment, it is doubtful whether this rule is taken into account.

programmes, communal service, personal/social development seminars, and personal tutoring from PES counsellors. Failure to do any of the above (for example, if people are found to be intentionally unemployed, or refuse to accept a job offer that is relevant to their skills) may result in temporary or complete loss of entitlement. No exemption seems to have been introduced during the pandemic.

If GMI beneficiaries are offered legal employment after being approved for the scheme, but their salary is less than what they receive from the GMI, they are still entitled to continue receiving the GMI-related benefits; these are re-calculated, however, according to their earnings and social insurance contributions. People who are already in work are eligible to participate in the GMI, but must register with the PES as employees who are seeking a job with an income that will be able to provide them with a decent standard of living. GMI beneficiaries will continue to receive the GMI as a supplement to their families' income, in addition to their salary, if their salary is below the total they are already receiving under the GMI.

Moreover, all employers must register their employees to the Social Insurance Services. The WBAS receives directly all information concerning the employment situation and the contribution history of employees through a data connection with the Social Insurance Services.

Moreover, if GMI beneficiaries do not register with the PES and do not provide the necessary explanations to the WBAS, the payment of the GMI-related benefit will be terminated (after careful examination, however). Furthermore, due to an amendment to the GMI-related law (in 2020), access to the GMI cannot be terminated, without first contacting the applicant and asking the reasons why she/he or a member of the family unit did not accept a job offered to her/him, is not registered with PES, or resigned from a job. Until a decision is reached, access to the GMI is temporarily suspended. Once a decision is made, and upon the condition that the reasons provided by the applicant are accepted, then the benefit is paid retroactively.

When participating in ALMPs, GMI recipients continue to receive full GMI-related benefits. Personalized employment agreements include, inter alia, details on the most adequate policies for GMI recipients. Moreover, as already mentioned in another section, the Ministry of Labour and Social Insurance has recently hired 30 recruiters, who are focusing specifically on the needs of GMI beneficiaries. Part of their tasks is carrying out personal interviews with GMI beneficiaries and directing them to ALMPs, based on the specific needs of these beneficiaries.

According to the 14th National Report on the implementation of the European Social Charter in Cyprus<sup>14</sup> (Government of Cyprus, 2020): *"for effectively addressing challenges and disparities in employment, especially for vulnerable groups, the Department of Labour of the Ministry of Labour, Welfare and Social Insurance promotes the [...] provision of personalized employment services, especially to persons who belong in vulnerable groups, such as GMI (Guaranteed Minimum Income) recipients, .... To strengthen the ability of the PES to offer high quality services, 30 additional Employment Counsellors have been hired since June 2018 for a period of 24 months and placed in PES offices in all Cyprus districts. These Counsellors will mainly provide personalized employment services to people who belong to vulnerable groups"*. These personalized employment services include vocational guidance and referrals to training programmes. Access to ALMPs is, broadly speaking, both a right and an obligation of GMI recipients.

Although the 2020 European Commission Recommendation for a Council Recommendation on the 2020 National Reform Programme of Cyprus (which included

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<sup>14</sup> The most recent (15<sup>th</sup>) National Report on the implementation of the European Social Charter in Cyprus includes no reference to the GMI and the related services. See: <https://rm.coe.int/rap-cha-cyp-15-2021/1680a17358>.

delivering a Council opinion on the 2020 Stability Programme of Cyprus) referred, inter alia, to the need to improve PES in the country, according to other sources (see the discussion below) Cyprus has put considerable effort into improving all aspects of its ALMPs; and GMI recipients are encouraged to participate in the relevant programmes. The authorities are also reported to have started implementing a system of continuous monitoring and evaluation of ALMPs (since the end of 2015 / beginning of 2016). Not all of these government initiatives have proved to be successful, but their overall impact is regarded as positive (see e.g. Cyprus National Reform Programme 2015).

Nevertheless, precise evaluation of the individual effectiveness of these initiatives is not an easy task. This is due to the fact that the ALMPs implemented vary considerably in scope, design, coverage, duration, and cost; which means that each programme should be evaluated separately, through customized assessment tools (Christofides and Koutsampelas, 2019). This data should all be viewed in conjunction with the progress made by the Cypriot state on the implementation of the European Social Charter, as this progress is outlined in the relevant document (Government of Cyprus, 2020).

Examples of ALMPs targeted at GMI recipients include the following<sup>15</sup>: programmes for gaining work experience (for unemployed people with tertiary qualifications); programmes for gaining work experience (for unemployed people with secondary-level or post-secondary non-tertiary qualifications); programmes for subsidizing the recruitment of unemployed people; programmes for the development of labour market skills; programmes for subsidizing flexible forms of employment; schemes for providing incentives (wage subsidies, on-the-job training, subsidizing of training programmes) for the training and recruitment of unemployed people in dynamic sectors of the economy, such as the tourist industry; and programmes for subsidizing the employment of people with disabilities.

Additionally, examples of programmes explicitly designed in recent years for GMI recipients have included 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'<sup>16</sup>. The first targeted 850 GMI recipients with a total budget of €0.4 million. The second scheme targeted 2,000 GMI recipients. The Department of Labour at the Ministry of Labour and Social Insurance also promotes, on a regular basis, an 'incentive scheme for the employment of recipients of GMI', in conjunction with the completion of three months practical training (Government of Cyprus, 2020).

