



Cyprus

## Trends, Recent Developments, Active Inclusion and Minimum Resources

First Semester Report 2006

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On behalf of  
**European Commission**  
DG Employment, Social Affairs and Equal Opportunities



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# 1. Economic, Financial and Demographic Background<sup>1</sup>

## 1.1 Main economic and financial indicators

The Cyprus GDP level in EURO at current market prices, its annual growth rate in constant prices and the inflation rate of the Cyprus economy for the period 2000-2005 are shown in Table 1. As seen from the table the annual growth rate was kept relatively high in most years while the inflation rate declined from 4.9% in 2000 to 2.0% in 2005.

**Table 1: GDP and inflation rate, 2000-2005**

Year	GDP at current market prices (bn €)	Annual growth rate at constant prices (%)	Inflation rate (%)
2000	9895	5.0	4.9
2001	10599	4.1	2.0
2002	11073	2.1	2.8
2003	11667	1.9	4.0
2004	12469	3.9	1.9
2005	13418	3.8	2.0

Source: Eurostat

## 1.2 Demographic characteristics

The total population (in the government controlled part of the island) was 825 thousand in 2004 (Table 2). Although the demographic dependency ratio still declines due to the decline in the proportion of younger people in the population, Cyprus starts to exhibit demographics of an ageing country. As we can see in Table 3, marriage, birth and divorce rates are higher in Cyprus compared to the EU-25, while the death and natural increase rates are lower.

**Table 2: Population distribution and growth rate, 2000-2004**

Year	Population distribution by age (%)			Demographic dependency ratio	Annual mid-year population growth rate (%)
	0-14 years	15-64 years	65+ years		
2000	22.3	66.4	11.3	50.5	0.9
2001	21.5	66.8	11.7	49.6	1.0
2002	20.9	67.3	11.8	48.5	1.0
2003	20.0	68.1	11.9	46.9	1.4
2004	19.2	68.9	11.9	45.2	2.1

Source: Demographic Report, Statistical Service, Ministry of Finance, 2004.

<sup>1</sup> The figures throughout this report refer to the government controlled part of the island

**Table 3: Demographic Indicators, Cyprus and EU-25**

Demographic Indicator	Cyprus (2004)	EU-25 (2001)
Rates per 1000 population:		
Marriage	7.3	4.8
Divorce	2.2	1.9
Birth	11.3	10.4
Death	7.1	9.7
Natural increase	4.2	7.0
Total fertility rate	1.5	1.5
Infant mortality rate	3.5	5.0
Expectation of life at birth:		
Men	77.0	74.7
Women	81.4	81.0

Source: Demographic Report, Statistical Service, Ministry of Finance, 2004

### 1.3 Unemployment, participation and employment rates

The unemployment rate in Cyprus has been low over the period 2000-05, although it increased in 2003, 2004 and 2005 (Table 4). The unemployment is higher among women than men, throughout this period. In 2005 the unemployment rates were 4.3% and 6.7% for men and women, respectively. On the other hand, the participation rate increased by 3.5 percentage points among women between 2000 and 2005, whereas for men the corresponding increase was only 0.6 percentage points.

**Table 4: Unemployment rates and participation rates, 2000-2004**

Year	Unemployment rate (%)			Participation rate (%)		
	Total	Men	Women	Total	Men	Women
2000	5.0	3.2	7.3	57.3	70.4	45.5
2001	4.0	2.6	5.7	59.2	70.7	48.8
2002	3.3	2.6	4.2	59.8	70.3	50.3
2003	4.1	3.8	4.6	60.6	70.7	51.4
2004	4.3	3.5	5.4	60.3	70.9	50.6
2005	5.4	4.3	6.7	60.1	71.0	50.0

Source: Labour Force Survey, Statistical Service, Ministry of Finance, 2004

### 1.4 Income distribution and poverty

The distribution of income based on data drawn from the Family Expenditure Survey 2002/2003 (latest available in Cyprus) is shown in Table 5. The figures in this table suggest that the poorest 10% of households have annual weighted equivalent income below €5736, whereas the wealthiest 10% have annual weighted equivalent income above €27768.<sup>2</sup> Also, the poorest 10% of the households have only 2.94% of total household income whereas the share of the better off 10% in total household is more than 25%.

<sup>2</sup> Weighted equivalent income:  $\text{Weighted household income} / (1 + 0.5 * \text{no. of members other than head} + 0.3 * \text{no. of members below 12})$ .

**Table 5: Deciles of the distribution of weighted equivalent income (€), 2002/03**

Deciles	Income range (€)	Share in total income
1st	up to 5.736	2.94
2nd	5.736 - 7.514	4.26
3rd	7.514 - 9.260	5.38
4th	9.260 - 11.204	6.57
5th	11.204 - 13.020	7.75
6th	13.020 - 15.119	9.01
7th	15.119 - 17.800	10.50
8th	17.800 - 21.695	12.55
9th	21.695 - 27.768	15.63
10th	27.768 plus	25.41

Source: Family Expenditure Survey 2002/03, Statistical Service and authors' calculations.

With the poverty line defined as the equivalent income corresponding to 60% of the median equivalent income, 22% of households in 2002/03 were below the poverty line<sup>3</sup>. Table 6 shows the percentages of households in the sample that fall below the poverty line, both as a percentage in the population and as a percentage within each household category.

- As percentage in the population, the highest incident of poverty occurs among households without children, mostly consisting of pensioners and old age persons.
- As percentage in the household category, the highest incidence of poverty occurs among single parent households and households without children as before.

Information about poverty has also been published in the local press by the Director of the Statistical Service, Mr P. Philippides (Phileleftheros, 2/4/2006). Also, Table 6 outlines additional information, and it contributes to understanding the social policy framework in Cyprus.

**Table 6: Households below poverty line by household type**

Household type	% of households below poverty line	
	In population	% in category
Single-parent	1.28%	40.43%
Couple with 1 child	0.84%	6.19%
Couple with 2 children	1.41%	7.05%
Couple with 3+ children	1.51%	12.43%
Household without children	9.32%	26.92%
Parent with adult child	7.30%	44.56%

Source: Family Expenditure Survey, 2002/03, Statistical Service and authors' calculations.

The article, which can be seen as the official view of developments in the field of poverty and social exclusion in Cyprus, points to the following findings:

- Average household income has increased from €23,000 in 1997 to €35,000 in 2005.

<sup>3</sup> Note that the figure here refers to the percentage of households and not to the percentage of persons below poverty line. The latter figure is lower, 15%, as households below the poverty line tend to have relatively fewer members (mostly one- or two-adult pensioner households).

- In 1997, one in every 25 households received income above €52,000, while in 2005 one in every 6 households received such income.
- In 2003, 70% of households own a house, 68% have air conditioning and 85% have a mobile phone. Also, 1 in every 7 households has three or more cars and the rate of travelling per person of all ages was 1.2 (among the highest in the world).
- In the same year 50,000 persons are estimated to be below poverty line (as defined by the 60% of the median equivalent income). Those are mostly pensioners, families with dependent children and single parent households.

### 1.5 General comments

Commending on recent developments vis-à-vis the economic, financial and demographic background in Cyprus, one can say that there has been a relatively high GDP growth rate with inflation and unemployment rates kept at acceptable levels, while participation has been fairly high. This has resulted in a substantial increase in the average standard of living of Cypriot households. However, this bright picture emerging from the economic indicators is somewhat clouded by signs of aging population on the demographic front and, as we shall see later, the high risk of poverty and social exclusion still faced by certain population categories.

Cyprus is continuing the process of transition from the traditional family-centred to a state social support system to cope with weakening family ties and greater independence between family members of different generations. Therefore, the government has to continually expand, update and modernise its policies to cope with emerging new needs. For example, as less grand-parents look after young children to enable mothers to participate in the labour market new policies and measures are needed to help women combine family and working life. The need for an effective social inclusion system for old age persons is also becoming more urgent with time, as is the need for measures addressing problems pertaining to the increasing number of foreign workers and immigrants.

## 2. Current Situation (Baseline) of Social Cohesion

This section focuses on the Laeken indicators constructed from the Family Expenditure Survey 2002/03. These indicators will form the baseline upon which the description, analysis and conclusions about future progress in social inclusion will be referenced. In some cases, the corresponding EU-15 and EU-25 indicators are also presented for positioning Cyprus within the EU context.

### 2.1 Distribution of population (total and poor)

Before proceeding with the description of the Laeken indicators, we compare the distribution of the whole population with the distribution of persons below the poverty line (PL) grouped by different characteristics. The data are drawn from the Family Expenditure Survey 2002/03.

#### *Distribution of population by age*

As shown in Table 7 ageing is not yet a problem in Cyprus, e.g. people aged 25-49 represent the largest percentage in the population, followed by young children aged 0-15. The highest risk of poverty is among older people, especially older women.

**Table 7: Distribution of population by age, gender and risk of poverty**

Age group	All		Men		Women	
	Total	Poverty risk	Total	Poverty risk	Total	Poverty risk
0-15	23%	11%	25%	n.a.	21%	n.a.
16-24	14%	9%	14%	9%	14%	9%
25-49	34%	9%	32%	8%	35%	9%
50-64	17%	13%	17%	9%	17%	17%
65+	12%	52%	12%	48%	13%	55%
Total	100%	15%	100%	14%	100%	17%

Source: Statistical Service, Ministry of Finance (written communication)

*Distribution of people in poverty by most frequent activity, status and gender*

Examining further the distribution of the population by poverty risk, we see that those below the poverty line are mostly men and women not at work, (Table 8), especially retired.

