



Poverty is a Political choice. *“Poverty is a long standing neglect by many governments, economists and human rights advocates.”* UN Rapporteur on Extreme Poverty and Human Rights Philip Alston. 9 July, 2020

Cyprus Antipoverty Network
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POVERTY WATCH

Cyprus - 2020

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“An imbalance between rich and poor is the oldest and most fatal ailment of all republics.” Plutarch’s

Introduction

The EAPN¹ Poverty Watch Reports do not attempt to be comprehensive national research reports on poverty. They start from the reality of EAPN members’ work, and the experience/priorities and voice of people experiencing poverty. Above all, they should be effective communication tools aiming to signpost key developments/trends on poverty, the impact of the policy: national/ EU, identifying the key issues that impact on the people in poverty and proposing solutions.

In this 15 years of action, the Cyprus Antipoverty Network (CAN)² attempts for the 1st time to write a Poverty Watch Report. This is taking place within the context and work of the European Antipoverty Network, in which the CAN is a full member since founded. 2020 also signals the 30th anniversary of the EAPN and the 15th anniversary of ‘CAN’.

Furthermore, we also had to consider, when writing the Poverty Watch the fact that, the Republic of Cyprus, came successfully out of a great financial recession which had a severe impact on social issues from 2011 to 2016. As a consequence Cyprus entered the Economic Adjustment Programme in 2013³ which was not primarily configured for the support of the people in need, rather than to sustain the financial condition and perspectives of the country.

Two additional notes for the reader of this report; in 2014 the Republic of Cyprus introduce the Minimum Income Scheme and in 2018 the General Health System.

Last but not least, the reader of this also needs to have in mind that, the Republic of Cyprus, like any other European country and all the other countries of the world, faced the consequences of the corona virus pandemic (COVID-19) which eventually influenced the social standards as well. The impact reverberations of the pandemic to the economy and further to the society are still to be finalized, since at the time of writing this report the special measures were still in force, in an effort to prevent the spread of the COVID-19 virus into the population.

Background

Cyprus Antipoverty Network is a network comprised by independent NGOs in Cyprus, dedicated to the fight against poverty and social exclusion together with people facing direct experience of poverty, since 2005. CAN is a full member of the European Antipoverty Network (EAPN), the European umbrella network with more than 30 national members and European Organizations.

Our aim is to eliminate poverty and promote the active participation of people experiencing poverty at local, national and EU level, as part of a more social and sustainable development model.

¹European Antipoverty Network, a pan European network of national and European wide NGOs, all with a common objective, the elimination of poverty and social exclusion.

²Seventeen (17) member organizations.

³ The **Economic Adjustment Programme for Cyprus**, usually referred to as the **Bailout programme** (2013-2016), is a Memorandum of understanding on financial assistance to the Republic of Cyprus in order to cope with the 2012–13 Cypriot financial crisis. It was signed in March 2013 by the Cypriot Government on one hand, and on the other hand by the European Commission on behalf of the Eurogroup, the European Central Bank (ECB) and the International Monetary Fund (IMF).

Poverty is a complex problem that manifests itself in many different areas of life. In order to eliminate it, an integrated, rights-based strategy with a clear vision is needed. This strategy must be based on international agreements that the EU promoted, like for example: the European Pillar of Social Rights and more globally the Sustainable Development Goals. Furthermore it is equally important to seriously consider the European policies, such as the Social Investment Package and the Active Inclusion. Finally, there is a need to take into consideration the new Green Deal, the new European strategy for the next 10 years.

To effectively lift people out of poverty it is essential that economic and other policies support practically social rights and not just in theory. National NGOs working with people experiencing poverty play a key role in achieving these goals through multiple channels as follows: proposing solutions, monitoring trends on poverty, have an open channel of communication with the Government and the EU, as well as raising awareness of the general public.

The Cypriot Poverty Watch Report 2020

The Cypriot Poverty Watch Report is part of a European project of EAPN. We do not attempt to provide a comprehensive academic report on poverty. The report starts from the reality of people experiencing poverty and the perspectives of the NGOs that support and work with them. Their main objectives are to:

- i. To monitor key trends and policy on poverty and social exclusion in national and European level.
- ii. To raise awareness about priority issues and impact/reality for people experiencing poverty
- iii. To propose concrete recommendations backed by example and evidence.

In the present report on poverty, we look at the latest statistical and developmental tendencies related to poverty, contributing with our views on the measures required to reduce poverty.

The latest complete data available are from the Cyprus Statistical Service and are those of 2019. In addition we have spoken with representatives from the Ministry of Labour, Welfare and Social Insurance in order to have a better view on the impact of the COVID-19 pandemic and measures taken by the Government.

In this report we also attempt a historic review of the development of the welfare system in Cyprus.

