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Assessment of the implementation of
the European Commission
Recommendation on **Active
Inclusion**

A Study of National Policies

Cyprus

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Assessment of the implementation of the
European Commission Recommendation on
Active Inclusion

A Study of National Policies

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COUNTRY REPORT – CYPRUS

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1. Summary

After 2008 the economic trajectory of Cyprus started to shift from economic boom to stagnation and, subsequently, recession. This pattern was observed in many EU economies but the case of Cyprus is characterised by two particularities: (i) the banking sector is very large in relation to the country's GDP; and (ii) Cyprus is overly exposed to the Greek economic crisis. In order to face the galloping fiscal imbalances the government introduced in 2011 three austerity packages. Although the measures were carefully designed to minimise adverse distributional outcomes, reduced employment and falling wages have probably increased poverty and social exclusion. It looks as if structural imbalances cannot be remedied without short-term social cost.

The unemployment rate increased from the "full-employment" rate of 3.7% in 2008 to 7.8% in 2011. Furthermore, the labour market is characterised by a high gender pay gap. Occupational segregation also exists between indigenous and immigrant workers, with the overwhelming majority of non-Europeans migrants mostly concentrated in the low productivity sectors of the economy. Employed mothers are inconvenienced by the lack of adequate child care services – an issue of particular concern to single parents. Part-time and low-paid jobs are not widespread, albeit their share in employment is rising.

The policy response to the economic crisis is in line with the spirit of the 2008 Recommendations. Several measures have been put in place to combat in-work poverty, encourage employment and promote the inclusion of disadvantaged persons. Most of these measures pre-existed, others were upgraded, several are in the process of being upgraded. The tax-benefit system is highly conducive to labour market participation due to the high tax-free income threshold and the high minimum wage. In-work benefits, however, are not so common and rarely connected to low-pay. Labour market inequalities are combatted through targeted programs, e.g. schemes helping women remain in full-time employment after giving birth, subsidies for child and elderly care, and training programmes to increase the productivity of low paid workers. New legislation is in preparation aiming at providing more diversified services to public assistance recipients. The child benefit was restructured to become means tested in 2011.

The impact of government measures taken for active inclusion is positive but not adequately. The economic consequences of the crisis exacerbated inequalities and invoked new social problems. Long-term unemployment, unknown in Cyprus a few years ago, is on the rise; as is youth unemployment. Most probably, the situation of migrants is also deteriorating. Enabling services appear to be unfamiliar with the rising unemployment problem and an active response is delayed. The situation of women in labour markets shows signs of improvement but more should be done. In general, diversified initiatives and measures are proposed as remedies for the worsening conditions in the labour market; yet, in our opinion, their success ultimately depends upon increase of labour demand through measures to boost economic activity.

In our opinion more efforts are needed in the field of care services. Child and long-term care need to be upgraded to remedy gender imbalances and respond to demographic changes. The provision of health care services also needs to be reformed, while the public transport network should be helped to cope with increasing needs.

2. Background

This section updates our analysis of the poverty and social exclusion situation in previous reports (3rd 2011 and 1st 2012). Besides updating statistics, we describe recent economic and political developments.

Table 1 portrays the social situation in Cyprus over the period 2008-2010 in comparison with what pertains in EU27. We observe a gradual deterioration of most social indicators that, more or less, follows EU trends. The population at-risk of poverty and/or social exclusion was estimated at 22.4% in 2008 (EU27: 23.5%) and the at-risk-of-poverty after social transfers at 15.7% (EU27: 16.3%). In 2010, the risk of poverty and social exclusion increased both in Cyprus and the EU27, but the increase was slightly larger in Cyprus. The number of under-employed households slightly increased over the period under investigation, as did the intensity of poverty.

Table 1: Poverty and Social Exclusion Indicators

	Cyprus			EU-27		
	2008	2009	2010	2008	2009	2010
Population at-risk-of-poverty or social exclusion	22.4	22.9	23.6	23.5	23.1	23.4
At-risk-of-poverty after social transfers	15.7	15.3	15.3	16.4	16.3	16.4
Persons living in hhs with very low work intensity	4.2	3.8	4.4	9.0	9.0	10.0
Severely materially deprived persons	8.8	9.5	9.6	8.4	8.1	8.1
Relative median at-risk-of-poverty gap	16.5	17.6	17.8	21.7	22.4	23.2

Source: Eurostat Online Database

Table 2 focuses on labour market statistics in Cyprus and EU-27. In 2008 the employment rate was estimated at 76.5% of the working age population in Cyprus. It dropped to 75.7% and 75.4% in 2009 and 2010, respectively. The unemployment increased steeply from the "full-employment" rate of 3.8% in 2008 to 7.9% in 2011. Long-term unemployment remains at low levels, but it has been increasing since 2008 and is likely to continue to do so in the foreseeable future. The employment rate between genders differs (higher among males) but during 2008-2010 the position of women in the labour market seems to have improved: the employment rate for females increased from 68.1% in 2009 to 68.5% in 2010. This can be due to government efforts to enhance female labour market participation; but can also be due to economic hardship driving more women to work in order to make up the drop of their husband's earnings. Yet in 2011, the employment rate (for both genders) decreased.

Table 2: Main labour market indicators

	Cyprus				EU-27			
	2008	2009	2010	2011	2008	2009	2010	2011
Overall Employment Rate ¹	76.5	75.7	75.4	73.8	70.3	69.0	68.6	68.6
Employment rate (males)	85.2	83.5	82.5	80.4	77.9	75.8	75.1	75.0
Employment rate (females)	68.2	68.1	68.5	67.3	62.8	62.3	62.1	62.3
Unemployment	3.8	5.5	6.4	7.9	7.1	9.0	9.7	9.7
Long-term unemployment	0.5	0.6	1.3	1.6	2.6	3.0	3.9	4.1

Source: Eurostat Online Database, Notes: ¹ Employment (20 to 64 years)

The very low percentage of households with low work intensity (Table 1) suggests that until 2010 the labour market in Cyprus was still in relatively good condition. As shown in Table 3, however, most recent labour market data from the Cyprus Statistical Service (CYSTAT) on the number of registered unemployed are not so optimistic.¹ The annual percentage change of the registered unemployed increases continuously in Cyprus since 2010; and, although the rate of growth showed signs of deceleration at the end of 2010, this was reversed at the beginning of 2011. The most recent 2012 data are not encouraging: the number of registered unemployed on a year-over-year basis continues to rise, with the latest increase in June 2012 reaching 26.2%. Although lower than the EU average the rate of unemployment in Cyprus is at a level unprecedented since the Turkish invasion in 1974.