**Table 8: Distribution of population by work status, gender and poverty risk**

Activity/Status	All		Men		Women	
	Total	Poverty risk	Total	Poverty risk	Total	Poverty risk
At work	56%	6%	65%	6%	47%	5%
of which: wage/salary	48%	6%	52%	6%	43%	5%
of which: self-employed	8%	8%	13%	8%	4%	5%
Not at work	44%	30%	35%	30%	53%	30%
of which: unemployed	2%	22%	3%	31%	2%	12%
of which: retired	18%	50%	17%	46%	18%	53%
of which: other inactive	24%	16%	15%	12%	33%	18%
Total	100%	16%	100%	14%	100%	18%

Source: Statistical Service, Ministry of Finance (written communication)

The difference in the poverty risk in the two tables above, 15% in Table 7 and 16% in Table 8, is due to the fact that (as is obvious from the title of each table) the first applies to the whole population while the second applies to population aged 16 and above.

The poverty risk is 27% among men at work and 73% among those not at work. For women the corresponding figures are 12% and 88%, respectively. This is consistent with the indicators presented in Section 1, e.g. the relatively lower participation rate for women, suggesting that measures to increase employment among women are needed to alleviate poverty.

*Distribution of population by household type*

Table 9 shows the distribution of households without dependent children by poverty risk. These households account for 32% of the population. The highest risk of poverty (73%) is faced by persons in one adult households aged over 65. Women and men living on their own also face a high risk of poverty (57% and 31%, respectively) and so do persons in two adult households with at least one of them aged over 65 (51%). The latter is the second largest group among households without dependent children. Overall, households without children face an above average risk of poverty (28%).<sup>4</sup>

<sup>4</sup> Recall that the average risk of poverty in Cyprus is 22% for households and 15% for individuals.

**Table 9: Distribution of households without dependent children by poverty risk**

Household type	Total	Poverty risk
1 person	5%	50%
1 person male	1%	31%
1 person female	3%	57%
1 person <65 yrs	2%	25%
1 person 65+	2%	73%
2 adults no dependent children both < 65	7%	12%
2 adults no dependent children at least 1 65+	9%	51%
Other household without dependent children	11%	10%
All households without dependent children	32%	28%

Source: Statistical Service, Ministry of Finance (written communication)

Among households with dependent children (representing 68% of total population), 9% are below the poverty line (Table 10). Single parents face the highest risk of poverty, however, they represent only 2% of the population.

**Table 10: Distribution of population of households with dependent children**

Household type	Total	Poverty risk
Single parent at least 1 child	2%	22%
2 adults with 1 dependent child	9%	10%
2 adults with 2 dependent children	21%	6%
2 adults with 3+ dependent children	18%	15%
Other households with dependent children	19%	6%
All households with dependent children	68%	9%

Source: Statistical Service, Ministry of Finance (written communication)

## 2.2 Available indicators

### *Indicator 1: Risk of poverty*

This indicator constitutes the 'central measure' of the risk of poverty: the proportion of the population living in households with income (adjusted for family size and ages of household members) lower than 60% of the median income (income of the 'middle citizen'). Cyprus is located on the EU-15 and EU-25 averages (Table 11).

**Table 11: Risk of poverty rate in Cyprus, EU-15 and EU-25, by gender, 2003**

	Total	Men	Women
Cyprus	15	14	17
EU-15	15	14	17
EU-25	15	14	16

Source: EUROSTAT

### *Indicator 2: Income quintile share ratio*

The income quintile share ratio is the share of total income of the wealthiest quintile (20%) as a multiple of the corresponding share of the poorest quintile.<sup>5</sup> This ratio was 4.1 in Cyprus in 2003 and compares favourably with the EU-25 average (4.6 in the same year).

*Indicator 3: At persistent risk of poverty rate*

This expresses the percentage of households at risk of poverty in one particular year and also in two of the preceding three years. There is no information for this indicator in Cyprus, while in EU-15 and EU-25 these indicators were around 9% in the year 2000 (the latest available data).

*Indicator 4: Relative at risk of the poverty gap*

This is the income (as a percentage of total income) required to remove the risk of poverty, i.e. enable all persons below the poverty line to reach that line. In Cyprus, this percentage is higher among women in all age groups and among older people. The highest relative risk of poverty appears to be among women over 65 (25%) and the lowest among people aged 0-15 (12%).

*Indicator 5: Long term unemployment rate*

This indicator expresses the long-term unemployed (for 12 months or more) as a percentage of the total active population. From Table 12, it appears that long-term unemployment is not a serious problem in Cyprus compared to the EU-25 and EU-15.

**Table 12: Long-Term unemployment rate by gender, 2000 and 2005**

	Total		Men		Women	
	2000	2005	2000	2005	2000	2005
Cyprus	1.3	1.4	0.5	1.0	2.4	1.8
EU-25	3.9	4.1	3.3	3.6	4.8	4.7
EU-15	3.4	3.4	2.8	3.0	4.3	4.0

Source: EUROSTAT

*Indicator 6: Persons living in jobless households*

This indicator is defined as the persons living in households without access to employment (i.e. no person in the household is working) as a percentage of persons with access to work. As regards this indicator, Cyprus is in a good position compared to EU-25 and EU-15 (Table 13). Moreover, it appears to be improving over time.

**Table 13: Persons living in jobless households, 2000 and 2005**

	2000		2005	
	Children 0-17	Adults 18-59	Children 0-17	Adults 18-59
Cyprus	4.8	5.6	3.5	5.2
EU-25	9.5	10.1	9.6	10.2
EU-15	9.7	9.9	9.6	9.8

Source: EUROSTAT

<sup>5</sup> It should be noted that this indicator is subject to mismeasurement since it is affected by both high and low income values.

*Indicator 7: Early school leavers not in education or training*

This indicator is the percentage of the population aged 18-24 with at most a lower secondary education and not in further education or training. As seen from Table 14 Cyprus compares unfavourably with EU-25 and EU-15 both in 2000 and in 2005. Nevertheless, it seems to improve over time, especially among women.

**Table 14: Early School Leavers, by gender, 2000 and 2005**

	2000			2005		
	Total	Men	Women	Total	Men	Women
Cyprus	18.5	25.0	13.9	18.1	26.6	10.6
EU-25	17.7	19.9	15.5	14.9	17.1	12.7
EU-15	19.5	21.8	17.2	16.9	19.4	14.5

Source: EUROSTAT

*Indicator 8: Life expectancy at birth*

This is the mean number of years that a newborn child can expect to live if subjected throughout her/his life to the current mortality conditions. Cyprus does well in respect to this indicator, as it is in a better position than EU-25 and EU-15 for both men and women in both years examined here (Table 15).

**Table 15: Life Expectancy at birth by gender, 2001 and 2003**

	2001		2003	
	Men	Women	Men	Women
Cyprus	76.1	81.0	77.0	81.4
EU-25	74.7	81.1	75.1	81.2
EU-15	75.7	81.7	76.0	81.7

Source: EUROSTAT

*Indicator 9: Dispersion around the at risk of poverty threshold*

Table 16 shows the sensitivity of the risk of poverty to the choice of alternatives to the 60% threshold median equivalised income, which is used in the EU.<sup>6</sup> Three additional median equivalised income thresholds are considered: 40%, 50% and 70%.

**Table 16: Dispersion around the at risk of poverty threshold**

	1997			2003		
	40%	50%	70%	40%	50%	70%
EU-25	n.a.	n.a.	n.a.	5	9	23
EU-15	5	10	24	5	9	24
Cyprus	6	10	23	4	9	23

Source: EUROSTAT.

*Indicator 10: Risk of poverty before social transfers*

<sup>6</sup> Nonetheless, this selection has been guided by statistical considerations (see Eurostat, Statistics in Focus, Population and Social Conditions, 16/2004).

The risk of poverty calculated on the basis of income before and after social transfers is shown in Table 17, by age group and gender. Overall, social transfers reduce the risk of poverty by around 30% in all age groups over 16.

**Table 17: At risk of poverty before and after social transfers (%), by age, 2003**

	0-15	16+	16-64	65+
Before all transfers	17	31	20	88
Including pensions	16	20	14	56

Source: Statistical Service, Ministry of Finance (written communication)

*Indicator 11: Inequality of income distribution-Gini coefficient*

The Gini coefficient (interpreted as the expected difference between two randomly selected incomes expressed as percentages of the average income) was 0.29 in 1997 and declined to 0.27 in 2003, implying a slight reduction in inequality over this period.

*Summary*

Table 18 shows all the indicators discussed above and can serve as the baseline table on the basis of which future progress in the fight against poverty and social exclusion in Cyprus can be assessed.

**Table 18: Summary indicators for Cyprus, 2003 and 2005**

At risk of poverty rate (%)	Total	15
	Male	14
	Female	17
Inequalities of income distribution s80/s20:		4.1
Relative median risk-of-poverty gap (%)	Total	19
	Male	18
	Female	21
-by age group	0-15	12
	16+	21
	Male	19
	Female	22
	16-64	17
	Male	15
	Female	18
	65+	24
	Male	23
	Female	25
Long term unemployment rate (%), 2005	Total	1.2
	Male	0.8
	Female	1.8
Persons living in jobless households (%), by age, 2005	Children	3.5
	18-59	5.2
Early School Leavers by gender, 2005 (%)	Total	18.1
	Male	26.6
	Female	10.6
Life Expectancy at birth	Male	77
	Female	81.4
Dispersion around the at risk of poverty threshold (%)	40% of median	4
	50% of median	9
	70% of median	23

**Table 18 continued**

At risk of poverty rate before social transfers (%)	Total	28
	Male	25
	Female	30
- before social transfers, by age group and gender	0-15	17
	16+	31
	Male	27
	Female	33
	16-64	20
	Male	17
	Female	22
	65+	88
	Male	85
	Female	90
- including pensions, by age group and gender	Total	20
	Male	18
	Female	21
	0-15	16
	16+	20
	Male	18
	Female	23
	16-64	14
	Male	12
	Female	16
	65+	56
	Male	51
	Female	59
Gini coefficient (%)		27

### 3. Trends

In this section, we describe current trends in the field of social inclusion and protection in Cyprus. The first part reports information that appeared in the media (newspapers) during the last six months, while the second part presents opinions expressed by some relevant actors for the purpose of this report. The third part presents some of the results published by the Statistical Service in the report "Social Protection in Cyprus: Expenditures and Receipts, 2000-2003" and is based on the guidelines and rules of European System of Integrated Social Protection Statistics (ESSPROS).

