

REPUBLIC



OF CYPRUS

*Reference Budgets Network:
Developing a common methodology for cross-
nationally comparable reference budgets in Europe.
Concluding seminar*

Seminar on Cyprus Minimum Income and the Role of Reference Baskets



Ministry of Labour, Welfare and Social Insurance

Brussels
2 June, 2015

Agenda

- Introduction
- Policy Challenges and Solutions
- The reformed Social Welfare System
 - ◆ Structure and main characteristics
 - ◆ Guaranteed Minimum Income (GMI) scheme
 - ✓ Approach to GMI design
- Constructing the Reference Baskets
 - ◆ Challenges and Choices
- Reference Baskets: Normative Approach
- Outcomes and Way Forward



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Introduction

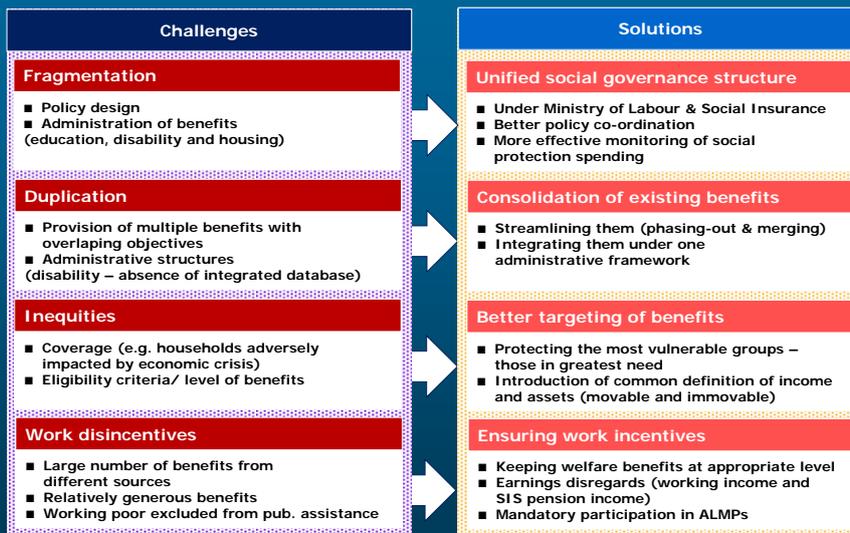
- Government's commitment to introduce the new Social Welfare System (SWS) as part of Economic Adjustment Programme
- Economic downturn has resulted in
 - ◆ Significant increase in unemployment from 3.7% in 2008 to 16.1% in 2013
 - ◆ Declining household incomes
 - ◆ Increase in severe material deprivation from 9.1% in 2008 to 15% in 2012
- Increased pressure to extend SWS benefits to growing number of households found to be living in poverty
- Radically change the existing system in order protect more effectively vulnerable groups from these adverse impacts
- To ensure successful design and implementation of the reform, establishment of
 - ◆ Holistic approach with robust methodology
 - ◆ Highly-skilled, multi-disciplined project team



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Policy challenges and solutions

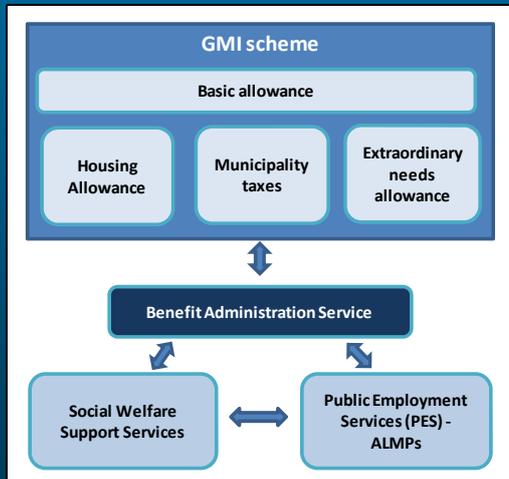


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Reformed Social Welfare System

GMI Structure and Main Characteristics



- ◆ GMI scheme: aiming at poverty mitigation
 - ✓ Basic allowance: based on specially constructed reference baskets
 - ✓ Other: housing, municipality taxes and extraordinary needs
- ◆ Benefit administration service – achieve administrative efficiency gains
- ◆ Welfare support services: specific needs support and social inclusion
 - ✓ Person-centered planning social care
- ◆ Public employment services: ALMPs – ensuring work incentives