Summary

Based on the Cyprus National Reform Program 2016, the national 2020 target for the reduction of poverty and social exclusion is: ***“The Reduction of the number of people-at-risk-of-poverty and social exclusion by 27,000 people or decrease the percentage from 23.99% in 2008 to 19.3% by 2020.”***

However based on the Poverty Watch Report that follows, the above target is far from being reached. The latest data available (2019) shows that poverty percentage in Cyprus, the AROPE indicator, is 22.3%, which is below the 2008 percentage (23.6%). This is without taking into consideration the consequences of the COVID-19 pandemic to the economy in 2020, with the increase of the unemployment, being the main problem. This is likely to reduce the economic development and slow down the declining rhythm of the poverty percentage, towards reaching the NRP target for 2020 of 19.3%.

According to Cystat 22.3% or 194.400 people living below the poverty threshold and the unemployment rate at 6.8% in the second quarter of 2020, in comparison with 6.5% in the corresponding quarter of 2019. This is attributed mainly to those sectors of the economy that have the most impact by the COVID-19 pandemic. In this context, the Poverty Watch reports aims to highlight specific issues and groups of citizens who face particular problems of poverty and social exclusion.

Chapter 1 - 60 Years of Cyprus Republic – A historic review of the welfare system.⁴

Principally, what has to be put forward regarding Cyprus is size. Size in terms of territory, population as well as economy, has throughout history, dictated the fate of the island. Cyprus is a micro-state being highly dependent on the outside world and has therefore been characterized as a price taker dealing with problems of limited proportion.⁵

Since 1988 Cyprus has been officially ranked with the high-income economies of the world. Having its independence in 1960, the newly formed Republic of Cyprus, with limited development commenced by the British⁶, and inherited an economy with symptoms of underdevelopment. A sustained economic growth is characteristic for the years between 1960 and early 1974. By 1974, an escalation in the intercommunal fighting between the two communities (Greek and Turkish Cypriots), ended with the Turkish invasion to the island. The invasion left the island with 37% of its territory occupied by Turkey and a shattered economy. In spite of this very big setback, the economy of the island managed, within a relatively short time, to recover. This recovery is indicated by the impressive rate of real growth which averaged about 8.5% over the period 1976-81.⁷

In the 1980s the rate of growth of economic activities, in real terms, averaged 6.2% per year, and unemployment averaged 2.9% (even declining to 1.8% in 1990).⁸ The rate of economic growth in 1994 was approximately 5%, whereby unemployment averaged 2.7%, and inflation 4.7%. In addition to this, the 1994-98 Strategic Development Plan was designed within guidelines that emphasized adjustment of the policies of Cyprus in the socio-economic sector towards those in Europe, since the application of the Republic to become full member of the European Union.

In general terms the population as previously mentioned is relatively small. An important factor relative to the Poverty Watch Report is the fact that, Cyprus has “[...] a **gradual aging population**.”⁹ The aging of the population increased even more, by 1987 with the cohort of old aged persons +65 increased to 10.4%. A drop in fertility also occurred giving further impetus to this aging population. Although this does not compare to European populations who have a median age of approximately 38 years it must be pointed out that the population of Cyprus has not reached an advanced stage of aging. Primarily, what must be highlighted is the fact that these conclusions have undoubtedly an impact on the welfare state; in particular due to the limited population growth and the increase of the elderly combined with a decrease in the youthful population.¹⁰

Welfare state in the Republic of Cyprus

The size along with the history of the island also gave it an altogether different path towards becoming a welfare state than the post-war European states. Primarily the Republic in 1960

⁴Anthos Shekeris “THE CYPRIOT WELFARE STATE: CONTRADICTION AND CRISIS?”. THE CYPRUS REVIEW, p.113-134.

⁵Rodney Wilson. *The External Relations of the Republic of Cyprus*. (A Conference of the Cyprus Research Center, Nicosia and the Institute of Commonwealth Studies, University of London, 20-21 September, 1993), p.1.

⁶Sir David Hunt. *Footprints in Cyprus: An illustrated History*. (London: Trigraph Limited West Africa House, 1990), p. 294. “The British, the last colonial conquerors of Cyprus (1878-1960), in 1946 had initiated a Ten-Year Development plan which had injected planned change in the infrastructure, advanced the training of cadres and advanced the development of agriculture and water resources. This was however cut short when the war for independence broke out in 1955.”

⁷*The Republic of Cyprus: An Overview*, p.36

⁸Central Bank of Cyprus, pp.2-3

⁹Ioanna Chappa. *Demographic Change in Retrospect*. In E. I Demetriades, W.J. House and S. Matsis eds. *Population and Human Resources Development in Cyprus: Research and Policy Issues*. (Nicosia: Department of Statistics and Research, Ministry of Finance, 1992), p.29

¹⁰Ibid, p.41

inherited a similar, but limited and basic social welfare system, to that of its colonial power Great Britain. A social welfare policy was introduced in Cyprus for the first time in 1946 by the British administration. Republic of Cyprus, obtains its independence from the United Kingdom in 1960. After independence, social welfare became the responsibility of the Department of Social Welfare Services under the Ministry of Labour, Welfare and Social Insurance¹¹.