At this point we would like to stress that the discussion of the public debate and the design of new policies and measures targeting vulnerable groups (such as the elderly and lone-parents) presented below are restricted to the last year or so. Furthermore, new policies and measures for pensioners are excluded from the discussion.

#### 3.1 Public debate

This section presents trends or progress achieved regarding actions for vulnerable groups reported in the press for the period from November 2005 until today.

*Issues relating to objectives in the NAP/incl.*

- **Prevention of social exclusion and actions to help the most vulnerable**

An objective set in the NAP/incl is the prevention of the risk of exclusion and actions targeting specific vulnerable groups. An article by the Economics Research Centre of the University of Cyprus in November 2005, points out that the measures provided for compensating the low-income households for the increase in gas prices should address not only the direct but also the indirect effects of this increase, as the gas price increase will cause increases in the prices of other goods also consumed by these households (Phileleftheros, 11/11/2005). According to the article matching benefits with needs is a very important but often neglected aspect of social policy in Cyprus.

The government seems to support the idea of matching benefits with needs since the Ministry of Finance has announced a study of the effects of adding VAT to food by 2008 on low to medium income households (Phileleftheros, 2/2/2006). Furthermore, a study aimed at taking account of children opinions in policies aimed at combating poverty and social exclusion for single-parent households in EU member states will be prepared by the Cyprus College and the Pancyprian Organisation for Single-Parent Households (Phileleftheros, 17/3/2006).<sup>7</sup>

- **Facilitating participation in employment and access to resources, rights, goods and services**

The Social Welfare Services (SWS) of the Ministry of Labour and Social Insurance considers a scheme for subsidising programs for social care and social inclusion aiming to provide care to children, older people and people with disabilities so as to facilitate the woman-mother to participation to labour market (Phileleftheros, 13/4/2006).

The Cyprus National Reform Program in a newspaper article points out the importance of social inclusion policy for vulnerable groups and strongly encourages further research and development for the increase of female participation in the labour market (Phileleftheros, 29/1/2006). Additionally, it points out that the weaknesses in social policy identified by the European Commission are the insufficient reforms proposed in the fields of health and the pension system.

In April 2006 an article in the Phileleftheros newspaper (7/4/2006) points out the insufficiency of the bus system in Cyprus for those using them: students, pensioners and foreign workers. Among the problems highlighted in the article are the long waiting times at bus stops and the bad condition of the vehicles.

- **Mobilisation of all relevant actors**

In a newspaper article, the Planning Bureau (Ministry of Finance) encourages trade unions, social partners and NGOs to express opinion about the Development Plan 2007-2013 (Phileleftheros, 22/2/2006). The article emphasises the need for public dialogue about social inclusion, the improvement in the environment and the pursuit of a balanced geographical growth. It also stresses the importance of human resources, competition and infrastructure.

The Ministry of Labour and Social Insurance is in the process of reforming the Social Insurance System and Fund (Phileleftheros, 10/4/2006). In the context of this process, the Ministry has asked the employers and employees (through their representatives in organisations involved with) to express their opinions and positions for the recommendations made by the International Labour Office in the latest (2003) edition of the Actuarial Evaluation of the Social Insurance Fund.

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<sup>7</sup> This study is funded in the context of the 2<sup>nd</sup> Transnational Exchange Programme on Poverty and Social Exclusion of the European Commission.

Recently (17/4/2006), the Minister of Labour and Social Insurance in a speech delivered during a seminar attended by the personnel of the District Labour Offices stressed the importance of social policy in the government's agenda<sup>8</sup>. The seminar addressed the need for the creation of a flexible, decentralised and qualitative system of provision of social services adapted to local needs. It also pointed out the need for the development of a new procedure for the provision of personalised and specialised services to specific categories of people.

#### *Other issues*

##### ▪ **Older people and pensioners**

The National Action Plan for Older Persons and the Plan of Action for the Healthcare of Older Persons have been prepared and presented by the Ministries of Finance and Health (Phileleftheros, 14/11/2005). These plans aim at securing synergy among different actions for the promotion of the general well-being of older persons and can be considered as a step towards fulfilling obligations arising from the NAP/incl 2004-2006.

The discussion about extending the retirement age of the public employees was of great interest to all employees since, according to the Minister of Finance, increasing the retirement age in the public sector would have spill over effects on private sector retirement practices (Phileleftheros, 7/2/2006). The chairman of the Economics Committee of the House of Representatives has stated that the president of the Union of Cyprus Municipalities communicated to him the support of local authorities to the proposed increase in the retirement age. Furthermore, the political parties are in favour of this reform (Phileleftheros, 24/6/2005) except AKEL, the self-proclaimed communist party in Cyprus, commanding 31% of the vote. Also, in a recent newspaper article the two main trade unions SEK (centre-right) and, particularly, PEO (left) expressed reservations about the increase in the retirement age (Phileleftheros, 15/3/2006).

The Democratic Rally (DISY) party expressed opinion regarding the current benefit and pension system in a newspaper article (Phileleftheros, 28/11/2005). The main argument in this article was that the level of pensions and benefits is too low considering the continuously increasing cost of living. It was also stated that social inclusion should not be sacrificed for the sake of Cyprus joining the Euro-zone, a rather curious declaration by a party that has traditionally been the strongest supporter of the island's accession to the EU.

In an attempt to help low-income households cope with the increasing cost of living (mainly due to the increase in the cost of oil) the government has announced lump-sum benefits for vulnerable groups, including families with children, single-parents, pensioners, public assistance recipients and people living in areas occupied by the Turkish army. This was said to be the first package of social inclusion measures aimed at helping those hit hardest by inflation and more were promised to follow in the future (Phileleftheros, 30/11/2005).

##### ▪ **People with disabilities**

Three schemes for life-long learning, education and employment for people with disabilities have been set up by the Ministry of Labour and Social Insurance in December 2005 (Stockwatch, 19/12/2005). These schemes are co-financed by the state budget and the European Social Fund and aim at the social inclusion of people with disabilities and minimum resource beneficiaries. The

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<sup>8</sup> Available in the website: <http://www.mlsi.gov.cy>

first two schemes provide incentives to employers to employ people with disabilities and the unemployed, such as (i) subsidy of the social insurance contributions and (ii) benefactions for the provision of means to employ people with disabilities. The third scheme solely addresses public assistance recipients and aims at their active inclusion and placement in employment through life-long learning and education.

The Minister of Labour and Social Insurance presented the three schemes and the incentives they provide to employers in a speech to OEB (Employers Federation, one of the main social partners) and EBEL (Chamber of Commerce and Industry for Larnaca). He asked the employers to participate in the above schemes by enhancing employment opportunities to people with disabilities (Phileleftheros, 4/4/2006).

While the government considers that facilitating participation in employment (an objective of the NAP/incl) has been addressed by the above schemes, the people with disabilities are complaining because, as they say, their physical accessibility is impossible due to insufficient infrastructure. The president of the Pancyprian Organisation for the Blind People (in an article in Phileleftheros, 14/4/2006) argues that people with disabilities choose not to get about due to the insufficient and sometimes nonexistent infrastructure to facilitate their circulation.

#### ▪ **Low-income households and minimum resource**

The Ministry of Labour and Social Insurance has prepared a legislative act (that has been approved) for the amendment of the Public Assistance and Services Law (Phileleftheros, 7/1/2006). Among the proposed changes are the increase in some benefits and expansion of the criteria, such as increasing the threshold income level. At the same time the act proposes a stronger connection between the benefit and employment, leading to a gradual independence from the benefit and towards employment.

Additionally, the Ministry of Labour and Social Insurance appears to place emphasis on making the provision of benefits effective, efficient and targeting those in real need. The Ministry of Labour and Social Insurance is said to make regular checks of the truthfulness of the information provided under the Public Assistance scheme and claims to be trying to achieve the social inclusion of the beneficiaries (Phileleftheros, 7/1/2006).

In April 2006, the legislative act for the amendment of Public Assistance and Services Law became part of the agenda of the Parliament (Phileleftheros, 13/4/2006). Among the changes proposed are: increase of the amounts not considered for the means-tested income, changes in the eligibility criteria and changes in the definition of the dependents.

#### ▪ **Immigrants and foreign workers**

According to data provided by the SWS, the cost for the support provided to asylum seekers increases each year due to the increasing number of asylum seekers (Phileleftheros, 23/1/2006). This brings up the need for the creation of a database containing information about these people and for further measures targeting this particular category of the society.

The SIMERINI newspaper quotes the findings of a research paper prepared by the Economics Research Centre (ERC) of the University of Cyprus regarding the effect of foreign workers on the Cyprus' economy (13/2/2006). According to the study, foreign workers (legal and illegal) represent 20% of the labour force in Cyprus and have made a positive contribution to economic growth. According to the ERC study if the number of foreign workers in 2004 was the same as that in 1995,

the increase of total gross value added would have been 16.91% instead of 36.93%, while at the same time the average annual growth rate would have been 1.56% instead of 3.4%.