Table 3: Percentage change in the number of registered unemployed (year over-year basis)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Oct	Nov	Dec
2010	49.8	46.2	44.8	34.3	35.8	34.2	27.3	25.7	17.3	20.8	19.8
2011	22.3	24.5	16.7	24.4	26.6	20.7	19.3	19.2	28.1	29.2	27.2
2012	28.3	27.1	31.8	31.5	31.1	26.2	-	-	-	-	-

Source: Statistical Service of Cyprus

The above trends are not independent from the macroeconomic environment. Until 2008 the strong economy led to the creation of new jobs and, consequently, to high employment rates. But the real GDP growth slowed down and the economy contracted by 1.9% in 2009. It then bounced back to positive, albeit meagre, growth in 2010. The real GDP increased by 0.5% in 2011 but this was due to growth in the first half of the year. Since mid-2011 the GDP in Cyprus follows a downward trend.

Unemployment was kept low in 2008 and 2009, possibly, due to increased public spending and the workings of automatic stabilisers, which softened the initial impact of the crisis at the cost of increase in fiscal deficit and public debt. The fiscal

¹ Financial agencies typically monitor these data as a very effective way to foresee future macroeconomic developments. We mimic their approach, but our focus is the social situation.

balance as a percentage of GDP shifted from a surplus of 0.9% in 2008 to a deficit of 6.1% in 2009 and 6.3% in 2011; while the debt-to-GDP ratio rose from 48.3% in 2008 to 71.6% in 2011. As a result, in July 2010, the ECOFIN announced that Cyprus is placed under the excessive deficit procedure. The target set by the Council was reduction of the fiscal deficit by 1.5 percentage points per annum for two years.

Table 4: Main Macroeconomic Indicators

	Cyprus					EU-27				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Real GDP growth	5.1	3.6	-1.9	1.3	0.5	3.2	0.3	-4.3	2.1	1.5
Inflation ¹	2.2	4.4	0.2	2.6	3.5	2.3	3.7	1.0	2.1	3.1
Public deficit (% of GDP)	3.5	0.9	-6.1	-5.3	-6.3	-0.9	-2.4	-6.8	-6.4	-4.5
Public debt (% of GDP)	58.8	48.9	58.5	61.3	71.1	59.0	62.5	74.8	80.0	82.5

Notes: (1) annual average rate of change in Harmonised Indices of Consumer Prices;

Source: Eurostat.

Several important political developments took place during 2012, especially in relation to the banking sector. Cyprus banks are exposed to Greek debt and suffer the consequences of the Private Sector Involvement (PSI) agreement of 26th October 2011. Even worse, the Cyprus banking system is overly exposed to non-performing household and firm loans (NPLs) in Greece. These developments resulted to very poor performance of the second largest Cyprus bank, Marfin Laiki bank, which was called upon to proceed with recapitalisation. Given the reluctance of private investors to participate in the recapitalisation process, the government of Cyprus is obliged to step in. Furthermore, the massive economic slump in Greece is very likely to affect other Cyprus banks. Political tension and conflicts now evolve around the issue of bank recapitalisation and its potential impact on public debt and the economy at large. Public debate is currently focused on these issues that have led Cyprus to turn to the European Financial Stability Facility (EFSF) for funding. Any other concerns (including poverty and social exclusion) receive attention insofar as they are related to the fiscal and banking anguish.

The political and economic developments described above are likely to create more constraints to the social protection system. Strict budgetary limits are expected to reduce the generosity of public assistance and other benefits, while further fiscal policy measures are likely to place more emphasis on increasing public revenue and improve business competitiveness rather than enhance the social protection system. In spite government efforts to curb the sharp increase in unemployment by various on-the-job training schemes, further negative developments in the labour market are likely to arise from falling demand in the product market as a consequence of the negative impact of the economic crisis - and the government measures taken to combat the effect of this crisis on fiscal imbalances - on the disposable income of households. The expected benefit from natural gas and oil discovered in the Cyprus Exclusive Economic Zone will take a long time to materialise and cannot be accurately assessed.

3. Income support

This section reviews the social protection system of Cyprus, with emphasis on its capacity to provide adequate income support to those at high risk of poverty and social exclusion; and how it is linked with recipients' activation.

The Cyprus welfare state provides for several instruments that serve the purpose of ensuring adequate income support to those at high risk of poverty and social exclusion. The most important one is the Public Assistance Law, which is assigned the task of eradicating extreme poverty and resembles a minimum income scheme. Child benefit is also an important income support instrument because of its widespread coverage and its generosity, especially to low income families and families with a large number of children. Until 2012, the child benefit was exempted from the means-testing of public assistance, thereby providing additional income support to poor families with children.

Cypriot welfare state, in addition to the public assistance benefit, provides for several other benefits such as the social pension, which targets elderly persons not eligible to any other public or private pension, thus helping towards ameliorating poverty in the old-age.²

3.1 Institutional design

Public assistance

Public assistance is a non-contributory benefit paid to any person residing in Cyprus whose income is not enough to cover basic or/and special needs. The benefit is calculated as a residual payment and effectively acts like a minimum income guarantee scheme. The recipients are eligible for the benefit if their family income is below a minimum threshold, which is revised annually by the Social Welfare Services. Some categories of applicants may be eligible even if they are working. These categories are people with disabilities, people with mental health problems and families with more than 4 children. In these cases, income from work is exempted.

The recipients should be legal residents of Cyprus, but the Law also provides for special groups such as asylum seekers, recognised refugees, immigrants granted protection for humanitarian reasons and victims of sexual harassment or human trafficking.

As is normally the case with income support schemes, special attention should be given in preserving public assistance recipient's incentive to work. The Public Assistance Law provides for this by the recipient continuing to receive the benefit for a period of time after she/he finds a job at a gradually reduced rate. The benefit is stopped to be paid in cases of voluntary unemployment or if the recipient refuses to attend training programs or to take up work.

Another important feature of the public assistance benefit is that the SWS do not take into account several income components for the purpose of means-testing: net monthly earnings up to a certain amount, child benefit and other special benefits (severe mobility benefit, special grant to blind persons, etc) are excluded from the calculation of the recipient's income. Nevertheless, in 2012 the Law was reformed and the list of incomes exempted from the means-testing of the benefit narrowed. Most importantly, child benefit now counts as income.

² The discussion below abstracts from benefits targeting specific disadvantaged groups (e.g. grant to the blind, the transportation benefit to the disabled etc) because their overall impact on poverty is very small. It also abstracts from contributory benefits since they are intended to provide insurance against contingencies (maternity, birth, unemployment, death etc).

The amount of public assistance benefit is not a fixed but a top-up amount intended to make the income of a person (and her/his dependents) reach the level required to cover his/her basic and specific needs. The minimum income threshold depends on the family composition of the applicant and is reviewed annually by the SWS. It is currently at 452 euro per month plus an additional amount of 226 or 136 euro per month for every dependent person over or under the age of 14, respectively.