In the early 1960's a '*Public Assistance Scheme*' was created for the relief of poverty which was administered by District Commissioners. What can be highlighted from the colonial era is the fact that, the excellent legislative and administrative foundation left behind allowed the modern social welfare service to be built.¹²

In 1964, after Cyprus independence, social insurance was expanded to cover the largest part of the population. While at that time social policy in the newly born state started to develop, social spending was representing a small proportion of GDP and provisions were often insufficient.¹³

The Cyprus Government committed itself to an active role in social policy when it stated in 1967 that "*it recognizes that health, education and other social considerations affect and are interdependent on a vast complex of variables which determine both the social and economic welfare of the island*".¹⁴

By the 1970s, social welfare had evolved into a body of activities designed to enable individuals, family groups, and communities to cope with social problems. In the late 1980s, the State provided five main categories of service¹⁵. In 1973, Cypriot citizens were made eligible for financial assistance "*for the maintenance of a minimum standard of living, and the satisfaction of his basic needs*". The ultimate objective of these services was to make their recipients socially and economically self-sufficient.

By the time of the Turkish invasion in 1974, public assistance expenditure was minimal, given full employment and comparatively high living standards¹⁶. The years immediately after the invasion saw a growth of public assistance services. In fact, the importance of an effective social services system has been especially apparent in Cyprus since the Turkish invasion and the military occupation of 1974 of the 37% of the island by Turkey. The uprooting of a third of the population created many social problems and increased dependence of vulnerable groups on the Republic.

Initially, Government spending focused on meeting the basic survival requirements of refugees and others through cash grants and aid in kind. Gradually has moved towards providing long-term housing services, free secondary education, health services, and a wage-related social insurance scheme, scholarships and loans for needy students to study abroad, infrastructural buildings such as new schools, hospitals and various welfare institutions, such as old peoples' homes, geriatric centres, community welfare centres, children's and youth homes, hostels and day-care centres.

For that to be able to be implemented, national resources were increasingly directed to welfare policies addressing the needs of the refugees and other war victims. This historical turning

¹¹<http://www.country-data.com/cgi-bin/query/r-3501.html>

¹² Takis Konis. "*The Progress of Social Welfare Services*." J. Charalambous and G. Georghallides. *Focus on Cyprus*. (London: University of North London, 1993), pp. 90-91.

¹³ "Welfare in the Mediterranean Countries", Republic of Cyprus, 2004.

¹⁴ Panos Pashardes, Christos Koutsampelas, "SOCIAL PROTECTION IN CYPRUS: OVERVIEW AND CHALLENGES", Economic Policy Papers, No. 05-17, September 2017, *Economics Research Centre, University of Cyprus*.

¹⁵ (1) Delinquency and social defence; (2) child and family welfare; (3) community work and youth services; (4) social services to other departments; and (5) public assistance.

¹⁶<http://www.cyprus.gov.cy/cyphome/govhome.nsf/0/65E78C2D007A54D9C2256A7100399744?OpenDocument&languageNo=1>

point caused financial strains and weakened the ability of the state to make adequate social provisions.¹⁷

Thus, the actual importance of efficient and effective social services became apparent after the events in 1974. The sheer fact that a third of the population was uprooted resulted in the creation of many social problems and an immense increase of vulnerable and dependent groups on the state. In fact, as Christodoulou clarifies, the development agenda was radically altered with the refugee crisis topping it.¹⁸ Aid, as the long term was to indicate, was used effectively and in fact what actually occurred as Zetter states was that "... *despite the rural-agrarian origins of the majority of the refugees, they were incorporated into an urban wage-economy through labor intensive policies structured around an urban industrial base.*"¹⁹ Indeed:

"[...] paradoxically [and ironically] the remarkable experience of Cyprus over the last two decades in rebuilding its economy from the disaster of ethnic conflict now provides a very significant model for the reconstruction which will inevitably have to take place much closer to the European core, Cyprus is well placed to advise other European states on the issues of large scale forced migration from its experience!"

One of the most significant aspects of social protection system in Cyprus was the Public Assistance Benefit (herein after "PAB") which was designed to provide assistance for those with not enough recourses to cover their basic needs. The primary legislation has been established 1975, and was considered as a form of a minimum income scheme. It was supplemented by targeted programs for specific vulnerable groups. However, by evaluating the entire system, there were evidence that it is not providing adequate support to people with real needs, making the social solidarity system quite ineffective and socially unfair, perforated with significant leaks and gaps.²⁰

PAB was considered the foundation of social welfare, but with negative criticism regarding its impact to the real problems of the society and regarding the uncontrollable spending.²¹

The first important welfare reform in Cyprus took place in 1980, when the House of Representatives voted the Social Insurance Law of 1980, which established the current Social Insurance Scheme in Cyprus. This new scheme, which introduced a proportional scheme of contributions by abolishing the flat rate character of the previous scheme, provides until today a wide array of short- and long-term earnings-related contributory benefits, such as family benefits, unemployment benefits, employment injury benefits and pensions. In parallel, non-contributory welfare policies started to develop so as to achieve a better social protection balance between the employed and the non-employed. In the early 00s, the existing child-related tax allowance was substituted by a universal child benefit, thereby correcting an important redistributive injustice. The child benefit contributed significantly in keeping child poverty at low levels during the coming decade.²²

By 1981 Cyprus could be classified as a welfare state within the parameters set by Mishra, for the government clearly defined its social policy with the following three basic objectives:

¹⁷ Panos Pashardes, Christos Koutsampelas, *ibid.*

¹⁸ Christodoulou, D. (1992), *Inside the Cyprus Miracle: The Labours of an Embattled Mini-Economy*. Minesota: University of Minesota, p. 11.