#### ▪ **Minimum wage**

An article of the European Foundation for the Improvement of Living and Working Conditions,<sup>9</sup> points to the fact that the minimum wage statute in Cyprus applies to only six specific occupations (sales staff, clerical workers, auxiliary healthcare staff and auxiliary staff in nursery schools, crèches and schools). The minimum wage rate effective from April 2005 in Cyprus is CYP362 (€630), increasing, according to a recent article in 'Politis' newspaper<sup>10</sup> to CYP384 (€688) from 6<sup>th</sup> April 2006 (24/5/2006). According to the same newspaper article, trade unions have expressed disappointment because the increase is small and the minimum wage is not extended to all occupational groups. The employers' organisations have repeated their demand for the abolition of the minimum wage statute. The government gradually increases minimum wage with a view to raising its level (for these six occupations) to 50% of the national median wage by 2008.

### **3.2 Opinions**

In this sub-section, we will discuss some general points that came up during our meetings with officers from the SWS (SWS). In section 5, we will report on the opinions expressed by the SWS, specifically for schemes for active inclusion and minimum resources.

#### *Changing attitudes towards social protection*

According to the SWS the system of social protection and cohesion in Cyprus is in the process of transformation. The requirements and dynamics of the EU have created incentives for building the structure in Cyprus not only in the fields of social protection and inclusion but also in other fields supporting this transformation. The simple fact that the European Committee and Commission continuously demand documents, information and otherwise maintain constant communication contributes significantly to the transformation of the system. The commitment of the government is now stronger and social policies are gradually acquiring high priority in the political agenda.

Apart from that, the SWS argues that there has been a changing attitude away from policies encouraging inactive towards policies encouraging active inclusion of beneficiaries. This is further enforced by programs and schemes proposed under the objectives of the SDP, further discussed in Section 5 of this report. This changing attitude is a universal phenomenon applying to the officers of government departments, the non-governmental actors and people in poverty and social exclusion. They all realise that activation is a two-way process. On the one hand people in need of income support need financial and non-financial incentives to gradually become independent from the state benefit. On the other hand, the policies implemented by the state should promote the activation of those receiving state benefits not only to overcome poverty but also to become part of the society and join in sharing all the societal goods.

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<sup>9</sup> <http://www.eiro.eurofound.eu.int>

<sup>10</sup> <http://www.politis-news.com>,

### *Policy implementation*

Another point raised during our meetings with SWS officers is that there is still a gap between the policy-making and policy-implementation processes. The new policies proposed aim to the active inclusion and the activation, in general, of all actors. On the other hand, since activation is only recently proposed as a way to prevent social exclusion and poverty, many problems are created in the implementation process. These problems, however, should be solved when the necessary knowledge and know-how are acquired. This optimistic outlook is supported by the fact that new policies are now systematically designed with explicit objectives and expected results set at the beginning; while evaluation is built in the process of implementation to secure effectiveness and efficiency in application. Problems and obstacles are now seen as challenges to further enhance the aims of the policies.

The SWS claims that there is increasing coordination, cooperation and governance between all relevant actors and the whole system is gradually becoming monitored in a better way than before. According to the SWS, improvements in monitoring and cooperation are among the positive results of the open method of coordination. Additionally, this cooperation and coordination have led all actors to better understanding of their roles, responsibilities, importance and contribution in the field of social exclusion. The governmental departments are now considering all thematic issues as part of their tasks and responsibilities, rather than concentrating on only one theme or subject.

According to the SWS, the social conditions in Cyprus do not require the 'formalisation' of the framework in which cooperation and coordination of all actors involved in the field of social policy takes place. The establishment of a working group (task force) in an informal framework appears to work efficiently and offers the advantage that it remains always open to the participation of any organisation that can help towards the objectives set for social policy. At the same time, the SWS recognises that informality hinders the assignment of well defined terms of reference and/or responsibilities. Yet, there is no information available for plans to formalise the existing cooperation/coordination framework.

At the moment this working group (task force) consists of around 45 members, including ministerial representatives, social partners, NGOs, academics and staff from other organisations that have an interest in the fields of social inclusion. It normally meets once a year during a seminar organised for information, evaluation, redesign of objectives and gathering feedback/contribution from the participants. The SWS, as the responsible ministerial department, also organises smaller meetings on an ad-hoc basis for the discussion of specific issues. The working group is thought to contribute towards the networking of people involved in the process of social inclusion.

### *Monitoring and quantitative targets*

Monitoring is generally recognised as an issue that needs attention from the government. The legal framework for this monitoring is not yet fully set. The European Social funding will create more pressure towards better monitoring and implementing of policies through the setting of quantitative targets and objectives and by reporting the extent to which these targets and objectives have been achieved by projects financed by the ESF. According to SWS, there is a need for a 'unit' to officially monitor the process and the policies implemented under the field of social cohesion and inclusion.

Incidentally, the setting of quantitative targets is hampered by the fact that the data available are out of date: the latest indicators and targets are based on the Family Expenditure Survey conducted in 2002/03. Having said this, the SWS believes that this problem will soon be solved as the Statistical Service is catching up with keeping deadlines set for delivering data. This autumn the Planning Bureau and the ESF Unit will prepare the targets for the projects co-financed by the ESF, so more quantitative analysis can be done relating to them.

An argument brought to our attention during discussions with stakeholders is that setting quantitative targets is not a feature of Cypriot culture, although it is understood that the main objective of social policy is to elevate vulnerable people above the poverty line. The use of quantitative targets is currently limited to ESF funded projects. In the future one can expect quantitative targets to figure more prominently in the design of social policy in Cyprus, as this is an EU requirement. Indeed, the Update Report for Social Inclusion of 2005 defines some quantitative targets relating to vulnerable groups. The indicators for social protection expenditure, the rate for school drop-outs and the increase in benefits and pensions targeting people over 65 are some examples of quantitative targets not related to ESF-projects.

### *Participation*

The SWS believes that the NGOs, social partners and local authorities are becoming more interested in participating in the process of preparation of the reports and in expressing opinion. They are better informed about whom to express an opinion to, and who are the other relevant actors with whom to cooperate for policy implementation. The creation of a team with actors from every field and expertise can lead to better implementation and monitoring, as actors know what they need to act for and when to do so.

The SWS finds reading the reports prepared by non-governmental experts helpful and argues for the notification of all these reports. After all, according to SWS, the essence of the open method of co-ordination is to learn from the weaknesses and strengths of all the actors involved in the fight against poverty and social exclusion. Therefore, there is no reason to have no access to all the reports prepared for this purpose. They also expect to see more academic research relating to social issues, especially from the University of Cyprus to help towards better design and implementation of effective policies.

The government is said to encourage maximum involvement of social partners and NGOs in policy implementation because it recognises their ability to help in this effort. It can be criticised, however, for not also encouraging the involvement of social partners and NGOs in the decision making process. At the moment, the government simply invites all relevant parties to contribute in the design of social policy by expressing opinion.

According to the Pancyprian Volunteerism Coordinative Council (PVCC), the umbrella organisation which have recently replaced the Pancyprian Welfare Council (more about this in section 4.2 below), the government understands that the effectiveness of social policy in Cyprus relies on coordinated efforts by the public and the voluntary/private sectors. The PVCC claims that the state considers the NGOs as a reliable partner in social welfare provision and recognises that the structure (programs and services) acquired by the NGOs has reached qualitative and quantitative proportions to meet the needs of vulnerable groups.

At the same time the PVCC argues that the voluntary sector has the capacity to improve and develop further. For this, however, it needs to solve the financial problems created by limited state funding and the lack of appropriate and up to date statistical data for policy making and evaluation. The PVCC also stresses the need for a 5-year strategic plan for the voluntary sector to map its capacity and set new development objectives with a view to supporting the state to meet social targets. According to the PVCC, the NGOs can and should move beyond the provision of care services and become involved in promoting active inclusion with, for example, the development of employment programs.

Programs or services operated by NGOs and funded under the Grants-in-Aid Scheme include:

- Day care for children of preschool age.
- Day care for children of school age (after school hours).

- Day care, home care and residential care for older persons, persons with disabilities, and other dependant persons.
- Psycho-social support programs for vulnerable groups and/or to address social problems (ex. chronically ill persons).
- Community service for juvenile delinquents (a new program operated by the third sector and launched in 2005).
- Volunteer corps.
- Consultation services to improve the functioning and effectiveness of day care for children of preschool and school age (program initiated by PVCC, started in 2006 as a pilot project and is currently implemented in Nicosia).

### 3.3 ESSPROS results

- The Statistical Service has prepared for the first time administrative data for social expenditure using the ESSPROS system and published the report, "Social protection in Cyprus: Expenditures and Receipts, 2000-2003", in January 2006. The report contains useful data for social expenditure by type of risk and by program under which each expenditure item falls. Among its findings are the following:
  - Social protection expenditure as a percentage of GDP has increased from 15.8% in 2000 to 18.6% in 2003.
  - The major risks covered (absorbing most of the social expenditure) are old age and sickness, accounting for 45% and 26% of total social expenditure in 2003, respectively.
  - The highest part of social protection expenditure is paid in cash, periodically and without means-testing.
  - The major provider of social protection is mainly the government: around 80% in 2003 (increased from 71.8% in 2000). The remaining 20% is provided by semi-governmental organisations, local authorities and NGOs.
  - Cyprus has one of the lowest social protection expenditures as a percentage of GDP in the EU. In 2002, the percentage GDP spent on social protection in EU-25 was 27.4% while in Cyprus was only 16.4%.