VET programmes are also usually organized by the HRDA, the Ministry of Labour and Social Insurance or other public authorities, with or without the participation of the private sector. These programmes are typically co-funded by EU structural funds and are usually well organized. Moreover, based on the sustainable development goals for Cyprus, as described in the Second Voluntary National Review (Republic of Cyprus, 2021), during the period 2016-2020 seven 'wage subsidies schemes' were implemented. These schemes were aimed at helping employers to hire unemployed people. The schemes were addressed to the needs of those unemployed people aged over 50, disabled people, and those suffering from chronic diseases, including GMI recipients.

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<sup>15</sup> This and the next paragraph are mainly based on Koutsampelas and Pashardes, 2015: 18-19. In other cases, the source is mentioned.

<sup>16</sup> This and the next three paragraphs are mainly based on Christofides and Koutsampelas, 2019. In other cases, the source is mentioned. See also: <http://www.mlsi.gov.cy/mlsi/dl/dl.nsf/All/E01716AC054E2322C22581CB00412589?OpenDocument>.

A relatively recent HRDA study was designed to evaluate the impact of the participation of GMI beneficiaries in a scheme for 'their job placement to acquire work experience in the public and broader public sector'<sup>17</sup>. The scheme was aimed at providing work experience opportunities to GMI beneficiaries able to work, so as to improve their employability and help them to re-enter the labour market (through their placement in public sector services/organisations, including local government authorities and NGOs).

The study population was 440 GMI beneficiaries, and the data were collected by using two appropriately designed questionnaires. The study indicated that more than one (1) in four (4) participants (27.7%) were employed at the time of the field research, about 13 months after completing their participation in the aforementioned scheme. A total of 62.9% of the employed participants worked in middle-level occupations, with the highest percentages in service jobs. The average gross monthly salary of the employed participants was €880. Almost six (6) out of 10 participants (57.6%) were in full-time and permanent employment.

Fewer than one (1) in 10 (9.2%) participants, who were either unemployed or inactive, found employment for a specific period after the completion of their participation in the scheme. The main reason reported for being unemployed was the 'difficulties in finding any kind of job' (45.2%), and the main reason for being inactive was 'personal reasons/personal commitments' (85.9%). More than eight (8) out of 10 participants (81.0%) evaluated as very good or good the degree of utilization of the knowledge and skills acquired (45.9% and 35.1% respectively). More than six (6) out of 10 (61.9%) considered that their participation in the scheme has improved their employment prospects. More than eight (8) out of 10 (82.7%) were either very satisfied or satisfied with the scheme. A total of 76.0% were also very satisfied or satisfied by their co-operation with the HRDA and 76.1% were either very satisfied or satisfied by their co-operation with the WBAS.

The HRDA has also been in charge of schemes targeted at the labour market integration of GMI recipients in the private sector of the economy. These schemes offer practical training and work experience opportunities to GMI recipients, in order to improve their employability and prepare their employment in a specific private sector enterprise/organization. They combine three (3) months of training and 12 months of employment (Government of Cyprus, 2020).

Aside from measures to promote the inclusion of GMI recipients in the labour market, it is arguably important, however, to safeguard the incentives of beneficiaries to take up and remain in work. To this end, as discussed in a previous section, a system for the exemption of earnings under GMI means-testing was designed that is more generous than the previous public assistance system. The earnings disregard mechanism reduces the penalization of work, although it does not eliminate it. It does not reduce penalization very much for household heads/spouses, whereas it does so most generously for any working 'children' under the age of 28.

More specifically, incentives to take up work through the earnings disregard are lower for household heads/spouses and much higher for co-habiting adult children. Additionally, as also discussed in a previous section, setting the age cut-off at 28 may provide work disincentives (arising from sharing adult children's income) for the head/spouse and other adult children. These disincentives last longer and are more likely to affect labour supply, when the age cut-off is set at a higher age (currently at 28).

Drawing on Coady et al. (2021), the strength of work disincentives inherent in GMI schemes can be seen by examining the participation tax rate (PTR) and marginal

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<sup>17</sup> This and the next three paragraphs are based on HRDA (2018).

effective tax rate (METR). More specifically, the PTR is calculated as the share of additional household income from moving into employment that is lost due to reductions in benefits and income taxation. The METR is calculated as the share of additional household income from an increase in earnings that is lost due to reductions in benefits and income taxation. In general, the PTR and METR will depend on household composition, the level of earnings, the generosity of GMI payments, the rate at which support is tapered, and the interaction with the tax system, and estimates can be especially sensitive to the assumptions underpinning the estimation methodology, including the time horizon used and the size of the earnings increase considered. Based on data from the same source, in the case of Cyprus the average PTR and METR in 2017 was respectively 56.5% and 31.5%. There are no data on the overall strictness of the Cypriot scheme (i.e. a composite index of separate strictness indices, including the availability for activation policies, the expected occupational and geographical mobility for employment, the frequency and evidence required of job-search activity, and reasons accepted for non-participation in activation measures and turning down job offers).

Based on Christofides and Koutsampelas (2019), three (3) out of four (4) GMI recipients are found not to be fit for work (pensioners, people with disabilities, and/or people assessed as unfit for work by medical councils). Excluding about 25% of them as being under age or in the army gives the number of recipients who may be able to work (). At the same time, based on data from the Ministry of Labour and Social Assistance, already mentioned in a previous section, only 6% of the GMI recipients, who are able to work, are currently out of work.

Yet, as mentioned in Coady *et al.* (2021) GMI recipients in Cyprus are not required to submit documentation on job-search activity; they must sign on with the Social Insurance Office at regular intervals, in order to continue to receive payment<sup>18</sup>.

Overall, the emphasis placed under the Cypriot GMI scheme on work-related conditionalities and employment programmes is arguably a sign of a commitment to labour market integration.