¹⁹ Roger Zetter. *The Greek-Cypriot Refugees after Two Decades: Perceptions of Return*. (A Conference of the Cyprus Research Center, Nicosia and the Institute of Commonwealth Studies, University of London, 20-21 September, 1993), pp.3,15.

²⁰ This conclusion is a result of the 2009 National Report on the Cyprus Minimum Income Program.

²¹ Nicos Satsias, PhD, "*Minimum Income in Praxis. Cyprus Reality and the European Minimum Income Network (EMIN)*", *The Cyprus Review*, Vol. 31(2), p.55.

²² Panos Pashardes, Christos Koutsampelas, *ibid*, Pashardes, 2007.

- To secure a minimum acceptable standard of living for all citizens, especially for those who do not participate, or participate to a limited extent, in the productive process.
- attain a more equitable distribution of the national income and the tax burden, both between different income groups as well as regions; special emphasis being attached on improving the income position of the refugees.
- Implement as well as improve existing social programs by preparing the introduction of new institutions, programs and schemes aiming at the steady improvement of the social services so as to respond effectively to the expectations of those in real need.²³

These were to be achieved through a wide variety of social services such as the implementation of a massive house program, introduction of a wage related social insurance scheme, provision of free medical services to the needy, and the extension of free education to the first three classes of general education as well as to all technical and vocational training.

By 1987, when the economy was fully restored, there were only 5,087 recipients of public assistance, half of whom were aged or disabled. Public assistance provided minimum income support to families or individuals who suffered from income deprivation and thus contributed in reducing extreme forms of poverty. This scheme, however, had several drawbacks, including the lack of universal coverage, incorrect targeting and inadequate labour market participation incentives.²⁴

In all, if we could in a nutshell, list the variables of the welfare state in Cyprus we could say that it was a mixture of income support, other employment-related benefits (for unemployed injuries, illness), an evolving and changing pension system, public health and long term care, and public, compulsory education, from the age of 4 to 5 (primary and secondary).

Nevertheless by evaluating the historic developments there is evidence that after two critical periods of time with the 1st one the events in 1974 and the 2nd the economic crises of 2012, there was a push for deep systematic reforms of the social protection system. To sum up the economic crisis brought the immediate need for support to a significant part of the population and therefore to realise that the existed system was insufficient.

The latest developments which are considered as an immense step forward are the introduction of the Cyprus Minimum Income System in 2014 and the introduction of the National Health System in 2017.

2012-2015 – Poverty during recession in Cyprus²⁵

As already mentioned in the introduction of this Poverty Watch Report, the 2012-2015 recession in Cyprus caused significant distributional changes, which affected social outcomes. The Cypriot labour market was considered as a rewarding one before the economic crisis, in terms of offering good wages and attractive employment opportunities. It was also characterised by very low unemployment rates. The crisis has drastically deteriorated the situation in the labour market; a fact reflected both in terms of high levels of joblessness (unemployment still stands above 10% in 2017) as well as in the rising trends of non-standard employment.

The evolution of at-risk-of-poverty and social exclusion (ARPE) rate during 2009-2015 shows that the percentage of the population below the poverty threshold (i.e. 60% of the median equivalised income) has risen from around 20% to 28.9% in 2015; is far above the stated national Europe 2020 target of 19.3%, which seems non-achievable, unless drastic social policy measures are taken.

²³ The Republic of Cyprus. Cyprus. (Nicosia: Press and Information Office, 1994), p. 159.

²⁴ Panos Pashardes, Christos Koutsampelas, *ibid.*, (Pashardes and Polycarpou, 2011).

²⁵ The data and conclusions are from the papers published by Panos Pashardes, Christos Koutsampelas, "SOCIAL PROTECTION IN CYPRUS: OVERVIEW AND CHALLENGES", in 2017.

The AROPE rate contains information showing a more accurate picture of the incidence of lack of sufficient resources among person. In order to consider the at-risk-of-poverty or social exclusion rate (AROPE) measures additionally to the monetary two more concepts; material deprivation (lack of necessities) and exclusion from the labour market (living in a household with very low work intensity)²⁶.

Income inequality has also risen significantly and stands at high levels. The Gini index²⁷ increased from 29.5 in 2009 to 33.6 in 2015. Although income disparities are widening, not much emphasis is placed on combating inequality through direct policy interventions²⁸.