Child benefit

Until 2011 the child benefit in Cyprus was universal and increasing more than proportionately with the number of children after the second child. More specifically, 421 euro per annum was the benefit for one child, increasing to 842 euro for two children, 2,527 euro for three children and 1,390 euro per child for each additional child above three in the family. This feature of the benefit contributed substantially to the fact that child poverty in Cyprus is among the lowest in the EU (Pashardes 2007).³

The child support system in Cyprus underwent a substantial reform in 2011, the main feature of which was the introduction of income and other means-testing criteria for eligibility and for the size of the benefit. More specifically, under the new system the amount of child benefit is calculated as before but:

- is not paid to families with one dependent child and gross annual income higher than 49,000 euro, and to families with two, three or four dependent children and annual gross income above 99,000 euro; while
- for families with gross annual income between 49,000 and 89,000 euro the benefit is reduced by
 - 10% for family income between 49,001 and 59,000 euro,
 - 20% for family income between 59,001 and 69,000 euro,
 - 30% for family income between 69,001 and 79,000 euro,
 - 40% for family income between 79,000 and 89,000 euro, and
 - 50% for family income between 89,000 and 99,000 euro.
- For families with five or more dependent children the maximum income threshold is increased by 10,000 euro for each additional child. For example family with five children is eligible for the benefit only if its total annual gross income is below 109,000 euro.

Furthermore, no family with wealth valued above 1.2 million euro at current prices is eligible for the child benefit. The reform also changed the definition of dependent child: from 1.01.2012 only persons below 19 years old (or 21 if they are in military service) are considered as 'dependent' for the purposes of the Law. Notably, the reform introduced a new cash benefit which is targeted to lone parents and is paid on top of the child benefit. The amount of the new benefit is determined as follows:

³ Before 2011 there was also a supplementary means-tested child benefit: 105 euro per annum for one child, 421 for two children, 948 for three children, and 463 for each additional child above three for families with gross income up to 19,500 euro per annum; and 53 euro for one child, 316 for two children, 790 for three children and 290 euro per child for families with gross income between 19,500 and 39,000 euro per annum.

- 200 euro per child for family income up to 39,000 euro,
- 180 euro per child for family income between 39,000 and 49,000 euro,
- 160 euro per child for family income between 49,000 and 59,000 euro,
- 140 euro per child for family income between 59,000 and 69,000 euro,
- 120 euro per child for family income between 69,000 and 79,000 euro,
- 100 euro per child for family income between 79,000 and 89,000 euro.

Social pension

Social pension in Cyprus was introduced in 1995. The benefit provides income support to elderly persons not eligible for other pensions. The eligibility criteria for social pension are: (i) age at least 65, (ii) permanent residence in Cyprus,⁴ and (iii) receipt of no other pension or any similar payment equal to or higher than the monthly amount of the social pension. The difference is paid if the value of other benefits received is below the value of the social pension. Thus social pension acts as a minimum income scheme for the elderly. Social pension is equal to 81 per cent of the basic old-age pension provided by the Social Insurance Fund.

The pension system was reformed in December 2009, with the aim to increase low pensions paid to households below the poverty line with at least one pensioner of the Social Insurance Fund or the Social Cohesion Fund or the Professional Pension Plans implemented in Cyprus. A study conducted by the Economics Research Centre of the University of Cyprus (Andreou and Pashardes, 2009) examine the effects of the pension reform on inequality, poverty and the depth of poverty using the 2007 EU-SILC database. It finds that the proposed reform lowered income inequality: the mean income of the 20% poorer households, roughly corresponding to those below the poverty line, increased from 514 euro per annum; while their share in income increased from 3.05% to 3.26%. The decrease of income inequality was reflected in a decrease in the Gini index by 0.5 percentage units (from 30 to 29.5). The decrease in income inequality was also reflected in reduction of the S80/S20 ratio by 0.35 units (from 4.50 to 4.15).

3.2 Income transfers

Social benefits are meant to provide recipients the resources necessary for a life of dignity. The discussion here abstracts from issues of coverage and targeting and focuses solely on the level and adequacy of benefits.

In the case of social assistance, the amount of the benefit is determined (and periodically adjusted) by type and size of household on the basis of living standards and the amounts are adjusted or supplemented to meet specific needs. A natural benchmark of the degree of income adequacy is the national poverty line. In Table 5 we calculate the annual amounts of public assistance for different family arrangements and we compare them with the poverty line. The first row presents nominal values; for example a recipient of social assistance without dependents and without any means-tested income receives 5,424 euro per annum. The second row shows the corresponding equivalence scale.⁵ The third row shows the equivalized amount of the benefit, which in the rows below the third is reported as percentage of the national poverty line.

⁴ The recipient should be living in the country for a total period of at least 20 years from the day he/she completed the age of 40; or has resided in Cyprus for 35 years from the day he/she completed the age of 18.

⁵ in line with Eurostat, we use the OECD modified equivalence scale that assigns value of 1 to the head of the household, 0.5 to each person aged above 14 and 0.3 to children below 14.

Table 5: Public assistance benefit (2010)

Year	Single person	+ dependent >14	+dependent <14
Nominal Amount	5,424	8,136	7,051
Equivalence scale	1	1.5	1.3
Equivalent amount	5,424	5,424	5,424
as % of poverty line	53.2%	53.2%	53.2%
as % of GDP per capita	26.3%	19.7%	17.1%
as % of minimum wage	54.1%	81.2%	70.3%

Source: Social Welfare Services, Eurostat, Author's own calculations

The minimum income threshold is equal to 53.2% of the poverty line for all cases presented in Table 5. Obviously, SWS have assessed the extra needs of a recipient with dependents using the same equivalence scales as those used for the calculation of the national poverty line. When we compare the threshold with the GDP per capita and the minimum wage, we find that social assistance appears to provide adequate support to the beneficiaries. Indeed, the overwhelming majority of public assistance recipients are estimated to have incomes above the minimum threshold. This is because, as said earlier, various incomes are exempted from means-testing, e.g. child benefit and employment income (up to a certain amount).

3.3 Activation

The Public Assistance Law incorporates incentives encouraging employment to minimise state dependency. The Law places emphasis on the transition from inactivation to participation in labour market. In particular, the benefit is not withdrawn when a public assistance recipient finds a job. Instead, upon entering employment, the recipient continues to be paid:

- the whole of the benefit for the first four months,
- two thirds of the benefit from the 5th to the 8th month, and
- one third of the benefit from the 9th to the 12th month.

Persons with disabilities and single parents⁶ have more favourable treatment, as they are entitled to public assistance even when employed full-time. In parallel, various other measures are designed to encourage public assistance recipients to enter the labour market such as: (i) training programmes tailored to the needs of public assistance recipients and the market; (ii) provision of care services for children, the elderly, the disable and other dependants; and (iii) subsidisation and incentives for firms to hire public assistance recipients.