### **3. Links to social services and integrated provision of targeted social services**

Despite the relative absence of studies on client satisfaction and the difficulty of extracting information from the authorities engaged in the social services linked to the GMI, GMI recipients are, in principle, entitled to a comprehensive package of services; and the GMI is integrated with the social services provided. Given the limitations placed on social policy resources by the continuing fiscal consolidation efforts, the level (if not the quality) of these services have been also argued to be satisfactory<sup>19</sup> ).

The assessment that provides access to services like care takes place whenever GMI applicants/beneficiaries make a special request for services, or if they are referred for a so-called 'social intervention' (during which a decision will be also reached on whether they will get the GMI or lose access to it). As already mentioned in the previous section, in cases where GMI applicants claim to be incapable of working, the competent authority refers them for a medical examination or the kind of assistance that will be found to be the most suitable for them (within the framework of the social intervention).

The provision of care services under the GMI scheme therefore follows a personalized approach, in the sense that the needs of the individual are evaluated by professional teams of the Social Welfare Services, with a view to deciding on the type, range, and duration of the services that are necessary for the person being considered. It might be the case that the evaluation of recipient needs is based on standardized

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<sup>18</sup> See the relevant GMI legislation included at the end of this report.

<sup>19</sup> This and the next two paragraphs largely draw upon Koutsampelas and Pashardes, 2015 and the relevant GMI legislation.

assessment tools, but any effort to provide individualized services demands a certain degree of discretion. .

GMI beneficiaries, inter alia, get a subsidy aimed at providing them with access to long-term care and childcare services. The providers of these services might be public, private or not-for-profit entities (see e.g. Koutsampelas, 2016). For example, GMI beneficiaries may receive a monthly amount of up to €102 per child for the use of approved childcare facilities (i.e. daycare centres for pre-school children, childminders and daycare centres for school-age children). The amount of the benefit cannot exceed the actual childcare expenses incurred by parents. Furthermore, people with disabilities and elderly might be eligible for institutional or in house care.

All GMI beneficiaries are also entitled to an additional subsidy to cover for the cost of some municipal taxes. This subsidy is provided only after the taxes have been paid to the relevant authority, and on the condition that any discount offered by the relevant authority has been claimed by the beneficiary. The municipal taxes that can be claimed under the above provisions are: sewerage rates imposed by the sewerage board based on the value of the property; garbage collection charges by the local authorities; and the municipal tax for main place of residence (OECD, 2020: 23, 32).

Hence, as also exemplified by the needs assessment of GMI beneficiaries with disabilities undertaken by the Department for the Social Inclusion of the Disabled, operating within the Ministry of Labour and Social Insurance, there is a link between a multi-dimensional needs assessment and the social integration of GMI beneficiaries. The Social Insurance Services play a key role in this respect. Based on the specific needs of each GMI beneficiary (and whether she/he faces a particular employment, family issue, etc), these services will proceed to contacting the relevant agency.

The social integration of GMI beneficiaries likewise appears to be a highly ranked priority of the Europe 2020 National Reform Programme (Directorate General, European Programmes, Coordination and Development, 2020). The sanctions applicable in case of non-adherence to individualized agreements/plans for GMI beneficiaries are discussed in previous sections.

Based on the communication with the Ministry of Labour and Social Insurance, the integrated provision of targeted social services for GMI beneficiaries appears to be one of the main strengths of the Cypriot scheme. Broadly speaking, however, issues such as the relatively high degree of bureaucracy may hinder members of groups deemed to be vulnerable (e.g. low-educated people), alongside ill-informed GMI beneficiaries, from benefiting from the GMI-related social services.

### **3 Governance mechanisms**

The design and implementation of the Cypriot GMI takes place at the national level. Although there are cases where local authorities and non-governmental organizations (henceforth NGOs) may participate in organizing various GMI-related initiatives, the architecture of the scheme does not prioritizeregional or local features.

The WBAS is the key government agency in charge of the overall coordination, management, and delivery of the GMI in Cyprus<sup>20</sup>. The roles played by the Social Welfare Services, the newly established Deputy Ministry of Social Welfare and the PES are also important. For example, the Social Welfare Services contribute to the aim of the inclusion of recipients, by means of providing them social services. Since the introduction of the GMI, the Social Welfare Services have become responsible for the application of Article 10 of the main GMI law, which refers explicitly to the care and special needs of recipients.

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<sup>20</sup> This and the next two paragraphs are based on Koursampelas and Pashardes, 2015.



Starting from 1 January 2022, the WBAS has been transferred from the Ministry of Labour and Social Insurance to the new Deputy Ministry of Social Welfare. As a result, the GMI falls now under the jurisdiction of the aforementioned Deputy Ministry.

The Social Welfare Services, which, as mentioned above, play a key role in the implementation of the GMI, have been likewise transferred to the Deputy Ministry of Social Welfare. At the swearing ceremony which took place in July 2021, Cyprus's First Deputy Minister of Social Welfare, Anastasia Anthousi, mentioned, inter alia, that the reorganization of the Department of Social Welfare Services and its transformation into a (Deputy) Ministry of Social Welfare falls within the large and multi-dimensional effort of the state to strengthen existing policies for the well-being of citizens and ensure social cohesion<sup>21</sup>.