Taking into consideration the AROPE indicator, a worrying fact is that almost one out of three children in Cyprus faces the risk of either poverty or social exclusion. Child poverty traditionally stood at low levels in Cyprus for a variety of reasons (see Pashardes, 2007), reached 28.9% in 2015 (from around 20% in 2009).

In-work poverty also follows an upward trend reaching 9.1% in 2015. This level is not particularly high compared to the data among European countries (EU28: 9.5% in 2015). However, before the recession was around 6% (2008), which rise up at 9.1% in 2015, and 6.7% in 2019.

Nevertheless, differences in poverty rates among groups are more obvious. The most impressive change is observed with respect to poverty in the old-age/elderly, which from 48.6% in 2009 (one of the highest rates recorded in EU countries) is reduced to 20.8% in 2015, still 9% above the national percentage (AROPE). The main explanations of this distributional shift are that the income of persons aged above 65 is more resilient to the effects of economic crisis compared to the rest of the population (i.e. the crisis affected mostly the income on non-pensioners through job losses and wage reductions) and the gradual maturation of the pension system²⁹. So because of the reduction on wages there was a reduction to the actual poverty threshold (60% median equivalized income) and therefore the reduction of the percentage of pensioners below AROBE, is clearly subjective. It has to be noted that the reduction in wages did not go together with reduction in prices.

Despite the tight fiscal constraints, social spending increased since the beginning of the recession, both in relative (from 19.1% to 23% of GDP) and in absolute (from 3.6 to 3.9 billion euro) terms. However, the disaggregation of social expenditure shows a mismatching between social outcomes and the allocation of social spending.

It will be an omission not to add that, during the set financial crises, the Economic adjustment Programme of Cyprus, included the introduction of a Guaranteed Minimum Income (GMI) system, which was supposed to provide support to everyone in need and be the last safety net for those who did not have the ability to survive under a decent level of living. The fact that austerity measures and additional reduction in social expenditures reflected in the MoU, was quite an oxymoron, since a new system required, apart from social and legal reforms, an alternative financing, in order to become viable.³⁰

²⁶ Further analysis on the AROPE rate please see chapter 2.

²⁷ In economics, the Gini coefficient, also called the Gini index or Gini ratio, is a measure of statistical dispersion intended to represent the income inequality or wealth inequality within a nation or any other group of people. [https://en.wikipedia.org/wiki/Gini_coefficient]

²⁸ Panos Pashardes, Christos Koutsampelas, *ibid*, p.11.

²⁹ The current pension system was introduced in the '80s and pensioners at the top end of the age scale retired before making enough contributions to be entitled to full pension. Poverty among the elderly declines over time in proportion to the decline of the share of these retirees in the pensioner population.

³⁰ Nicos Satsias, *ibid*, p.61.

Closing – Overview

Summarizing, the history of the Cyprus welfare state is a tale of an ongoing evolution, characterised not only by back and forth, but also by a positive tendency to take advantage of unanticipated events (like the Turkish invasion in 1974 and the 2012-2015 economic crisis), as opportunities for social reforms and thus, reforms to the welfare system structure. What is more, these social reforms drew support by all major political parties.

It can be said that nowadays Cyprus possesses a modern welfare state consisting of a wide array of cash and in-kind (provision of services) benefits. About 22.2% of GDP is devoted to social protection policies. This figure is 5.4% points below the EU28 average, but characterised by an increasing trend³¹. Indicatively, social spending fluctuated around 14% of GDP before Cyprus accession to the European Union. The largest part of this spending is channelled to pensions and contributory benefits; while a smaller part is allocated to minimum income and other non-contributory benefits. The most important in-kind transfer is education, which is provided free of charge at all levels, including tertiary studies. At the same time, several other public services are provided at partially or fully subsidised prices to targeted population groups. The lack of universal health coverage, only coming into force in 2018, was a recurring point of criticism of the current system; with the expectation that the new National Health System is going to fill the gap.

Regarding its architecture, the Cypriot welfare state shares elements from different models and as such, its classification is not straightforward. It has certain features that are inherited from the British colonial era. At the same time, it shares commonalities with the typical Mediterranean welfare regime, such as the active role of family in complementing insufficient statutory provisions and political clientelism. Furthermore, the economic crisis encouraged the adoption of means-testing practices typically met in liberal welfare states; while the EU membership has helped the transfusion of practices and ideas from other, usually more advanced, European systems.

³¹ Data 2017.

Chapter 2 - What is Poverty and how do we measure it

Absolute and relative poverty

What is absolute poverty?

Absolute or extreme poverty is when people lack the basic necessities for survival. For instance they may be starving, lack clean water, proper housing, sufficient clothing or medicines and be struggling to stay alive.

The United Nations tends to focus its efforts on eliminating absolute or extreme poverty. The first goal of the United Nations Millennium Development Goals is to eradicate extreme poverty and hunger. Eradicating extreme poverty is translated into the targets “*By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day*” (1st target) and “*by 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions*” (2nd target). Still, more than 836 million people are living in extreme poverty at the global level. (UN, 2017)

Although absolute poverty is more common in developing countries, it has increased considerably in Europe over the last few years, particularly with the crisis and the consequent austerity measures.