Pashardes and Polycarpou (2011) conducted a survey among public assistance recipients in order to assess the determinants of their employment (dis)incentives. In particular the survey focused on objective and subjective difficulties associated with abstention from the labour market and the effect of various factors affecting the decision not only to enter but also exit the labour market. The analysis shows that bad health, old age, low education and limited work experience are among the most frequent obstacles to the labour market integration of public assistance recipients. Furthermore, dependent children and low self-esteem are associated

⁶ After 2012, single parents are not covered by the Public Assistance Law. Instead they are entitled to a new single parent benefit, as described earlier in this report.

with low probability of seeking employment. This reflects the lack of adequate and affordable child-care facilities and psychological support.

The Pashardes and Polycarpou (2011) analysis also shows that health related problems is the reason most often presented by public assistance recipients for giving up employment; followed by low remuneration, inflexible working hours, difficulties in adapting to the working environment, distance from home and transportation costs. The main factors stated by the public assistance recipients as encouraging them to work are higher wages and more flexible hours. In addition, psychological support, care services for dependants and improvement of their work qualifications are also stated as reasons for starting work. Almost all recipients report that they are not willing to take up an unpaid job for work experience and/or charity. Interestingly the survey revealed that in many cases recipients form unrealistic perceptions about wage rates or other labour market parameters.

We have, for the purpose of this report, also sampled stakeholder views about the extent to which social assistance acts as a disincentive to activation. Their opinion is that social assistance is not a major disincentive for employment. This opinion appears to be formed from the stakeholders' belief that public assistance recipients are usually elderly persons, persons with disabilities and/or chronic health/mental problems who are, in general, unable to work.

Cases of welfare dependency due to false targeting are often reported in the media but no measures of imperfect targeting and/or of non-take-up of public assistance are available for Cyprus. Our 2009 report on Minimum Income Schemes - and in Koutsampelas (2011) - we utilise the data in the 2002/3 and 2008/9 Family Expenditure Surveys to demonstrate the existence of imperfect targeting. The abuse of the system appears to stem from inefficiencies in its architecture and lack of appropriate control for minimising target errors. False targeting is interlinked with tax evasion, a wider problem beyond the reach of public assistance officers. An effective antidote to welfare dependency is, of course, active labour market policies. Research, conducted by the Economics Research Centre of the University of Cyprus among public assistance recipients (Pashardes, 2011), indicates policy areas that need more consideration for the design of such policies, including training courses, provision of child care facilities and psychological support, upgrading of the public transport network and better information about the true conditions in the labour market. Several of these measures are already implemented by the government. Nevertheless, it should be noted here that the current labour market conditions in Cyprus are not conducive to effecting labour market activation among public assistance recipients.

3.4 Impact assessment

According to Pashardes (2007), child benefit contributes considerably to the very low child poverty in Cyprus, in comparison to other EU27 countries. Koutsampelas (2011) estimates that child poverty in Cyprus in the absence of child benefits would be 18 per cent - almost 5 percentage points higher than what it is with the benefit. The child benefit is very progressively distributed reducing Gini index by 2.2 per cent. Furthermore, it reduces overall risk of poverty by 6.4 per cent and the intensity of poverty by almost 10 per cent. The distribution of public assistance is also very pro-poor, reducing the at-risk-of-poverty by 4 per cent and intensity of poverty by almost 14.7 per cent.

As described above, in 2011 the government changed the structure of the child benefit in the context of a fiscal consolidation programme. In a previous report⁷ we simulated the first-round distributional effects of the child benefit cuts. The results show that these cuts resulted to a very mild increase in overall inequality and a rather negligible effect on the incidence of overall poverty. However, they induced a 1.65% increase in the incidence of poverty as measured by the normalised poverty gap index. The effect on child poverty was ambiguous because the reform introduces income criteria that affect high income households, but also reduces the child age for which a family is eligible for the benefit. In order to test further this implication, we performed a counterfactual reform that adopts the new income criteria but keeps the age of child eligibility unchanged. The distributional outcomes of the counterfactual scenario were more progressive.

4. Inclusive labour markets

The labour market in Cyprus is characterised by a high gender pay gap that is attributed to the segregation of the labour market. Occupational segregation in Cyprus also exists between native and migrant workers, especially those from non-EU countries who are employed as domestic workers or in low-paid jobs in the construction and tourism sectors.

An issue of concern is related with the supply of child care services which do not succeed always to match effectively to family needs. This could be partly blamed on the gender wage gap, since the lack of adequate and affordable child care services implies a higher reservation wage for females (i.e. the opportunity cost of working or pursuing a rewarding career trajectory is high). Until 2009 the low share of employees in part-time jobs and the relatively low percentage of employees in non-standard employment helped keeping in-work poverty low; but in the context of the current economic crisis this trend may be now reversed.

4.1 Investing in human capital

Educational attainment is highly valued by the social fabric of Cyprus and strongly encouraged by the state. Primarily this is reflected in high public expenditure on education, as well as in educational output: rare illiteracy, low dropout rate and high participation in tertiary education. As a result Cyprus has a well-educated labour force that has contributed considerably to the economic growth of the country. The national targets, as set in the country's National Reform Program (NRP) 2012, focus on further increase of participation in higher education and reduction of the dropout rate from 11.9% to 10%.

No important educational reforms have taken place in Cyprus since 2008. However, there is an on-going effort to improve the performance of the educational system by various measures, including the introduction of lifelong learning and the gradual establishment of more multicultural curricula in schools. There is also an increasing awareness that education should respond to changing labour market needs. Following the Country Specific Recommendations (CSRs) the government has put recently emphasis on initiatives in this direction, such as new apprenticeship schemes, in-company training of students and upgrading the vocational training system. The aim of these measures is to modify the structural characteristics of the labour supply, especially help increase youth employment. Yet, in our opinion, the Cyprus state education system at all levels has a long way to go until its curricula become flexible enough to respond to labour market demand and be able to focus on sectors that have potential to expand.

⁷ Panos Pashardes (assisted by Maria Andreou) 'Impact of the economic and financial crisis on poverty and social exclusion', November 2011.

In spite of the fact that the participation in all educational levels is high, educational inequalities still exist, especially between native and migrant population groups. Several initiatives have been taken to encourage the integration of students at risk, such as the creation of Zones of Educational Priority and special programmes designed for students from migrant background.

4.2 Making work pay

Until recently the labour market in Cyprus was characterised by a low level of unemployment and low in-work poverty risk. As Table 6 illustrates being at work reduces the risk of poverty by more than half, while the share of working poor during the period 2007-2010 fluctuated from 6.3% to 6.9% - figures that are considerably lower than the EU27 average (8.4%-8.5%).