The Department of Labour and the PES, on the other hand, focus on reinforcing work incentives for GMI beneficiaries, by means of facilitating the link between them and ALMPs. Support for unemployed GMI beneficiaries is also provided by the Department for the Social Inclusion of Persons with Disabilities and the HRDA. The role of the former is more focused on ALMPs especially designed for people with special needs (e.g. a programme of subsidies for the employment of people with disabilities, and a scheme for the vocational training of people with disabilities). The latter organizes VET programmes that are targeted at various groups, including long-term unemployed GMI beneficiaries.

The Ministry of Labour and Social Insurance is the ministry responsible for monitoring the overall implementation of the scheme. This includes monitoring changes in the financial/employment status of GMI beneficiaries and collecting data on GMI recipients and expenditure on the provision of the scheme. It should be noted that there are specific legal provisions about the types of information that authorities can or must collect from benefit claimants and recipients<sup>22</sup>.

A computerized social benefit register is utilized to collect information about the people receiving state benefits (the GMI included). This upgrade of the technological infrastructure, which took place alongside the establishment of the GMI, corrected a major weakness of the previous system, in which many social welfare benefits were provided without the exchange of information between the various compartments of government. The data collected relate to the number and characteristics (age, sex, income, level of educational attainment, etc.) of GMI applicants and beneficiaries, as well as their household composition, among other things (see e.g. Stylianides, 2019).

More specifically, the information collected from benefit claimants, as part of the claiming and payment process, includes information on their address, education, household resources (income and assets, including other cash and in-kind benefits), and nationality or residence status<sup>23</sup>. Additional information, including data collected from other agencies or service providers, such as the PES, regards the following: labour market history; sources of personal or household income (including other social transfers); current and previous participation in social services, social integration and rehabilitation programmes; and current and previous participation in ALMPs.

It should be also noted that recently (in February 2020), a Deputy Ministry of Research, Innovation and Digital Policy has been established, in order to co-ordinate the exchange of data between government bodies and/or between public institutions. However, monitoring data, as with evaluation findings, are not publicly available.

The WBAS in cooperation with the above mentioned body, is currently planning the electronic submission of applications. The aim is to speed up and facilitate the

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<sup>21</sup> See [FinancialMirror, 2021](#).

<sup>22</sup> This information is based on an OECD questionnaire.

<sup>23</sup> The information included in this and the next three paragraphs is based on an OECD questionnaire.



application process, while at the same time eliminating possible omissions by GMI applicants.

Aside from using the data mentioned above for administering support payments, as well as for administering the support provided by other agencies or service providers (e.g. PES), the data collected are used for monitoring and evaluation purposes. In the case of monitoring, performance indicators have been adopted (e.g. indicators measuring the poverty gap, poverty intensity, and severe material deprivation). Monitoring takes place at the national level. Monitoring reports are delivered on a yearly basis and are solely for internal use.

In the case of evaluation, the competent authorities are interested in assessing the effectiveness or efficiency of benefit programmes, as well as the effects of policy changes (e.g. by comparing the outcomes of claimants affected by a reform with those not affected by the specific reform). Evaluations are carried out internally. As with monitoring reports, evaluation reports are only for internal use.

Based on such an evaluation, for example, the GMI component for supplementing low-income pensioners' income was found to have reduced the poverty rate of pensioners by almost 50% between 2010 and 2016. Legislative changes are also carried out, on a continuous basis, in order to push this category of citizens over the poverty threshold.

Broadly speaking, administrative data on monitoring and evaluation are not accessible to external researchers (universities, research institutes, think-tanks, etc.). This is due to a series of reasons: legal barriers (e.g. data protection), the lack of resources for preparing the data or administering data access, and technical barriers (e.g. no secure way of disseminating the data).

#### **4 Impact of minimum income scheme**

The Cypriot GMI is characterized by a modern and relatively comprehensive design, which provides, in principle, holistic protection. This is reflected in the good performance of the scheme in coping with poverty, and especially severe poverty, as well as in providing access to a broad range of social services. Additionally, research findings from the impact assessment of the GMI indicate that the GMI is clearly more effective and comprehensive than the previous public assistance system; assuming full take-up the GMI has the potential to almost eliminate absolute poverty and significantly reduce relative poverty (Pashardes, Koutsampelas and Polycarpou, 2013; Pashardes and Koutsampelas, 2016; European Commission, 2019).

Taking also into account the ratio of actual beneficiaries to the total number of people living in poverty or severe poverty, as an indicator of the relative diffusion of the GMI-related benefits, the available data corroborate the good performance of the Cypriot scheme, in terms of alleviating poverty and particularly severe poverty. Broadly speaking, the GMI is not so much constructed with the aim to address relative poverty. The working poor are an exception and the introduction of the minimum wage in Cyprus and the link established (even in an indirect way) of the GMI with the foregoing wage will result into the better/more extended coverage of the working poor by the scheme. The main objectives of the GMI are to cope with the poverty gap, absolute poverty and material deprivation. In this respect, the Ministry of Labour and Social Insurance has some published data, such as the ones on severe material deprivation included in the table below.

<b>Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cyprus	7,9	6,6	6,1	3,8	3,2	3,2
EU average	9,7	9,0	7,9	7,1	6,7	6,8

Despite the scant available information on take-up, the relatively high coverage rate of the Cypriot GMI may be deemed to be implicit evidence of a satisfactory take-up rate. In a similar vein, the Cypriot scheme is also characterized by a satisfactory level of adequacy; and, given budgetary pressures and cuts, an informed guess would be that the quality of the services provided is likewise satisfactory.

Although the activation component of the GMI seems, at least up until recently, to have been less developed than the other two pillars of the scheme, over the last two to three years there has been significant progress. That being said, the emphasis placed by the Cypriot scheme on work-related conditionalities and employment programmes is moreover a sign of a commitment to the labour market transition of GMI beneficiaries.