## 4. Policy and Legislative Developments

In this part of the report we first describe projects financed by the ESF (through the Structural Funds) and then consider legislative developments that took place during the last twelve months and aim at the active inclusion of public assistance recipients.

Before we proceed, however, it is useful to mention that public assistance recipients in Cyprus have increased and possible reasons for this phenomenon can be the following:

- As we shall see later in this report, the second largest group (in percentage) receiving minimum resource is old people. This may be due to the non-maturation of the Social Insurance system.
- People with disabilities and long-term illnesses (first and third largest groups among minimum resource recipients, respectively) do not or did not contribute for a long period of time to the reformed (in 1981) Social Insurance system, and so their income from this source is limited.

- Changes in the Law of Minimum Resource have led to an increase in the number of potential beneficiaries. The amount excluded from the calculation of means-tested income in the case of people with disabilities and single-parent families has also increased. In addition, the number of foreign workers and political asylum seekers has increased, increasing the benefits provided to them.
- Another phenomenon contributing to the increase in the number of public assistance recipients is the weakening of family ties with more and more elderly ending up living on their own and demanding greater support from the state. Contributing to this phenomenon is that as time goes by public assistance is perceived more as a right rather than a stigma by those entitled to it.

Having said the above, the ESF-funded projects and the new Law of Minimum Resource (introduced in January 2006) can be seen as initiatives to tackle the increase in the number of minimum resource recipients. How the new Law of Minimum Resource attempts to do so by encouraging active inclusion is discussed in Section 4 of this report; while the ways in which the ESF-funded projects attempt to do likewise are discussed in section 5.

#### 4.1 Policy developments

An important recent development is the materialisation of the long awaited allocation of the funds earmarked for the support of social policy initiatives. These funds come partly from the state (covering 50% of each project) and partly from (i) the Structural Funds (SF) for the Single Programming Document (SPD) for the Objective 3 "Human Resources" for 2004-2006, and (ii) funds falling under the Community Initiative EQUAL for 2004-2006.

As far as the SF for Objective 3 of SPD are concerned, the allocation has been done on the basis of the field to cover, but not the final recipient (a procedure followed by all member states). Specifically, the authorised governmental department has received proposals from different actors and, based on the vulnerable groups to assist and the actors proposed, has decided on the list of projects as shown in Table 19 above. As seen from this table, all projects are undertaken by governmental departments and half of them are allocated to the development and promotion of active policies in the labour market and the improvement of the educational system and lifelong learning, as measures for the promotion of active inclusion through employment (see section 5 below).

**Table 19: Promotion of modern and flexible employment methods**

Priority	Measure/Policy	Responsibility of:	Budget (€)
<b>1</b>	<b><i>Development/promotion of active labour market policies</i></b>		<b>22.47</b>
1.1	Modernisation of the Public Employment Services		9.60
1.1.1	Development of Public Employment Services Network	Department of Labour, Min of Labour & Soc Ins	7.88
1.1.2	Upgrade of the existing "Candidate Placement System-CPS" and the introduction of a new software and statistical system for the monitoring of the flows	Department of Labour, Min of Labour & Soc Ins	1.72
1.2	Policies for the promotion of training and employability of unemployed and new secondary school graduates, and provision of consultancy, guidance, and training to the personnel of micro enterprises		4.83
1.2.1	Promotion of training and employability of unemployed	Human Resource Development Authority	1.71
1.2.2	Promotion of training and employability of new secondary school graduates	Human Resource Development Authority	1.01
1.2.3	Provision of Consultancy Services, Guidance and Training to the personnel of micro enterprises with 1-4 employees	Human Resource Development Authority	2.11
1.3	Programs for equal rights and access to labour market for all and		4.02

	especially for those at risk of social exclusion		
1.3.1	Vocational Training and Promotion of Public Assistance Recipients in the Labour Market	Social Welfare Services, Min of Labour & Soc Ins	1.81
1.3.2(a)	Training Programs for the People with Disabilities	Services for the Disabled, Min of Labour & Soc Ins	0.65
1.3.2(b)	Incentives to the employers for the employment of persons with disabilities	Deprt for the Disabled, Min of Labour & Soc Ins	1.56
1.4	Programs for gender equality in the labour market		4.02
1.4.1	Expansion and Improvement of Care Services for the Children, the Elderly, the Disabled and Other Dependants	Social Welfare Services, Min of Labour & Soc Ins	1.51
1.4.2	Promotion of Modern and Flexible forms of employment for the promotion of access of women to the labour market	Productivity Centre, Min of Labour & Soc Ins	0.81
1.4.3	Promotion of training and employability of the inactive female labour force	Human Resource Development Authority	1.71

**Table 19 continued**

<b>2</b>	<b><i>Development and improvement of educational systems and lifetime learning</i></b>		<b>20.13</b>
2.1	Utilization of New Technologies within the framework of Life-long Learning	Ministry of Education and Culture	9.46
2.2	Improvement and support of the technical and professional education and training		
2.2.1	Embedding ICT in Teaching and Learning	Ministry of Education and Culture	8.35
2.2.2	Organisation of Technical and Vocational Education	Ministry of Education and Culture	0.60
2.2.3	Upgrading the Apprenticeship Scheme	Ministry of Education and Culture	1.71
<b>3</b>	<b><i>Technical Support</i></b>		<b>1.10</b>
3.1(a)	Support to the Managing Authority for the implementation of the SPD Objective 3	Planning Bureau	0.58
3.1(b)	Technical Support to the Intermediate Body for SPD Objective 3	European Social Fund Unit	0.52
<b>Total Funds available</b>			<b>43.70</b>

Source: European Social Fund Unit, Ministry of Labour and Social Insurance

Table 20 lists the projects undertaken under the Community initiative EQUAL. Here most of the funds are allocated to initiatives promoting employment and equal rights/opportunities between men and women, each absorbing 42% of the EQUAL budget. It is worth mentioning here that the list of coordinators/actors contains only NGOs and social partners, while technical support and assistance are provided by a government department. This is supposed to add to the mobilisation and inclusion of all relevant actors. The projects falling under the SDP with co-finance from the ESF are discussed in the Section 5, given that the focus of those projects is on active inclusion.

**Table 20: Projects allocated under the Community initiative EQUAL**

Priority	Measure/Policy/Title	Co-ordinators	Budget (€)
<b>1</b>	<b><i>Employment</i></b>		<b>1.50</b>
1.1	Facilitation of access and return to the labour market		
1.1.1	Integration of unemployed into the labour market	Employers and Industrialists Federation	0.57
1.1.2	Integration channels for increasing female employment	Mediterranean Management Centre Ltd	0.52
1.1.3	Promotion network for increasing youth employment	Cyprus Youth Organisation	0.42

<b>2</b>	<b>Reconciling family and working life</b>		<b>1.50</b>
2.1.1	Anoiktes portes (Open doors)	Cyprus Equality Observatory	0.45
2.1.2	Pandora	Cyprus Workers Confederation	0.54
2.1.3	New Roads for Women	Larnaca Development Company	0.52
<b>3</b>	<b>Support for the social and vocational integration of asylum seekers</b>		<b>0.26</b>
3.1	Social Rights for asylum seekers, social rights for all	Intercollege	0.26
<b>4</b>	<b>Technical Assistance</b>		<b>0.36</b>
4.1	Special policies for technical support and administration	Planning Bureau, ESF Unit, Min of Labour & Soc Ins	0.14
4.2	Supplementary actions for technical support	Planning Bureau, ESF Unit, Min of Labour & Soc Ins	0.22
<b>Total funds available</b>			<b>5.74</b>

Source: European Social Fund Unit, Ministry of Labour and Social Insurance

## 4.2 Legislative Developments

### *Public assistance*

The main legislative development recorded during the last year is the preparation of a new Law of Public Assistance and Services mentioned earlier in this report. This law is enforced since 1<sup>st</sup> January 2006 and includes more definitions and better clarifications than the previous one. For example, the new law clarifies the definition of non-married parent, the recognised educational institutions and European citizenship. In addition, for the first time there are special provisions and clarifications regarding foreign workers and foreigners legally residing in Cyprus. These provisions and clarifications are required following the accession of Cyprus to the EU. Furthermore, there is a better explanation of the categories of potential beneficiaries and the income for public assistance eligibility and computation. Flexibility is allowed for special cases so as to maintain the effectiveness and efficiency of the system. The level of income exempted for public assistance purposes is increased, and new income types are included in the exemptions. At the same time, the new law is argued to maintain and enhance the broadly “employment-friendly” character of the system of public assistance in Cyprus.

#### ▪ Entitlement to social assistance

Under the new law entitlement to public assistance have persons with income inadequate to cover basic and special needs and belong to one of the following categories:

- Citizens of the Republic legally residing in Cyprus continuously for at least one year.<sup>11</sup>
- EU citizens legally residing in government-controlled areas of the Republic.<sup>12</sup>
- EU citizens legally residing in the government-controlled areas of the Republic for more than three months and have obtained legal residence or for educational reasons.
- Third country citizens legally residing in government-controlled areas of the Republic or have permission to enter the Republic or any other EU state.
- Third country citizens legally residing in government-controlled areas of the Republic and possessing political asylum or temporary residence for humanitarian reasons.

<sup>11</sup> Those expatriated back to Cyprus or are disabled or under 1 year old, the 1 year criterion does not apply.

<sup>12</sup> EU citizens legally residing in government-controlled areas of Cyprus to work but do not do so are excluded.

- Persons considered to be victims under the Fight of Trafficking and Sexual Harassment of Under-Aged People Law or as defined in the protocol for the prevention, repression and punishment for the traffick of individuals of the UN.