What is relative poverty?

Relative poverty is where some people’s way of life and income is so much worse than the general standard of living in the country or region in which they live that they struggle to live a normal life and to participate in ordinary economic, social and cultural activities. What this means will vary from country to country, depending on the standard of living enjoyed by the majority. The European Union’s Social Inclusion Process uses a relative definition of poverty.

The concept of ‘at risk of poverty or social exclusion’ (ARPE)

Until 2010, relative poverty was the main focus when monitoring poverty at the EU level. In 2010, the EU adopted the Europe 2020 Strategy, aimed at guiding the EU towards a smart sustainable and inclusive economy. Among the five headline targets of this strategy, a poverty target was adopted for the first time, to reduce by 20 million the number of people ‘*At Risk of Poverty or Social Exclusion*’.

The poverty threshold has been set at 60% of the national median equalized household, disposable income. Therefore, the indicator for the people at risk of poverty (AROP) rate is the share of persons with an equalised disposable income (after social transfer), below the risk-of-poverty threshold. It measures relative poverty and not absolute poverty.

At Risk-of-poverty or social exclusion (ARPE) rate indicates the percentage population that leaves under the poverty threshold (AROP), or severely materially deprived (SMD) or living in a household with very low work intensity (LWI).

Severely materially deprived is the population living in conditions severely constrained by a lack of resources, they experience at least 4 out of 9 of the following deprivation items: Cannot afford 1) to pay rent or utility bills, 2) keep home adequately warm, 3) face unexpected expenses, 4) eat meat, fish or a protein equivalent every second day, 5) a week holiday away from home, 6) a car, 7) a washing machine, 8) a colour TV, or 9) a telephone.

Very low work intensity (LWI) is the percentage of the population aged 0-59 that was living in households whose adults (aged 18-64) worked less than 20% of their work potential during the past year.

Adequacy of a system is interconnected with dignity and the levels of relevant poverty;³² however these two indicators do not only differ from each other in theory and philosophy, but are also used differently by each country. In order to understand the difference and the importance when we set the poverty threshold, let us see the Cyprus model, in real numbers.

Cyprus adopted the decent level of living which is currently institutionally accepted through the legislation of minimum income. However, in reality, this is below the relevant poverty threshold. In 2018, the 60% of the median income, setting also the poverty threshold was €9.202 income per person per year. The minimum income amount for a single person family €6.240 per year for 2018. The unorthodoxy is obvious. The minimum income allowance is below the poverty threshold.

³² Relevant poverty is calculated by Eurostat as the 60% of the median country income (AROP). This is the threshold of poverty.

Chapter 3 - Realities of poverty and social exclusion in the Republic of Cyprus 2020³³

In Cyprus, poverty is predominantly relative, that is it refers to people that are disadvantaged when compared to the standard of living of the rest of the population. Relative poverty is generally defined by reference to "**Poverty Risk**".

Eurostat and the Cyprus Statistical Service use the AROPE index to measure relative poverty. In addition to people's income, the index measures, in nine (9) parameters (baskets), their financial inability to:

- 1) pay rents, mortgages, bills, consumer or mortgage loans,
- 2) go on holiday for at least one week per year,
- 3) eat meat, chicken or fish every other day,
- 4) Manage unexpected needs of 480 /512 EUR in Cyprus,
- 5) have a landline or mobile phone,
- 6) colour TV,
- 7) washing machine,
- 8) car,
- 9) have access to heating in the winter or cooling in the summer.

Lack of four (4) out of the nine (9) parameters mentioned above means that one person lives below the poverty limit and in severe material deprivation. One other factor that co-shapes the AROPE indicator is "*underemployment*" (living in low-income households). The indicator is the basis on which the European target of reducing the number of people living in poverty or the risk of social exclusion by 20 million in 2020 will be measured.

The latest available data for the Republic of Cyprus, from the Cyprus Statistical Service are those for 2019. It is significantly important to note that in 2013 there was an economic crisis and in 2014 the Cypriot Government introduced the Minimum Income Scheme.

From 2008 to 2012, relative poverty in Cyprus experienced decreasing trends, with people living at risk of poverty (AROP) accounting for 14.7% of the total population in 2012, (relative poverty), the lowest rate in the four (4) years. That number started to increase after 2012, reaching 16.2% in 2015 (the highest). Reducing slightly, reaching 15.4% in 2018, and then increasing again in 2019 to 22.3%, according to the latest available data.³⁴