Overall, Cyprus is one of the countries deemed to operate a comprehensive scheme (Coady *et al.*, 2021: 7) and the Cypriot GMI may be thought to be relatively effective. This remark should be viewed in conjunction with the fact that increasing the coverage of the GMI scheme and reducing poverty in the country appear to be political priorities (see e.g. Republic of Cyprus, 2021). Last,

our ability to have a more complete picture about the GMI scheme's performance is solely hampered by the relative lack of information on the wider effects of the GMI on the basis of indicators regarding the well-being of vulnerable groups, the crime rate at the national level, etc. Yet, the Ministry of Labour and Social Insurance and other national authorities make an effort to collect more data towards this direction. Still, taking into account the 'restrained' sources available to the competent authorities, additional help from the EU may be needed.

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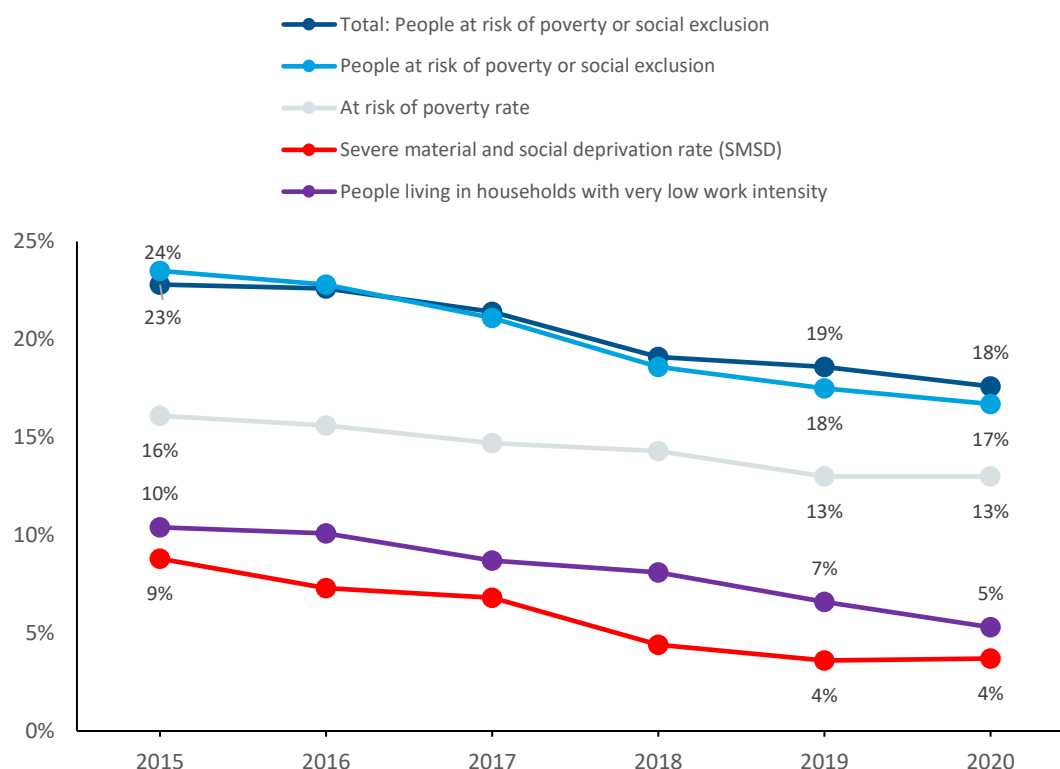
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## **Interviews**

The author of this report participated in an online meeting with staff from the *WBAS*, which is in charge of the GMI, as well as from the Ministry of Labour and Social Insurance. They provided new data, which were included in the report.

## 6 Annex

Figure 1. AROPE indicator and components, Cyprus, 2015-2020 (%)