Reasons for disqualifying people from the public assistance entitlement include absence from Cyprus, institutionalisation and ownership of non-utilised property. The maximum amount provided for the coverage of basic needs is determined by the regulations of the Ministerial Council set each year. Special needs vary with each applicant, as defined in the law.

#### ■ Financial Incentives

In the past, the public assistance's function of the law was restricted to poverty alleviation and did not include financial and non-financial incentives to work. Therefore, the level of assistance was determined merely by the assessment of the basic and special needs required by a household to have a decent standard of living. This is changed with the new Public Assistance and Services Law of 2006, which introduces incentives to work and giving more attention to connecting employment, active inclusion and adequacy of minimum resource (i.e. basic and special needs).

The following examples, as written in the law, illustrate this point:<sup>13</sup>

- A beneficiary can work and receive the minimum resource, subject to belonging to specific vulnerable groups (disabled, single-parents, families with 4 or more children etc).
- The public assistance is withdrawn when the beneficiary refuses to enter employment.
- When the beneficiary stops contributing to the Social Insurance Fund for a serious reason the SWS subsidises these contributions.
- Exemptions of income from employment not considered for means-testing purposes are increased.
- In case a recipient finds a job after being unemployed for at least 6 months, then the minimum resource is not abolished immediately but continues to be paid for 4 months, then 2/3 for the subsequent 4 months and, finally, 1/3 for the last 4 months of the year.<sup>14</sup>

Furthermore,

- ESF-funded programs aimed at the vocational training of public assistance recipients also provide incentives to work; and so do some fully state-funded programs, such as those aiming at helping women to reconcile family and work (as discussed in Section 5 below).
- The difference between the level of minimum resource and minimum wage can also be seen as an incentive to work, in the sense that the higher this difference the more willing someone should be to seek employment. At the moment, the level of minimum wage in Cyprus is €688, while the minimum resource is €334.

At the moment no informed opinion can be expressed about how effective the above measures are towards reducing state dependence by encouraging people to enter employment as there are no data for their evaluation. Furthermore, these measures have qualitative than quantitative targets,

<sup>13</sup> Nevertheless, it must be pointed that these incentives do not apply to all household types. For example, while for a person living alone the public assistance amount is less than the minimum wage, for a household with children the public assistance is often well above the expected income from employment. Therefore, the examples presented here should be interpreted with caution.

<sup>14</sup> After the year, the recipient cannot reapply for minimum resource in case of unemployment unless 6 months pass from the day he/she became unemployed again.

and focus mostly on services and care provision. This situation is now changing and, hopefully, the effectiveness of measures encouraging active inclusion will be amenable to monitoring and assessment in the future. This holds particularly in the case of ESF co-funded programs. These programs, however, have not yet been implemented (the ESF funds have only recently been distributed) and, again, is premature to express opinion about their effectiveness at this stage. This will be done in future reports.

An important difference from the previous law is the provision of financial incentives given to public assistance recipients to return or remain in the labour market. These include increased exemption of income from employment (especially for single parents, the disabled and pensioners) and the gradual reduction of public assistance benefit for those that decide to return to work after unemployment of at least 6 months. Also, from our point of view, the gender issue is carefully treated throughout the new law, e.g. it considers the care of dependents to be the responsibility of any of the two partners, whereas the old law had separate responsibilities for the husband and wife. The new law applies only to newly registered public assistance recipients so it is too early to evaluate its effectiveness.

#### *Pancyprian Volunteerism Coordinative Council*

The second important recent legislative development is the new Law for the Pancyprian Volunteerism Coordinative Council (PVCC). Its enforcement started in May 2006 and abolishes the old Law for the Pancyprian Welfare Council (PWC).

Major changes between the new and the old laws include:

- Renaming of the council, from 'Pancyprian Welfare Council' to 'Pancyprian Volunteerism Coordinative Council'.
- Inclusion of the geographic area of Morfou in the jurisdiction of the PVCC.
- Creation of a registry for the NGOs.
- The District Welfare Councils and the Committees of Community Welfare are now legal entities, renamed to 'District Council for Voluntarism' and 'Committees of Community Voluntarism', respectively.
- Provision of support for the coordinative and advisory role of the PVCC.
- Assignment of responsibility to the PVCC for an active role in the design/structure of social policy.

The new legislative act for the PVCC was introduced in order to prevent and handle the operational and administrative problems which existed in the old law, such as obscurity in interpretation, vague objectives and unnecessary restrictions on the role of the Council in social policy. For example, under the old law there was no legislative arrangement for the operation of the District Community Councils and District Welfare Councils, thereby obscuring their connection to the Council. Also, the old law did not clearly provide for coordination between the Council and the state and could not facilitate the modernising of the voluntary sector in Cyprus.

Under the new law the responsibilities of the PVCC are:

- Establish and manage the Voluntary Organisation Record (VOR) and decide on the registration and deletion of organisations.
- Design short term and long term policy for NGOs and social welfare, with the cooperation of governmental departments or other relevant parties.

- Establish, coordinate, supervise and control, administratively and financially, the District Volunteerism Councils.
- Provide consultation and assistance to its members in order to help them implement their programs.
- Present papers, opinions, suggestions and action plans to the state regarding policy design, modulation, management and implementation of social policy in the field of voluntary and NGOs sector.
- Consult the SWS for the distribution of financial means and grants available to the PVCC members.
- Promote and organise seminars addressing issues of volunteerism and social inclusion and welfare.
- Organise, participate or finance seminars aiming to the dissemination of social policy information to its members and to the public.

During consultation periods/processes (i.e. NAP/incl, NAP/Empl, CY Strategic Planning and Structural Funding), the PVCC invites its members to contribute to common position papers (prepared by the PVCC), which are then forwarded to the respective ministries. An NGO not a member of the PVCC may not have the opportunity to participate in the civil dialogue process, unless it is active in social policy or well-known to the authorities or a member of other network committees.

## 5. Active Inclusion and Minim Resources

A minimum standard of living for all residents in Cyprus is provided by law. Assistance to reach this standard of living may be in the form of money and/or services (free accommodation, home-care etc) to persons whose resources do not meet their basic and special needs as determined by the law. Furthermore, special provisions are made for people vulnerable to social exclusion, such as persons with disabilities, single parents, parents with four or more children and families at risk of dissolution.

Apart from the public assistance, there are other schemes that provide benefits, in the form of either lump-sums or services to help people escape extreme poverty. Below we discuss each scheme separately, and then focus on evaluating whether the policies and measures related to these schemes are targeted to social activation of individuals furthest from the labour market. This evaluation will include a short discussion relating to three dimensions: a link to the labour market through job opportunities or vocational training, income support at a level sufficient for dignified life and better access to services that may help remove some of the obstacles to entering mainstream society. Before that, we shall discuss briefly some general points made by the SWS about issues relating to active inclusion and minimum resource.

### 5.1 Trends and developments

According to the SWS, and noted earlier in this report, the trend most noticed currently in Cyprus is the 'activation' culture becoming part of all policies and measures designed for social inclusion and cohesion. Before Cyprus' accession into the EU, the objective of policies targeting people at risk was to provide income support to help them escape poverty. Nevertheless, the EU guidelines have contributed to the departure from this approach towards the promotion of activation rather than support, through measures proposed under the SDP and EQUAL schemes co-financed by the ESF.

Mobilisation of all actors is nowadays part of the process and not just an objective. The projects to be implemented require the participation of all relevant actors. Moreover, a prerequisite for receiving funds is the submission of a relevant proposal. Mobilisation is helped by publicity through seminars, announcements in the press, leaflets sent to those interested and the public at large. Furthermore, the

introduction of a competitive procedure in the allocation of funds has triggered interest among all actors involved in the fight against poverty and social exclusion.

The promotion of public dialogue seems to be important and fruitful towards enhancing active inclusion. Through the public dialogue, all opinions are expressed and the state commitment becomes more binding. Additionally, information is disseminated and clarified resulting to better understanding of the roles and responsibilities of all actors. The public dialogue and publicity have led to breaking away from the esoteric governmental procedures in the field of social inclusion and the passive role followed in the past.

For the preparations of the national report on strategies for social protection and social inclusion, the SWS organises a series of meetings, each concentrating on a particular social problem and/or relating to a particular vulnerable group. The working group (task force) set up to coordinate the actions related to social policy (as discussed in section 3.2), will meet on the 5<sup>th</sup> June 2006 to be informed about the current situation and trends, to express opinion and make suggestions. All interested organisations and/or individuals have been invited to participate in the meeting, air their views and share their experiences in social policy. In this respect the SWS cooperates with other departments of the Ministry of Labour and Social Insurance and with other ministries.

The SWS shares our view that evaluating policy results in the field of active inclusion at this stage is premature since the projects have only recently been introduced. The same applies to good practices as these are expected to emerge from the implementation of the projects themselves.