Without ignoring the fact that the level and distribution of wages is the outcome of complicated processes in the labour market, we attribute the low in-work poverty in Cyprus largely to the generosity of minimum wage and income tax allowance.

- The minimum wage in Cyprus is 870 euro upon recruitment and 924 euro after six months with the same employer. This is relatively high for a country with per capita GDP below 20,000 euro. The Employers and Industrialists Federation (CEIF) and the Cyprus Chamber of Commerce and Industry (CCCI) claim that the high minimum wage impede competitiveness and contributes to unemployment.⁸
- Income up to 19,500 euro per annum, a figure around the per capita GDP of the country, is tax-free. Thus the disposable income of the low paid is protected while, at the same time, employers' incentives to create jobs are not distorted.

The fact that in-work poverty in Cyprus is low does not mean that there no groups of workers whose situation needs consideration. As show in Table 6, females face systematically higher risk than males. In 2010, the difference between the in-work poverty of the two groups increased even further. Also, in-work poverty is strongly associated with type of contract. Individuals with temporary work face a disproportionately high probability of being poor. Possibly, in-work benefits can be used in order to increase the net wage of these groups. The recently introduced scheme for subsidising the child care of unemployed women who find a job is a step in that direction.

⁸ Yet we note that not all occupations are covered by the minimum wage legislation. More precisely, the law applies to only eight occupation categories: sales staff, clerical workers, auxiliary healthcare staff, auxiliary staff in schools, security guards and caretakers.

Table 6: In-work risk of poverty by gender, age, education and type of contract, %.

	2007	2008	2009	2010
Overall poverty	15.5	15.7	15.3	15.8
In-work poverty	6.3	6.0	6.5	6.9
By gender:				
Male	6.0	5.4	6.0	5.8
Female	6.7	6.7	7.1	8.2
By age:				
18-24	5.2	5.6	6.7	7.1
24-54	6.4	6.4	6.4	7.2
55-64	5.9	3.7	6.5	5.1
over 65	7.0	6.4	9.1	5.7
By education				
Lower secondary or less	10.2	10.4	11.2	12.1
Upper secondary	6.9	6.3	6.8	7.0
Tertiary	2.8	2.3	2.7	3.1
Type of contract				
Permanent	5.1	4.8	4.6	5.1
Temporary	16.9	15.4	16.2	18.1

Source Eurostat

In-work poverty does not appear to be strongly associated with age. It is, however, positively linked with education: about 12.1 per cent of low educated workers are poor, whereas the figure for medium educated persons is 7 per cent. Employees with tertiary education appear to face minimal risk of being working poor (only 3.1 per cent in 2010).

4.3 Labour market segmentation

As said above, the Cyprus labour market is characterised by a high gender pay gap. Christofides et al. (2009) estimate the unadjusted gender pay gap in Cyprus to be 24% in 2006 (the highest in the EU27 after Estonia), while the corresponding gap in the EU27 was around 15%. The authors demonstrate that the gender gap cannot be explained solely by differences in the average qualifications (education, experience) but a large part of it can be attributed to gender discrimination. Panayiotou (2006) argues that females in Cyprus face problems attributed to professional segregation. Women choose low paid jobs (mostly in the service sector) due to stereotypes and the need to balance work and family life. Thus, they engage in jobs that do not offer career opportunities. During the last years, the position of women in the labour market improved. Yet, this can reflect the rising employment and falling wages among men associated with the current economic crisis.

Migrants also form a group vulnerable to discriminatory practices in the labour market. According to Stavrou (2007) there is evidence of occupational segregation in Cyprus based on nationality. The majority of foreign employees work in the construction sector, the wholesale and retail trade, restaurants and the domestic sector (12.9%, 13.7%, 10.1% and 20.4%, respectively, in 2009). In these sectors wages tend to be relatively low. Koutsampelas (2012) estimates the group-specific poverty rates among ethnic groups and finds that immigrants face higher risk and depth of poverty than the native population. There is intra-group variation too:

poverty risk is considerably higher among non-Europeans; and, within the group of Europeans, migrants from West Europe are better off than those from Eastern Europe.

Econometric analysis shows that the labour market position of immigrants cannot be explained solely by socioeconomic characteristics, suggesting that a large part of it may be the outcome of the joint effect of several discriminatory practices. Migrants may be employed more often than natives in temporary or/and part-time jobs or, as said above, concentrated in low productivity (and low-paying) sectors of the economy. Or their position in the labour market may be hindered by language barriers, low awareness of employment rights, limited transferability of skills acquired abroad (for example degrees from third country universities are not officially recognised) and other cultural, and often unobserved, obstacles. The position of foreign workers is expected to deteriorate further due to the worsening conditions of the labour market resulting in higher risk of poverty and social exclusion.

Action is taken in recent years by the government to integrate those furthest away from the labour market and to enhance the employability of vulnerable groups, including the introduction of schemes to:

- improve the employability of economically inactive women,
- attract and assist economically inactive and unemployed people in the labour market through flexible forms of employment,
- provide incentives for hiring individuals with disabilities in the private sector and Local Authorities,
- provide incentives for hiring disadvantaged individuals in the private sector and Local Authorities,
- design training programs combined with programmes to supported the employment or entrepreneurship of persons with disabilities,
- offer Greek language, orientation and vocational training programmes to immigrants, and
- subsidise the self-employment of older people.

Several of the above schemes are co-funded by the ESF. The mix of these measures reveals that, in principle, are well suited for the purpose of building more inclusive labour markets; and that the government is informed about the problems and challenges of the market. Yet, despite progress made in several aspects, problems remain; and, even worse, the on-going economic crisis is exacerbating their social impact.

5. Access to services

5.1 Health care

The health care system in Cyprus consists of a private and a public delivery mechanism. Public sector is financed by the state budget and is the responsible for planning, organization, administration and regulation together with the services offered in health centres and the hospitals under the direct control of the Ministry of Health in form of primary care, specialists' services, diagnostic tests, paramedical services, emergency services, hospital care, pharmaceutical care, dental care, rehabilitation and home care. On the other hand, the private sector which is mostly financed by the entrepreneurs' payments and the voluntary health insurance is mainly seen in form of independent health practitioners, private companies or in form of partnerships between the doctors.

Although Cypriot health services are mostly considered as of high quality, one of the biggest challenges of the Cyprus public health system is its inability to offer a universal coverage. Almost 83% of the population has right to access to the public health system free of charge and the remaining population must pay according to fee schedules set by the Ministry of Health. Even though significant steps had been taken in order to create a National Health System in Cyprus, still there is further room for improvement.