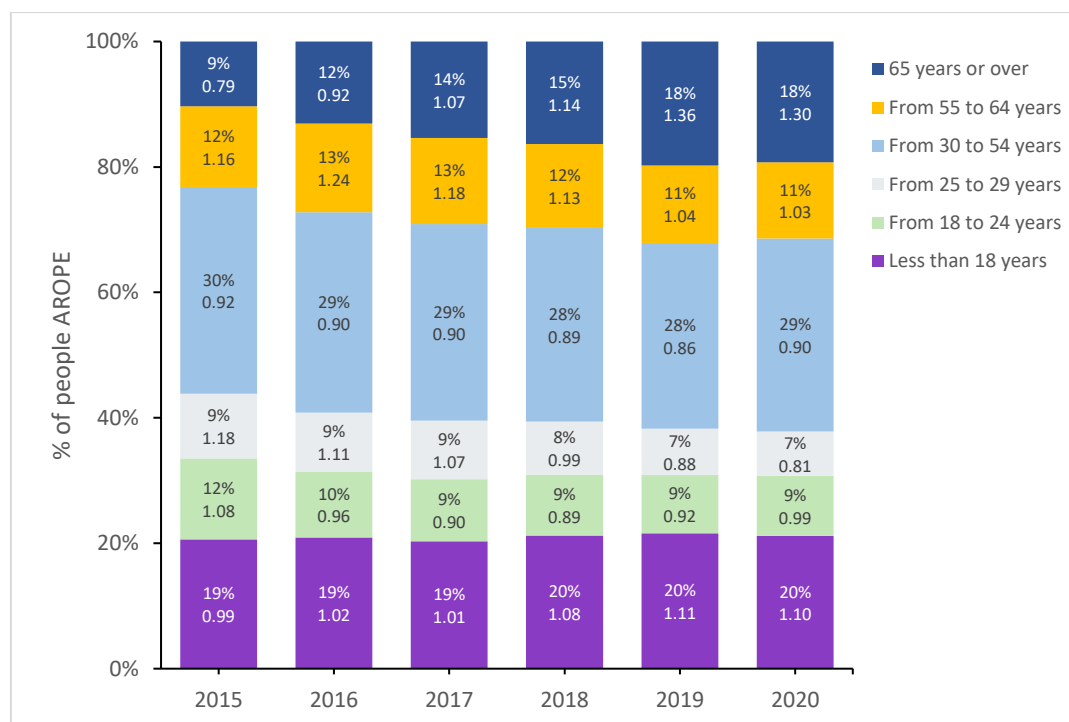


Note: The line for "Total: People at risk of poverty or social exclusion" indicates the trend for overall population, while the other lines show the figures for individuals aged 0-64.

Source: Eurostat EU-SILC indicators [ilc\_peps01n], [ilc\_li02], [ilc\_mdspd11] and [ilc\_lvhl11n]. Data downloaded on 14/02/2022.

- In 2020, the share of total population at risk of poverty or social exclusion (AROPE) in Cyprus stood at 17.6%, slightly higher than that of those aged 0-64 (16.7%), reflecting a higher AROPE rate among those of 65 and over. Over the period 2015-2020, the share of both those of 65 and over and those under 65 declined markedly, especially the latter (by 7 percentage points).
- Most of the people at risk of poverty or social exclusion, 13.0 % of those aged 0-64, had household disposable income of below 60% of the median (I.e. they were at risk of poverty). The share declined over the period 2015-2020 but by less than the AROPE rate.
- Just under a third of those at risk of poverty or social exclusion lived in households with very low work intensity in 2020, 5.3% of those aged 0-64, the latter proportion halving between 2015 and 2020.
- Only 3.7% of those at risk of poverty and social exclusion were affected by severe material and social deprivation, 3.7% of those aged 0-64, the proportion declining by 5 percentage points over the 2015-2020 period.

**Figure 2.** *Division of people aged 0-64 at risk of poverty or social exclusion by age group, Cyprus, 2015-2020 (%)*

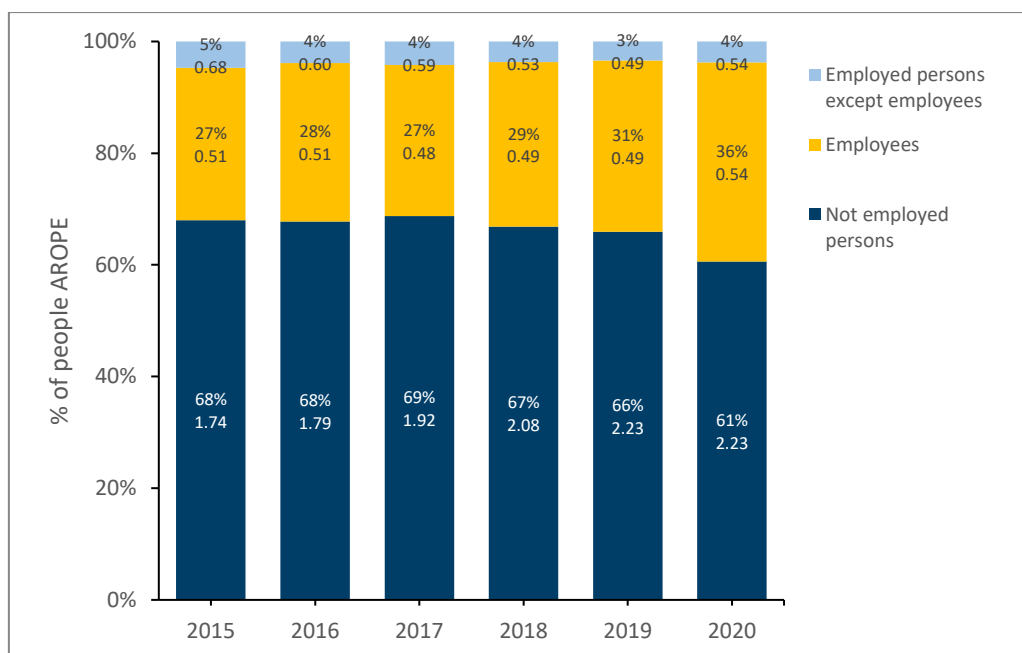


*Note: No data for 2020. Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.*

*Source: Eurostat EU-SILC indicators [ilc\_peps01n], own calculation. Data downloaded on 14/02/2022.*

- Significantly more women than men aged 0-64 were at risk of poverty or social exclusion in 2020 (53% of the total). Women also made up a larger share of the population of this age group, but only slightly so. Women were therefore more likely to be at risk than men.
- Older people aged 65 and over were more likely to be at risk of poverty or social exclusion than those in younger age groups in 2020, the likelihood increasing over the preceding 5 years. Nevertheless, they made up only 18% of the total at risk.
- Children under 18 were also more likely to be at risk of poverty or social exclusion than average in 2020, the likelihood increasing over the period 2015-2020 as well. In 2020, they accounted for 20% of the total at risk.
- Young people aged 18-24, by contrast, had the much the same likelihood of being at risk as average, while those aged 25-29 had a lower risk, in both cases, the risk declining over the 2015-2020 period.