## 5.2 Schemes

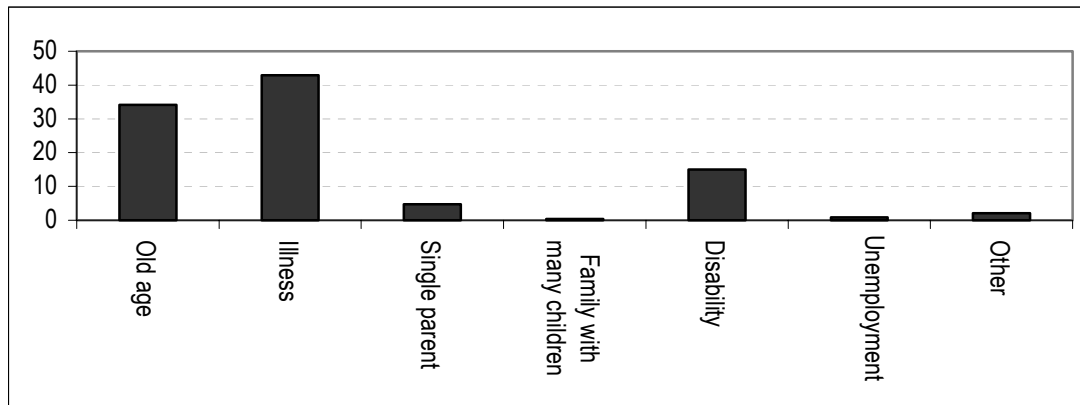
### *Public assistance scheme*

Public assistance, as already explained, is provided to persons or families who are unable to reach the minimum standard of living. It is interesting to examine the types of households that receive this social protection benefit in order to evaluate whether all the dimensions of active inclusion are covered. Nevertheless, it is important to mention that this scheme (minimum resource scheme) is related to other schemes, so the active inclusion aspect will be discussed when the description of all schemes is completed.

In Diagram 1 we can see that most of the beneficiaries of public assistance are old age and physically or mentally ill persons. Therefore, a first comment is that income support is mostly provided to people who are not of working age or to people who are unable to work due to illness or disability.<sup>15</sup>

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<sup>15</sup> Adequacy of this income support scheme requires examining further the effect of the public assistance to family income. We shall come back to this point later in the report.

**Diagram 1: Beneficiaries of public assistance by nature of distress, 2005**

Source: Social Welfare Services, Ministry of Labour and Social Insurance

#### *Revised scheme for the improvement of housing conditions*

This scheme is a case where social protection policy in Cyprus provides access to services (housing facilities), rather than income, to help families with low income alleviate obstacles to their social inclusion<sup>16</sup>. It aims at improving the living and housing conditions of households with low income. The eligibility criteria require the household to either receive or is eligible to receive public assistance and own a house (exceptions exist for special cases).

#### *Scheme for the support of families with elderly or disabled members*

The objective of this scheme is to support families caring for their elderly and disabled members and contribute towards keeping these members in a family environment rather than an institution. The eligibility criteria are that the persons in care are beneficiaries of public assistance or could be beneficiaries due to their low income. The benefit is a lump sum up to around €10,000 for the development of an environment suitable for these persons. The scheme can be commented as a way to achieve the twofold objective of providing income support to people in need, while contributing towards social inclusion by discouraging institutionalisation.

#### *Community work*

The government, through the SWS, encourages the development of the so called 'third sector' through community work and public sensitisation to social needs.<sup>17</sup> Once community welfare councils and NGOs are established, the SWS provide financial and technical assistance for programs and services which meet policy objectives at a community level. For example:

- day-care centres for preschool and school-age children,
- day-care centres for older persons and persons with disabilities,
- residential care for older persons and persons with disabilities,

<sup>16</sup> Information extracted from the Ministry of Labour and Social Insurance and published in the website as at 27/4/2006.

<sup>17</sup> <http://www.mlsi.gov.cy>

- home-care,
- and group support services for persons with a mental or physical illness, persons who abuse substances, are victims of family violence, etc.

Through the actions above, the Cyprus government appears to be turning away from centralisation and is now seeking through community work the involvement of social partners and NGOs. By receiving more resources the NGOs are also becoming more burdened with social policy responsibilities. To some extent this is a product of the open method of coordination, as explained earlier in this report. Nevertheless, it manifests recognition of the important role social partners and NGOs can play in the effective and efficient implementation of social policy by being closer than government to the people.

#### *Adequacy of income support schemes*

We evaluate the adequacy of income support schemes using data from the Family Expenditure Survey 2002/03 and data provided by the SWS. Table 17 shows the weight (adult equivalence scale) used in the public assistance system in Cyprus, and the corresponding weights proposed by the EUROSTAT. As, we can see the only difference between them, is for dependents aged between 12 and 14 for which the EU proposes a higher weight than that used in Cyprus.

**Table 17: Weights used in Cyprus and EU**

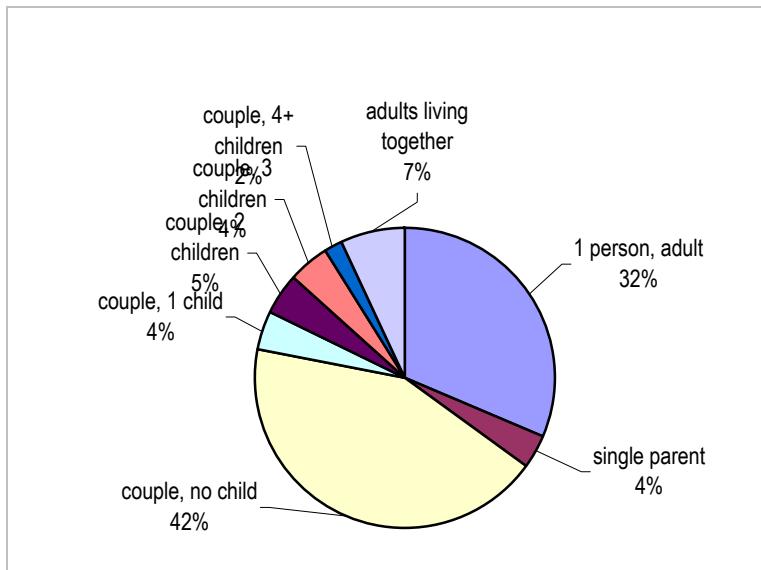
Family member	Weight	
	CY	EU
Head	1	1
Dependent below 12	0.3	0.3
Dependent 12-14	0.3	0.5
Dependent 14 and above	0.5	0.5

Source: EUROSTAT and Ministry of Labour and Social Insurance

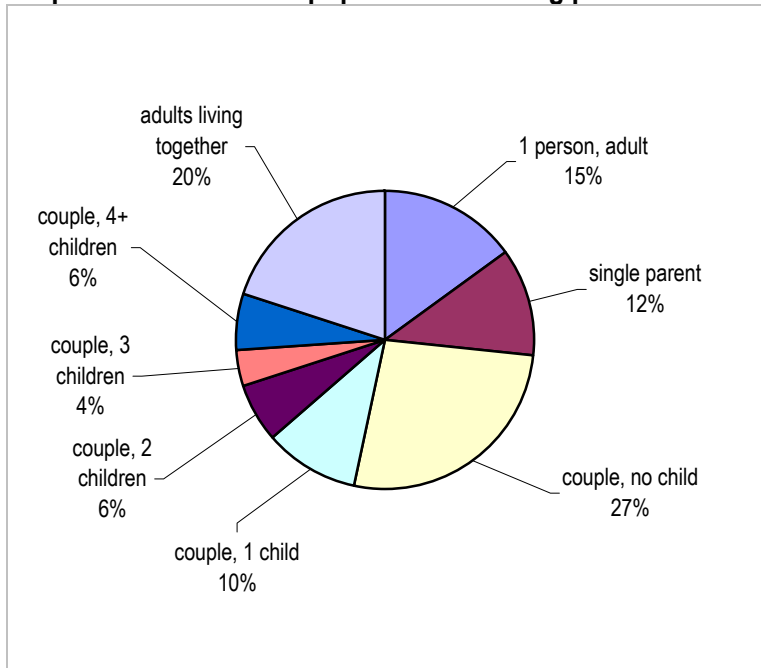
Graph 1 shows that one- and two-adult households constitute 74% of population below the poverty line. These are mostly households with old age pensioners.

Graph 2 shows the distribution of population receiving public assistance by household type. As we can see the public assistance budget is not allocated in proportion to the population below poverty but according to the special needs of households. For instance, households with children represent 19% of the households, yet they receive 38% of the public assistance budget.

**Graph 1: Distribution of households below poverty line**



**Graph 2: Distribution of population receiving public assistance by household type**



To examine the adequacy of the public assistance scheme we have performed the following exercise: first we calculated the percentage of households below poverty line receiving public assistance by family composition; then we repeated this calculation removing the amount of public assistance from the family income. The results of this calculation are shown in Table 24. As we can see from this table, public assistance does very little to alleviate poverty among one-adult households: while 86% of households in this category receive public assistance only 0,3% of them rises above poverty line.

**Table 24: Households below poverty line**

Household type	With PA	Without PA
1 person, adult	52.7%	53.0%
single parent	37.3%	43.3%
couple, no child	25.9%	26.2%
couple, 1 child	7.1%	8.1%
couple, 2 children	6.5%	7.2%
couple, 3 children	14.6%	15.0%
couple, 4+ children	21.9%	23.4%
adults living together	30.4%	36.1%

Source: Family Expenditure Survey 2003/03 and authors' calculations.

The conclusion emerging from our analysis is that public assistance mostly helps families with children and helps only a small proportion of beneficiaries to escape poverty. Of course, one cannot be too critical about this conclusion because the payment of generous public assistance benefits can counteract active inclusion by discouraging participation in the labour market.

#### *Providers and financial resources*

All the above programs and services are mainly financed through the state benefit system. The budget of the scheme is allocated based on a priority list. The highest priority is given to programs that are targeting a large proportion of the population, then to programs that the NGOs or the district welfare council have the capacity to handle, then to programs to be implemented by an organisation which is registered to the PVCC and then all other programs. There are also eligibility criteria that are checked before proceeding with the approval of benefits.

The major providers implementing the above policies are the SWS, as already mentioned, the NGOs (represented by the PVCC), the district welfare councils, local authorities and the social partners (trade unions and employers' and employees' federations and organisations). The financial resources available for those and other providers are mainly state funds and funds provided by the SF, co-financed by the European Social Fund (ESF) as discussed in Section 4.