But it should be noted that the long waiting lists and the bureaucratic dysfunctionalities of the system lead a large proportion of patients to seek health treatment in the private sector. This results in a high share of out-of-pocket spending on medical services by persons entitled to free public health care. Indicatively, around 50% of health care spending is for out-of-pocket purchase of medical services from the private sector. The dependence of households on out-of-pocket paid health care represents a particularly heavy burden for persons at high risk of poverty, like the elderly and those suffering from chronic diseases. Furthermore, the body of General Practitioners (GPs) is underdeveloped resulting in inefficiencies due to discontinuity and uncoordinated provision of health care (Andreou et al, 2010).

During the period of 2008-2012, no serious effort has been made to reform the system despite concerns expressed in the public debate. The government has sporadically announced several initiatives for reforming the health care system and in the latest Cyprus NRP 2012 speaks about a new timetable for the implementation of the National Health Insurance System (NHIS).⁹ The introduction of NHIS will address many inefficiencies of the current system while securing undeterred and equal access to health care services.

5.2 Child care

Gender imbalances characterise the Cyprus labour market and the need for coping with them has been highlighted by scholars (Christofides and Pashardes, 2000; Christofides et al, 2009), as described in the previous section of this report. At the epicentre of gender imbalances is the inadequate provision of child care, which limits mothers' employment opportunities. The benefits of upgrading child care provision are multi-fold and can: (i) reduce child poverty and prevent the intergenerational transmission of poverty; (ii) promote female employment; (iii) narrow the gender wage gap; (iv) eradicate the risk of poverty and social exclusion of highly vulnerable groups such as the mono-parental families; and (v) increase fertility rates.

⁹ Yet we note that postponing the implementation of the NHIS is a recurring theme in Cyprus.

Child care can, generally, be characterised by interdependencies between different social targets. For example, the lack of affordable child care raises the reservation wage (especially for low-skilled women) and, consequently, lowers female employment. According to an unpublished study of the SWS, child care cost in the private sector is calculated to be between 250 and 300 euro per month. Also most child care stations operate until noon and only during school term time (September to June, excluding Christmas, Easter and other school holidays). As a consequence many parents in Cyprus rely on grandmothers for the care of their children, thus reducing the labour market participation of women in the 55-64 age group. This is an interesting fact that highlights how family ties and social policy interact in Mediterranean societies. Furthermore, as our survey on public assistance recipients revealed, the care of dependents is among the obstacles for re-entering in the labour market.

The SWS, as part of their work-life balancing policies, have initiated recently a program for financing part of the cost of the child care for unemployed women. Its implementation has started in 2012 and it is planned to subsidise the cost of child care for 1,200 unemployed or economically inactive women, the condition being their labour market participation. The scheme appears to be well designed and, in our opinion, should be made permanent and universal. No plans, however, exists for such development in the foreseeable future.

5.3 Public transport

Despite recent efforts to improve the public transportation network, Cyprus lacks an adequate transport system. As a consequence, car ownership is one of the highest in Europe (579 cars per 1000 inhabitants in 2009) and public transport use is very limited. The upgrade of the public transportation services has not only environmental implications as it is usually highlighted, but also social. From an inclusion perspective, the lack of adequate network creates a spatial disadvantage for the poor segments of the population and limits their capabilities.

According to Pashardes (2011) transportation costs discourage public assistance recipients to (re)enter the labour market. Moving beyond employees' transportation costs (and the obvious labour market disincentive they imply), an inadequate transport network limits the capacity of an individual to fully participate in social life. The government has responded to this issue by providing transportation benefits to multi-child family and the disabled. The Cyprus NRP 2012 also refers to the need for further upgrading transport network. Nevertheless, the large cuts in public investment expenditure in the context of recent attempts to curb the escalating fiscal deficit do not nurture optimism that substantial progress towards that direction can be made in the near future.

5.4 Social assistance services

The responsibility for public assistance policy and the implementation of the respective law lies with the Minister of Labour and Social Insurance, who is advised by an ad hoc Advisory Board. The members of this board are appointed by the Minister herself/himself and represent various professional and other social organisations/institutions. The implementation of the public assistance law is carried out by the SWS through their welfare offices. Following recent efforts to decentralise for a more effective and efficient implementation of social policy, all districts in Cyprus now have their own local offices and the plan is to have more than one offices in the three larger districts in the near future: two new offices have been created in Larnaca, four in Nicosia and four in Limassol. Moreover, efforts are

made recently to enrich governance structure by involving local authorities and social partners.¹⁰

Complaints about delays in the processing of applications for public assistance are sometimes reported in the local mass media. Such complaints may not be entirely unjustified and individual cases surfacing from time to time help to indicate that the process described above does not always move as smoothly as one would wish. For example, a single mother recently complained to the ombudsman about a year long delay in the examination of her application. However, one needs to also understand the circumstances under which welfare officers examine applications for public assistance benefits before reaching conclusions about how efficiently the system is run. These applications are often filled by individuals that need a lot of help to make their case. Furthermore, the submission of an application is not always the only way through which applicants try to make an impression. They may resort to the use of threatening behaviour to 'persuade' welfare officers to succumb to their case. The welfare officers have long been asking for more protective measures because they feel that their physical integrity and belongings are in danger.

According to reports in the Cyprus media the government aims at reforming the scheme so as to provide more tailored and personalised services and support to the recipients, instead of covering all of them under the same umbrella. In parallel, it is likely that more strict eligibility criteria will be introduced.

5.5 Housing

Housing is an area not very relevant to active inclusion in Cyprus for the simple reason that homelessness and housing exclusion are rare phenomena in the country. Policies that prevent such risks have successfully targeted vulnerable groups such as the elderly, victims of family violence, the disabled, ex-offenders, drug-addicts, families with very low income and people with mental health problems. Mild forms of housing exclusion (poor housing facilities, lack of basic hygiene and other amenities) may still exist. Recently the Ministry of Finance cut several housing benefits in the context of the austerity measures. Yet, the cuts address benefits received by households on grounds other than income (e.g. families displaced by the Turkish invasion in 1974) and should not have an effect on housing for those at the bottom end of income distribution.

5.6 Long-term care services

The ageing of the population implies growing needs for the care of the elderly. At the same time, the upward trend of female participation in the labour market and the tendency towards small families, have increased even further the demand for long-term care. Yet this policy area is not so well developed in Cyprus. The system of social long-term care is the responsibility of the SWS. The supply of services is provided by the private sector, although several parallel initiatives are pursued by the state and local communities.