**Figure 3.** *Division of people aged 18-64 at risk of poverty or social exclusion by most frequent economic activity status, Cyprus, 2015-2020 (%)*



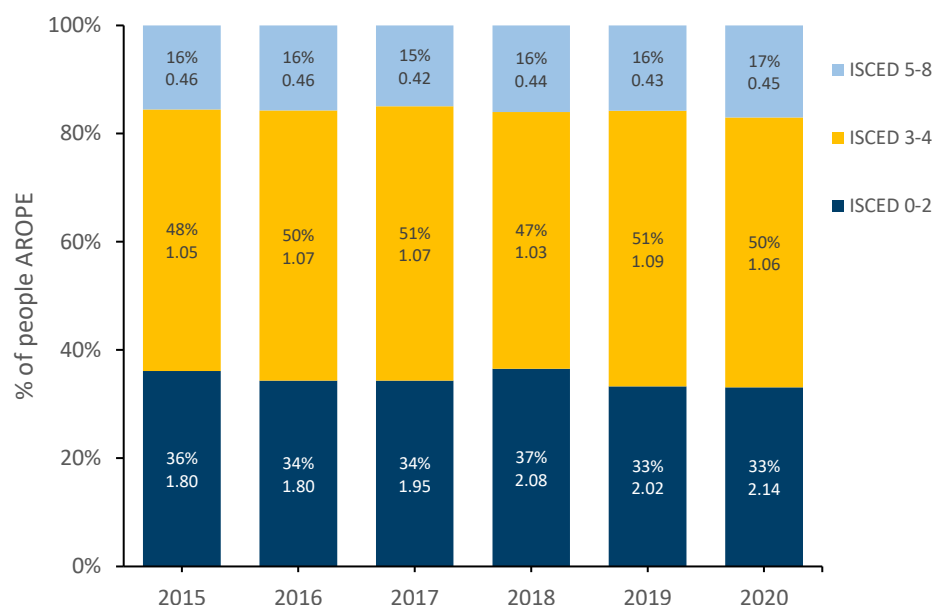
*Note: No data for 2020. Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.*

*Source: Eurostat EU-SILC indicators [ilc\_peps02n] and [ilc\_lvhl02], own calculation. Data downloaded on 14/02/2022.*

- People aged 18-64 not in work are considerably more likely to be at risk of poverty or social exclusion than those in employment, making up 61% of the total at risk in 2020.
- The likelihood of the non-employed being at risk increased significantly over the 5 years 2015-2020, but their share of the total declined because of a marked fall in the number out of work over the period.
- The self-employed, unlike in most other countries, had much the same likelihood of being at risk. Employed individuals other than employees are more likely to be at risk as employees in 2020 and made up only 4% of the total at risk.



**Figure 4.** *Division of people aged 18-64 at risk of poverty or social exclusion by education level, Cyprus, 2015-2020 (%)*

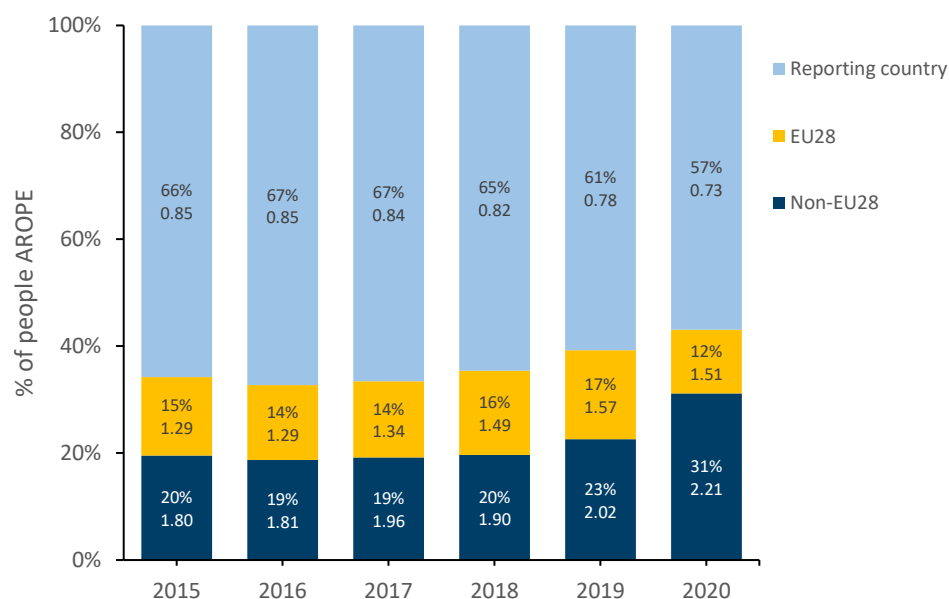


*Note: No data for 2020. Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.*

*Source: Eurostat EU-SILC indicators [ilc\_peps04n] and [ilc\_lvps04], own calculation. Data downloaded on 14/02/2022.*

- People aged 18-64 with only basic schooling (ISCED 0-2) are far more likely to be at risk of poverty or social exclusion than those with higher education levels., the likelihood increasing over the period 2015-2020. Their relatively small numbers, however, meant they made up only a third of those at risk in 2020.
- Those aged 18-64 with tertiary education (ISCED 5-8) are much less likely to be at risk than those with upper secondary education (ISCED 3 and 4), but they still accounted for 17% of the total at risk in 2020, around half the share of the low-educated.