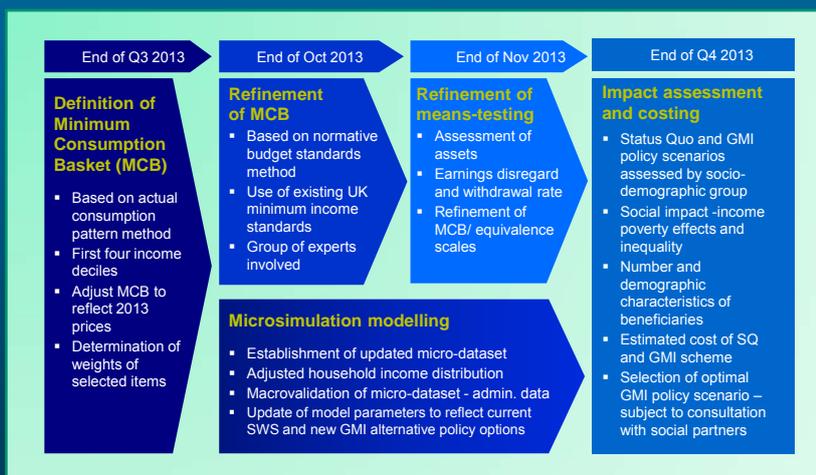


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Reformed Social Welfare System

GMI scheme – Our Approach to Design



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Guaranteed Minimum Income Constructing the Reference Baskets

- Choice between Consumption and Budget Standards
 - ◆ Methodological difficulties with consumption baskets
 - ◆ Normative or consensual budget standards?
- How many reference baskets to construct?
 - ◆ The case for OECD equivalence scales
- Pricing options
 - ◆ Statistical service prices or spot price taking?
- Validation Process
 - ◆ Inflation adjusted Household Consumption Survey
 - ◆ Focus groups (consensual validation)
 - ◆ Sustainable public finances!!!



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Guaranteed Minimum Income Reference Baskets: Normative Approach

- | | |
|----------------------------|--|
| FOOD BASKET | <ul style="list-style-type: none"> • Collaboration with Cyprus Dietetic Association • Weekly menus priced at large supermarkets |
| CLOTHING BASKET | <ul style="list-style-type: none"> • Adjustment of prof. Bradshaw's work to Cyprus's standards • Spot pricing of articles at stores with nation-wide presence |
| HEALTH BASKET | <ul style="list-style-type: none"> • Raw data of average visits to various doctors and needed medicine • Priced directly with public hospital tariffs |
| PERSONAL CARE BASKET | <ul style="list-style-type: none"> • Estimation based on everyday items and relative lifespans |
| HOUSEHOLD GOODS | <ul style="list-style-type: none"> • Distinction between: Durable Goods, Furniture & Fittings, Energy • Spot pricing of durable goods at well known stores, budgetary survey for energy, exclusion of furniture and fittings |
| TRANSPORT & COMMUNICATIONS | <ul style="list-style-type: none"> • Mobile phone and public transport (included taxi fares) • Priced at actual retail prices |
| SOCIAL INCLUSION | <ul style="list-style-type: none"> • Based on focus groups (included vacation) • Priced at actual expenditure (budgetary survey) |
| + HOUSING | <ul style="list-style-type: none"> • Calculated housing costs at the basis of separate study – not included in baskets |



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Outcomes and Way Forward

- **Clearly defined and measurable costs of living allowed:**
 - ◆ exclusion of certain costs from baskets
 - ◆ pricing of others at actual prices
 - ◆ substitution of others with services
- **Eased pressure on welfare system for extra allowances**
- **Deployment of robust methodology**
 - ◆ Developing modelling tool – undertaking social impact assessment
 - ✓ Facilitating consultation with social partners
- **Comprehensive and flexible framework**
 - ◆ Giving emphasis on enhancing planning, coordination, monitoring and control of the SWS on on-going basis
 - ◆ Aiming towards the provision of services to beneficiaries



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