### **5.3 Projects co-financed by the ESF**

In this section we discuss some of the projects co-financed by the ESF and contribute towards active inclusion.

#### *Projects undertaken by the SWS*

The SWS is responsible for the implementation of a project titled '*Vocational Training and Promotion of Public Assistance Recipients in the Labour Market*', the objective of which is the activation of public assistance recipients and promotion of equal opportunities for their integration into the labour market. More specifically, it aims at occupational rehabilitation and includes vocational training programs and wage subsidies (40%) for a period of 12 consecutive months as an incentive to employers to hire public assistance recipients. This project will be implemented through the formation of a special team of Labour Advisers for Social Integration. It will also cooperate with the Public Employment Services for the provision of individualised and continuous counselling services. The quantitative targets of the project are

- 1) benefiting from training courses 400 recipients of public assistance (240 men and 160 women) and
- 2) integrating in the labour market 65% of the recipients who will successfully complete training.

Currently the SWS is pre-occupied with the selection of minimum resource recipients to participate in the project and with the announcements of offers for the seminars to be organised. The SWS is said to be surprised at the positive opinions expressed by the recipients and their willingness to participate in such projects. Additionally, the seminars which will be continuously organised in the context of this project are expected to be helpful towards the diagnosis of existing problems and the formation of opinion about possible solutions by the relevant actors.

The SWS is also responsible for the implementation of the project, '*Expansion and Improvement of Care Services for Children, the Elderly, the Disabled and Other Dependants*' which is expected to facilitate the entry of women to the labour market, mobilise all relevant actors and enhance social cohesion. This project entails the following activities:

- Carrying out a survey aiming at the identification of social care needs at the local level.
- Development of 10 programs addressing the needs of older persons, children, persons with disabilities and other programs addressing vulnerable groups, such as day care programs. These 10 new programs will be run by non profit organisations and/or local authorities and are expected to enhance the employability of inactive women and contribute to the reconciliation of work and family life.

The survey has almost been completed and the seminars for the dissemination of information are organised. So, the project is currently in the second stage of its proposed implementation. The innovative aspect of this project (achieved through collaboration of the SWS with the Planning Bureau) is that the programs running under it will not immediately focus on policies facilitating women's entry to the labour market. Instead, they will first focus on measures and policies enhancing the social inclusion of women and then consider ways to facilitate their entrance into the labour market. The project is expected to help 2500.

#### *Projects undertaken by the Human Resource Development Authority*

The Human Resource Development Authority (HRDA) is the authority responsible for four projects co-financed by the ESF. Three of them aim at the vocational training and employability of the unemployed, newcomers in the labour market and inactive women; the fourth program aims at upgrading vocational training in small businesses and increasing productivity of their employees.

- The first project is titled "*Promotion of Training and Employability of Unemployed*" and will involve 700 unemployed people. Among them 500 will participate in vocational and professional seminars for the improvement of their knowledge and capabilities, while the other 200 will participate in programs with a view to obtaining working experience.
- The second project titled "*Promotion of Training and Employability of New Secondary School Graduates*" will involve 550 unemployed new school graduates. Among them 350 will participate in programs for vocational training, while the other 200 will participate in programs for obtaining working experience.
- The third project titled "*Promotion of Training and Employability of Inactive Female Labour Force*" will involve 800 economically inactive women. Among them 600 will participate in programs for vocational training, while the other 200 will be placed in positions with a view to enhancing their working experience.
- The fourth project titled "*Provision of Consultancy Services, Guidance and Training to the Personnel of Micro-enterprises with 1-4 Employees*" aims at helping 600 small business (with up to four employees) to increase their productivity and enhance their competitiveness through diagnosis of

their needs and problems and implementation of vocational training for their employees and managers/owners.

The implementation of the four projects above is expected to take place during 2006 and 2007. The projects have already been disseminated to the public through the media, formal announcements, information released through the HRDA website<sup>18</sup> and special publications. Additionally, the HRDA has announced an open method of offers for advisory services addressing small businesses, the organisation of vocational training programs and the professional guidance of the unemployed, newcomers and the economically inactive women.

#### *Projects undertaken by the Productivity Centre*

The Productivity Centre of the Ministry of Labour and Social Insurance is the responsible authority for the project co-financed by the ESF and titled "*Promotion of Modern and Flexible Forms of Employment for the Enhancement of Women Entrance into the Labour Market*". The project aims to attract into employment unemployed women or economically inactive women who under different circumstances in labour market may decide to participate. The major objective of the project is to increase the employment rate of women which is currently very low compared to men.<sup>19</sup>

The first stage involves the preparation of a diagnostic survey for the proper forms of employment that may be implemented and the expected effects on the economy. This survey has already been delegated to an expert and is expected to be completed by July 2006. The second stage includes the implementation of these methods of employment on a pilot basis and evaluation of the resulting outcomes. The Productivity Centre is making efforts to encourage the maximum possible mobilisation of actors and achieve the widest possible dissemination of the results.

#### *Projects undertaken by the Ministry of Education and Culture*

The Ministry of Education and Culture is the responsible authority for two projects titled, "*Utilization of New Technology Within the Framework of Lifelong Learning*" and "*Improvement and Support of the Technical and Professional Education and Training*".

- The first project has started training 800 participants. The major objective of this project is the introduction and implementation of new technological advances in the education system.
- The second project is currently in the process of its introduction and announcements are expected to be made soon about the handling of the surveys agreed to be completed under the objective.

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<sup>18</sup> <http://www.hrdauth.org.cy>

<sup>19</sup> According to the Labour Force Survey published by the Statistical Service in 2004 the employment rate of women is 58.2%, as opposed to 79.9% for men.

## 6. Summary and Conclusions

This report has provided information on the baseline social policy situation and trends thereof. The trends were mainly constructed using information drawn from the public debate and opinions expressed by officers of the SWS.

From the analysis provided in the report, there is no sign of any new risk factor or any new group at risk appearing since the preparation of NAP/incl 2004-2006. So, the major groups at risk remain the older persons, people with disabilities, single parents, families with serious social or other problems, immigrants and people living in rural areas and disadvantaged urban areas.

The major trends that can be identified relating to social cohesion and protection are towards:

- 1) the transformation of the way the social protection and cohesion system is perceived by social actors;
- 2) (ii) the introduction of active inclusion measures;
- 3) (iii) the adoption of a more systematic approach to policy making and implementation;
- 4) (iv) further mobilisation and increased interest by all relevant actors; and
- 5) (v) improved responsiveness in data preparation and distribution by the Statistical Service, making the production of quantitative targets and results feasible.

An important policy development is that the long awaited allocation of the ESF funds for programs supporting social policy and cohesion has been decided and the funds have already been paid to the authorities which have been assigned to the selected projects. Expectations and objectives concerning these projects have been described in the report, however, it is still premature to talk about, let alone evaluate, their results.

Legislative developments accomplished during the last year include the drafting of a new law about public assistance (enforced since 1<sup>st</sup> January 2006) and the preparation and introduction of the Pancyprian Volunteerism Coordinative Council, replacing the Pancyprian Welfare Council. The new law on public assistance provides further and stronger financial and non-financial incentives to public assistance beneficiaries to remain or return to work. The setting up of the Pancyprian Volunteerism Coordinative Council empowers the coordinative role of this new body and enhances its role in policy making, in addition to its role in policy implementation.

The challenges identified in the Joint Report on Social Protection and Social Inclusion include:

- The improvement of the position of vulnerable groups by their participation into the labour market and by securing their access to services. This challenge has been a major theme and aspiration of all the projects co-financed by the ESF and represents a major step towards securing active inclusion.
- The second challenge is the promotion of methods for proper monitoring and evaluation of the policies and measures implemented, including quantitative indicators. Progress has been made in preparing and delivering quantitative indicators. Nevertheless, there is still room for producing data more promptly so as to be more up-to-date.
- A network of all relevant actors is effectively becoming operational, although this has not yet acquired legal entity. Furthermore, most NGOs, social partners and local authorities now appear to have a better understanding of the procedures and more interest in participating in meetings, expressing opinion and, in general, becoming more involved with social policy than before.

- New policies appear to give particular attention to gender issues. For example, projects co-financed by the ESF for the social protection and inclusion of children, elderly people and other dependents, effectively aim at facilitating women to combine family life with employment. It remains to be seen how far these initiatives will close the gender gap in the remuneration and participation rates.
- Poverty in Cyprus is still concentrated mostly among old age people. So, prevention of the risk of poverty among people aged 65 and above is still a challenge.
- As there has been no progress towards its introduction, the National Health Scheme remains another challenge to be confronted in the near future.
- The Ministry of Labour and Social Insurance, in preparing the national reports on strategies for social protection, now including health and pensions, faces the challenge of integrating objectives from these three policy areas in a cohesive and effective manner.

The thematic part of this report (Chapter 5) examines active inclusion and minimum resource. It considers how the government deliberates on policies to promote active inclusion and how such measures can help people escape poverty and social exclusion. At the same time, it investigates the adequacy of income support schemes on empirical grounds using the latest household survey data available. The degree of take-up, however, could not be assessed due to lack of relevant information in the data.

Projects co-financed by the ESF and contributing towards active inclusion of individuals furthest from the labour market are described and analysed. However, evaluation of their effectiveness could not be attempted as these projects have either just started or about to start. In effect, no case studies or examples of best practice at the local level are available at the moment. Such practices are expected to emerge from these projects as they progress.

Following the guidelines this report has been primarily descriptive rather critical, even though opinion is expressed in some parts. Furthermore, it concentrates on developments in the last year or so, since previous developments are described and elaborated in previous reports.

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