**Figure 5.** *Division of people aged 18-64 at risk of poverty or social exclusion by country of birth, Cyprus, 2015-2020 (%)*

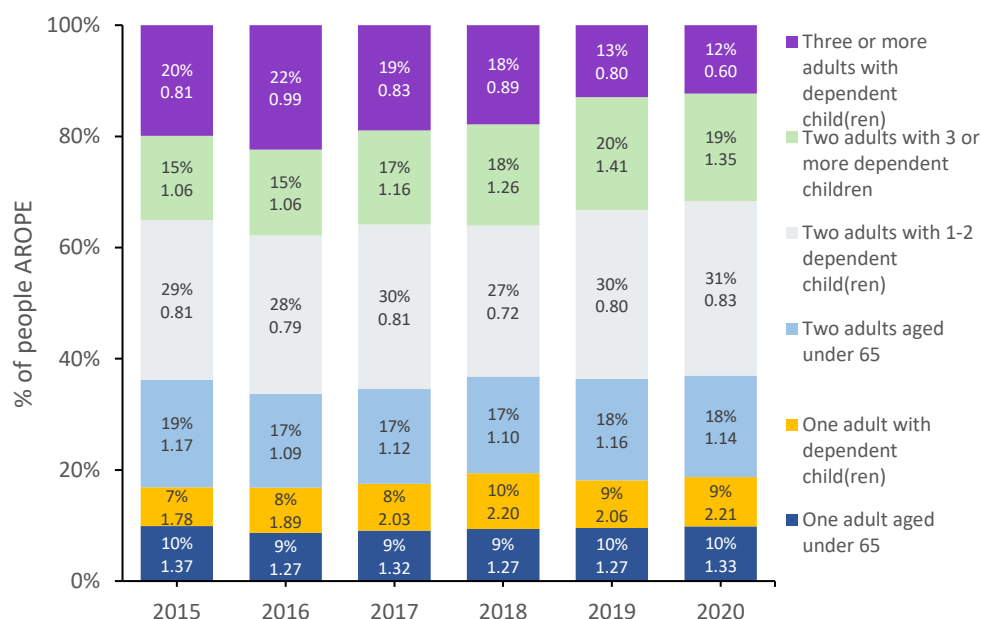


*Note: No data for 2020. Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.*

*Source: Eurostat EU-SILC indicators [ilc\_peps06n] (Data downloaded on 14/02/2022) and EU-SILC microdata, own calculation.*

- People aged 18-64 born outside the EU are considerably more likely to be at risk of poverty or social exclusion than those born in Cyprus, making up almost a third (31%) of the total in this age group at risk. The likelihood increased significantly over the period along with the number of migrants.
- People born in another EU Member State are also more likely to be at risk than those born in the country, the likelihood increasing too over the period. Together, therefore, those born outside Cyprus accounted for 43% of the total at risk of poverty or social exclusion in 2020.

**Figure 6. Division of people at risk of poverty or social exclusion by household type, Cyprus, 2015-2020 (%)**



*Note: No data for 2020. Figures below the percentage figures in the bars show the ratios of the share at risk to the share of the age group in total population, which indicate the relative likelihood of the age group being at risk.*

*Note that the chart does not include all household types. In particular, it excludes those aged under 65 living in a household with three or more adults without children, who are difficult to distinguish in the published data.*

*Source: Eurostat EU-SILC indicators [ilc\_peps03n] and [ilc\_lvps02], own calculation. Data downloaded on 14/02/2022.*

- People under 65 living alone are more likely to be at risk of poverty or social exclusion than others. This is even more the case for those living along with children. Nevertheless, the two groups together made up only 19% of the total at risk in 2020.
- Couples with 1-2 children, by contrast, are significantly less likely to be at risk of poverty or social exclusion than others, though they made up almost a third (31%) of the total at risk.
- On the other hand, couples with 3 or more children are more likely to be at risk, making up 19% of the total in 2020, the risk tending to increase over the preceding 5 years.

*Table 1. At risk of poverty rate before and after social transfers, excluding old age benefit, for those aged 0-64, Cyprus, 2015-2020*

	<b>Before social transfers, excl. old-age benefits (%)</b>	<b>After social transfers (%)</b>	<b>Effect of social transfers on arpop rate (%-point change)</b>
2015	26.3	16.1	-10.2
2016	25.5	15.6	-9.9
2017	24.7	14.7	-10.0
2018	24.3	14.3	-10.0
2019	22.0	13.0	-9.0
2020	21.5	13.0	-8.5

*Source: Eurostat EU-SILC indicators [ilc\_li02] and [ilc\_li10]. Data downloaded on 14/02/2022.*

- Social transfers had the effect of reducing the at-risk-of-poverty (arpop) rate by 8.5 percentage points in 2020, cutting the number at risk by 40%, much the same as the reduction in each of the preceding 5 years.

*Table 2. At risk of poverty rate and persistent at risk of poverty rate for those aged 18-64, Cyprus, 2015-2020*

	<b>At risk of poverty rate (%)</b>	<b>Persistent at risk of poverty rate (%)</b>	<b>Persistent rate as % of annual rate</b>
2015	15.9	5.9	37.1
2016	15.1	6.2	41.1
2017	14.2	4.8	33.8
2018	13.4	6.5	48.5
2019	11.9	6.4	53.8
2020	12.0	6.9	57.5

*Source: Eurostat EU-SILC indicators [ilc\_li02] and [ilc\_li21]. Data downloaded on 14/02/2022.*

- 58% of people of working age (18-64) at risk of poverty in 2020 were at persistent risk, i.e. they were consistently at risk for a number of years rather than being at risk for only one year, or temporarily. This is more than in the preceding 5 years, especially in the years 2015-2017, when the proportion ranged between 34% and 41%, meaning that most of the people at risk then were only temporarily so.

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