The demand for long term care services is, in many cases, subsidised by the state through in-kind or cash transfers. The public assistance scheme finances the care of elderly whose income is insufficient to meet their general and special needs. Disabled persons, irrespectively of age, are also covered by the same scheme. The SWS are responsible for the overall supervision of the public assistance scheme, the coordination of initiatives taken by local communities and the inspection and

¹⁰ One distinct feature of the social assistance scheme in Cyprus is that the director of the SWS plays a major role in the governance of the whole scheme, in the sense that he/she maintains considerable discretion over the decision to grant public assistance entitlement in special cases; and has the discretion to consider granting additional help to applicants for emergency needs.

evaluation of the quality of services provided by the professionals and home carers. Technical and financial support is provided through training programmes (directed at both professionals and home carers) and subsidisation schemes. During 2011, consultations took place in order to form new legislation regarding several aspects of the social protection system. The SWS are also preparing a new scheme which targets the elderly and other people with disabilities or chronic illnesses.

Few changes have taken place during the last few years with regard to long-term care. Yet demographic and family changes, among others, point to demand for long-term care continuing to increase in the foreseeable future, suggesting long-term care should be given high priority in the social agenda. Poverty in the old-age is very high in Cyprus, while the capacity of the social protection system to fight it through income transfers is currently limited due to the economic crisis, which is likely to impact on social policy funding for many years. It may, therefore, be wise to invest in long-term care by targeting the limited resources available to those in need.

Our opinion is that among other initiatives the state should examine the possibility of integrating long-term care in the social insurance system. Furthermore, we are in favour of a more active involvement of local communities and civic society. Decentralising the system is likely to also engage more private resources through increased volunteerism. Finally, we think that the interrelation between long-term care and ageing has not been stressed in the public discourse. Instead, the focus is usually placed in the sustainability of the pension system and in the health care reform. To remedy this unbalanced approach we would like to see more initiatives taken towards improving the long-term care services; and more attention paid to the design and implementation of these initiatives in the national dialogue.

6. Addressing challenges

6.1 Strategies

In this section, we combine our findings and arguments in previous sections of the report in order to assess to what extent Cyprus has designed and implemented an integrated comprehensive strategy for promoting participation in the labour market and fight poverty and social exclusion among the marginalised groups.

We acknowledge that during the last years the SWS have tipped the scales in favour of a more comprehensive activation approach by implementing various schemes co-funded by national and EU resources. Most of these schemes are well designed and make a relatively efficient use of resources. Furthermore the governmental approach can be viewed as comprehensive to the extent that measures cover all important fields and target a wide range of inactive social groups. But all these policies can be described as *parametric* reforms, whereas Cyprus needs *systemic* reforms that are often the outcome of complex and long political processes. The examples of child care and long-term care are particularly illustrative. As argued in this and previous reports, the provision of these services is inadequate and costly. Also highlighted in our reports is the importance of access to these services by disadvantaged groups, as well as the synergies with other social targets.

We believe that pertinent public services are aware of these policy challenges and several welfare schemes prepared during the last few years are in the right direction. Yet, our view is that a more holistic approach should be pursued. For example, the recently introduced schemes for subsidising child or elderly care of economically inactive women (subject to the condition of finding a job) may promote the labour market participation of females and marginally ameliorate gender imbalances. But the problem exists insofar the supply of care services remains inadequate, with many employed mothers being unable to enter the labour market due to the limited time of operation of child care centres. Some are able to purchase services that are home produced or bought in informal markets, e.g. from babysitters and other carers providing in-home services. More affluent families may employ an in-house domestic servant or buy the relevant services from the private sector. Nevertheless, this system is inefficient, in the sense that these alternatives to a universal child care system are expensive and far above the reservation wage of many mothers. It is also inequitable because only women with relatively high market wage can benefit from it.

Similar arguments can be put forward as regards long-term care. Public assistance provides long-term care for very poor families, while several long-term care subsidisation programmes have already implemented or are at the stage of preparation and consultation. These initiatives, at a certain degree, meet the needs of those at the bottom end of income distribution. A large part of the population, however, either produces these services within the household or purchases them from informal or formal private markets.

In summary, we believe Cyprus has made progress towards labour market activation, but in a somewhat unbalanced way: far more is done for income support than bettering access to quality services. Furthermore, as the economic crisis continues the country will be fighting to regain its competitiveness and control the increasing fiscal deficit and public debt. Social needs are going to increase steeply while the capacity of the current social welfare system to meet these needs will be reduced.

6.2 Governance

The active coordination among local, national and EU authorities and the active participation of social partners in the design of social policy has been traditionally underdeveloped features of the Cyprus social protection system. In spite of recent changes in its organisational structure still remains centralised and bureaucratic. This institutional setting does not favour the active involvement of all relevant actors to the development and implementation of strategies.

There has been recently considerable progress in integrating modern features in the social protection system of the country. For example, the SWS develop partnerships with regional and local authorities. Although not be so critical due to the small geographical size of Cyprus such spatial considerations are valuable in mobilising local stakeholders. According to officials we have interviewed, all the main stakeholders are encouraged to become involved with the design of social policy through discussions, advice and consultation. But we have also documented complaints by NGOs that their involvement is far from the level required mainly due to limited resources available to them and the strict timetables imposed on them.

In spite of these problems, it appears that the authorities responsible for social policy in Cyprus are now investing more in communicating their actions to social partners and asking for their feedback. This is illustrated, for example, in the actions of the SWS described in various parts of this report and by the Cyprus NRP 2012 documenting the opinion of stakeholders on several issues. This is good practice insofar as it promotes social dialogue and brings different perspectives to the debate.

6.3 Financial resources (National and Structural funds)

Cyprus is not among high spenders in the EU as regards social protection. In 2009, the country devoted 21% of its GDP to social protection, when the EU average stood at 29.5%¹¹. But when we focus on certain functions of the welfare state (relevant to social inclusion) we observe that some social inclusion expenditures are above the EU average. For example, 1.4% of GDP in Cyprus is channelled to social assistance, when the EU average is only about 0.41%. The level of family benefits is near the EU average (2.2%), while unemployment benefits are relatively low (only 1%) - but rising. Public spending on labour market interventions is also on the rise. For example, measures for enhancing employment incentives increased from 8.4 million in 2007 to 35.8 million in 2010. In general, the government has shown willingness to allocate national resources to promoting social objectives. Yet, as we explain elsewhere in the document, the increasing fiscal deficit forced several cash transfers during 2011 to be reconsidered. The political agenda, until 2011, was primarily focused on fighting poverty and then on preserving work incentives; fiscal imbalance was not a particular concern. After 2011 the picture has been reversed, with national social policy objectives taking a back seat. Given that the country is in front of boisterous economic, crisis is difficult to assess what is the 'correct balance' and to what degree social policy should subordinate to fiscal concerns. The constraints imposed on public finances, make the implementation of policies to achieve the 2020 targets depend largely on the EU financing assistance. It is estimated that the total contribution of Structural Funds during the period 2007-2013 is about 600 million). Although the Planning Bureau is the national and managing authority for the management of co-financed programmes, the European Social Fund Unit (Ministry of Labour and Social Insurance) is responsible for selecting and monitoring these programs. Following the requirements of the Structural Funds, Cyprus has set its own National Strategic Reference Framework

¹¹ ESSPROS database.

(NSRF) 2007-2013 which underlies the allocation of EU funds. The NSRF is implemented through the operational programmes: (a) Sustainable Development and Competitiveness, 2007-2013; and (b) Employment, Human Capital and Social Cohesion, 2007-2013.

The operational programme "Employment, Human Capital and Social Cohesion" is of particular interest to social inclusion, because it includes measures that support vulnerable population groups and promotes their labour market participation, as well as their integration to society. In this framework a variety of welfare schemes have been introduced covering a wide spectrum of policy areas. Looking at how the EU funds are distributed per policy area, however, we notice that a relatively low share has been devoted to improving the social inclusion of disadvantaged persons: only 2.2 per cent of total community budget according to the aggregated data presented in the 2012 NRP; while 16.6 per cent is directed to human capital investments and to improving the employability and adaptability of the working force. Since one of the by-products of the economic crisis is the intensification of poverty and social exclusion (a fact which was perhaps not fully taken into consideration in the initial design of NSRF), the allocation of EU funds should become relatively more skewed towards addressing social inclusion challenges, acknowledging at the same time that the profile of poverty has changed and new social needs emerge (e.g. increase of long-term unemployment, youth unemployment).

6.4 Monitoring and evaluation

Monitoring and evaluation of welfare programmes was acknowledged in our previous reports as relatively underdeveloped aspects of social policy in Cyprus. The European Social Funding has helped towards making progress in this direction by placing pressure on public agencies to better monitoring and evaluation. This is reflected in the setting of quantitative targets and objectives. Furthermore, public agencies appear to be leaning on more active participation of social partners through procedures of public consultation. However, there is still room for improvement as the social protection system in Cyprus continues to be rather centralised, in the sense that the social partners are not directly involved in the decision-making process but invited to express their views and provide feedback to the pertinent authorities. A new feature of the 2012 NRP is that these views, which in some cases are critical, are documented and disseminated. Even if this level of coordination between public and 'third sector' cannot be characterised as adequate, it drives policymakers to produce more transparent and quantifiable results. Indeed, the use of quantitative targets has intensified over the last few years, as policymakers increasingly base the design of social policy on such targets, while more efforts are made in order to produce more up-to-date data.

We are not aware of special arrangements that monitor the implementation of the Active Inclusion Recommendation, but certain instruments (Monitoring Committees) are set for monitoring progress and guarding the sound financial management of the Operational Programmes¹². An interesting feature of the Monitoring Committees is their pluralistic composition: they include officers of the pertinent ministries, representatives of the wide public sector and local authorities, trade unionists (Pancyprian Federation of Labour, Cyprus Workers Federation), other social partners (for example Cyprus Chamber of Commerce and Industry) as well as established NGOs (Pancyprian Volunteerism Coordinative Council, Cyprus Confederation of Organisations of the Disabled). Also a National Advisory

¹² Yet according to the Commissioner of Internal Audit, Andreas Labrianou, the administrative capacity of the pertinent authorities is partly impaired by the lack of personnel (http://www.stockwatch.com.cy/nqcontent.cfm?a_name=news_view&ann_id=156051).

Committee, chaired by the Minister of Finance, meets twice a year with the aim of monitoring progress towards EU2020.

Now the Achilles heel of social policy in Cyprus is impact assessment. Unlike other European countries, the National Reform Programme and National Social Report do not benefit from this type of assessment. Also, these documents do not receive the attention they deserve in the public debate; therefore, their role in the monitoring and evaluation of active inclusion strategies is not critical. As regards social experimentation and innovation very little, if any, is happening in the field of social policy in Cyprus.

7. Recommendations

In this section we bring together the main conclusions drawn from our analysis in various parts of the report and summarise our recommendations for improving the active inclusion strategy of the country.

- We consider the overall strategy for active inclusion as stretched too far in the direction of providing adequate income support. In contrast, access to adequate and high quality services receive relatively less attention. This unbalanced approach contributes to inefficiency and inequity of the social welfare system to fight poverty and social exclusion and needs to be rectified.
- Income support is adequate and plays an important role in keeping poverty and inequality at low levels. Nevertheless, the fiscal strain generated by the ongoing economic crisis raises doubts about the ability of the government to maintain the current cover and level of social assistance benefits. In our opinion, the best option available to the government is to limit the cover (rather than the level) of income support by targeting families at high risk of poverty and social exclusion. This effort should not be perceived as a contraction of the welfare state but as a prerequisite for maintaining the long-run anti-poverty capacity of the system.
- During the last few years several schemes have been implemented (and others are in the pipe-line) to promote the labour market participation of vulnerable groups. Their scope is usually to enhance the employability of the members of those groups and, basically, address issues concerning labour supply. Yet, in the light of the current economic crisis, what is observed is an alarming contraction of labour demand. Possibly, emphasis should be placed on preserving employers' incentives to create jobs, in addition to improving the skills of the inactive.
- Access to services is the most challenging social policy area in Cyprus. Child care, long-term care, health care and public transportation need to be reformed. Important steps have been taken, but our view is that there is still too many waiting to be done. A universal child care support system is necessary for combating the inefficiency and inequity of purchasing inadequate child care services from the private sector and in-home providers. The country is also in need of universal provision of long-term care services for similar reasons: public assistance and subsidisation programmes meet the needs of some families, while the bulk of the population is forced either produce these services within the household or purchases them from informal or formal private markets. Along the same lines (inefficiency and inequity of the current system) are the arguments for speeding up the establishment of the long planned - and repeatedly postponed - National Health Insurance System; and for improving public transport.

- The policymakers looking for effective active inclusion measures should take into consideration the shifting profile of poverty and social exclusion in the country. Youth and long-term unemployment are on the increase, whereas poverty among the elderly, although very high in Cyprus, is likely to follow a downward trend during the next few years - for reasons explained in this and previous reports.

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Summary tables

Table 1

To what extent has an integrated comprehensive active inclusion strategy been developed in your Member State?												
	Comprehensive policy design			Integrated implementation			Vertical policy coordination			Active participation of relevant actors		
	Yes	Somewhat	No	Yes	Somewhat	No	Yes	Somewhat	No	Yes	Somewhat	No
For those who can work		X			X			X			X	
For those who cannot work		X			X			X		X		

Table 2

To what extent have active inclusion policies/measures been strengthened, stayed much the same or weakened since 2008 in your Member State?									
	Adequate income support			Inclusive labour markets			Access to quality services		
	Strengthened	The same	Weakened	Strengthened	The same	Weakened	Strengthened	The same	Weakened
For those who can work	X				X			X	
For those who cannot work		X		X				X	