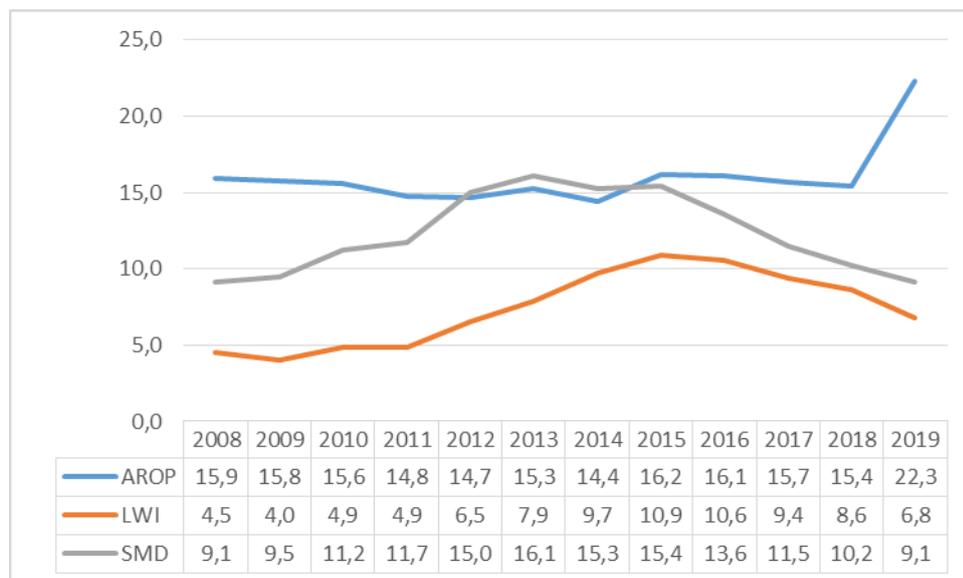
According to the latest relevant survey, the rate of extreme poverty³⁵ and AROPE rate, in Cyprus, during the same period, 2008-2018, shows a different trend; from 23.3% in 2008 to 27.1% in 2012, reaching 28.9% in 2015, almost one third (1/3) of the population in the Republic of Cyprus, and the highest since 2008. After that we have a decreasing trend, from 27.5% in 2016 to 22.3% in 2019, which is below the 2008 percentage.

³³ Source: Statistics on income and living conditions, 2008-2019, (Last Updated 24/08/2020), 2020, REPUBLIC OF CYPRUS, STATISTICAL SERVICE.

³⁴ Ibid

³⁵Percentage of population which cannot afford to pay at least 4 out of 9 material deprivation items (severe material deprivation).

Figure 1: Poverty and social exclusion - (% of total population)



Interesting enough, if we see the trend of the 3 indicators, AROP, SMD and LWI that forms the % of at risk of poverty or social exclusion we can make the following observations:

- all 3 have an increased tendency, reaching the highest level in 2015;
- AROP although after the increase in 2016, had a falling course, in 2019 risen by 5% to reach 22,3%;
- the LWI indicator has been doubled from 2008 (4,5%) to 2019 (6,8%);
- SMD although have been risen from 2008 to 2015, retreated in 2019 almost the same level as in 2008.

What is also important to note is the fact that, the risk of poverty rate is even higher before the social transfers³⁶. In this regard quite important conclusions can be made.

The first one is that, pensions reduce the risk of poverty and provide the citizens an income to live in dignity.

The second one is that, the risk of poverty rate before any social transfer has risen, from 30.7% in 2008 to 38.8% in 2015, in order to drop to 35,1% in 2019.

³⁶ Social transfers: Social transfers include all pensions (old-age, disability, invalidity etc) and benefits (family-related, sickness, education-related, social assistance etc).

Figure 2: Risk of Poverty before social transfers



With the relative poverty rate (AROP) at 22,3% in 2019, indicatively, the most affected social groups are:

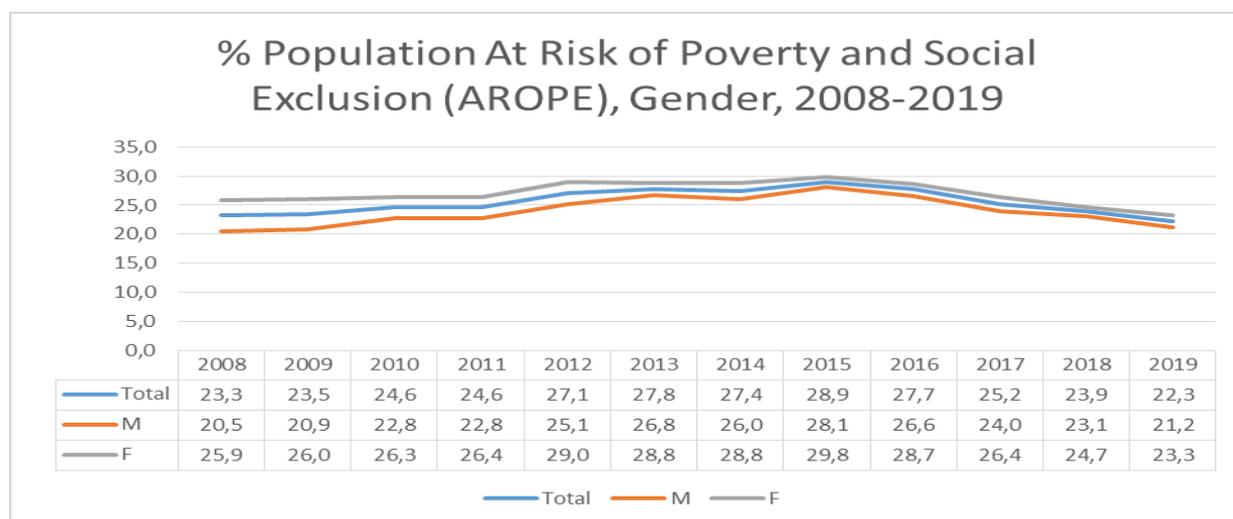
Gender and poverty

It is an undeniable fact that poverty has a gender, and that is female. During 2008, the female poverty in Cyprus, both in AROP and AROPE was higher than the male poverty. As shown in Figure 3, the female poverty in 2008 in the AROPE rate was 25.9%. At the same time the male poverty in 2008 in AROPE rate was 20.5%.

During the last ten years (2008-2019), we see that there is an increase in the male poverty from 20.5% in 2008 (AROPE rate) to 28.1% in 2015, and afterwards a decrease the next four years and by 2019 a reduction at the level of 21.2%. This does not go without an explanation, with the main reason being the fact that the economic crisis (2012-2015), first and foremost, affected the construction industry, the vast majority of which the employees are males.

When perceiving the female poverty, the AROPE rate shows a completely different picture, with a rising trend. From 25.9% in 2008, the female poverty is reaching the highest level in 2015 to 29.8%, which then started withdrawing and during 2019 becoming 23.3%, still higher than the male poverty rate.

Figure 3 (%) Gender Poverty in % (2008-2019)

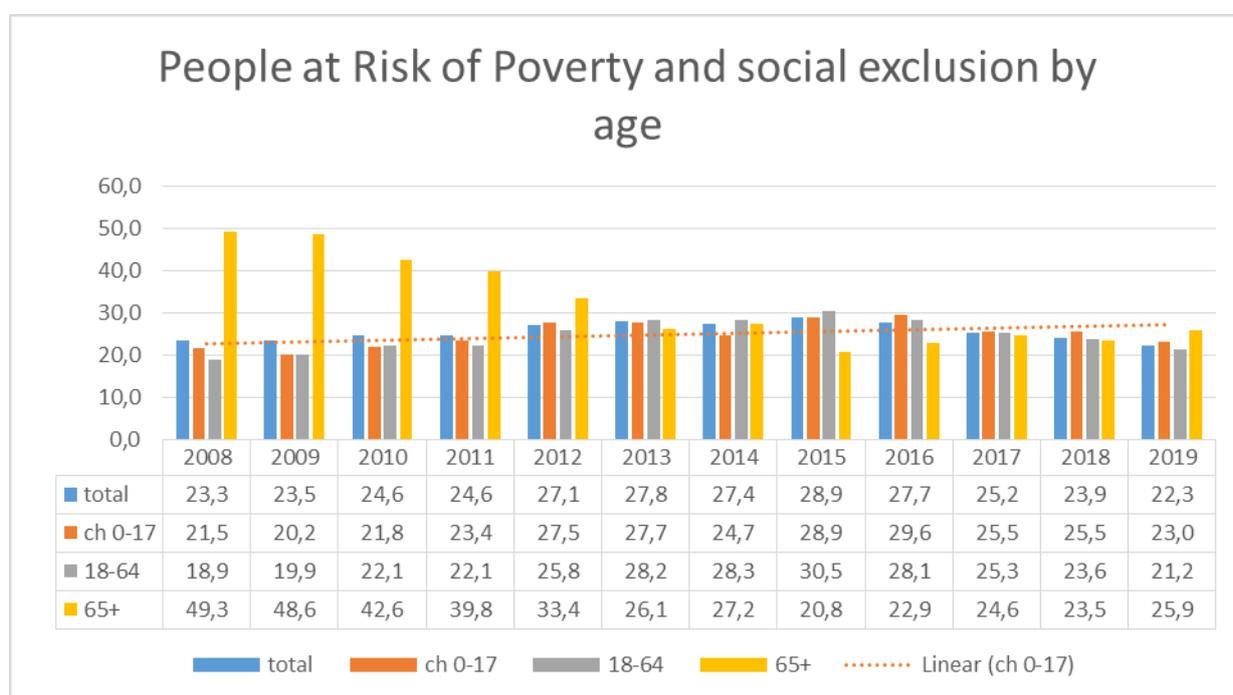


Child Poverty (0-17)

One of the main characteristics of the decade is the increase of the child poverty. From 21.5% in 2008 there is a recorded increase in 2016 (to 29.6%), before reducing to 23% in 2019. Note that the European average for 2018 is 23.4%. The household structure has a significant effect on the total household disposable income. In fact, different types of households have different at-risk-of-poverty profiles, with most noteworthy affected group the children living in single parents households. Further, very low work intensity households with dependent children are at the highest risk of poverty or social exclusion.

When compare to poverty for people +65 we see that, while there is an upward trend on child poverty from 2008 to 2016, the trend of the at risk of poverty for the population +65 has declined by almost 50%.

Figure 4: Poverty and age/ Child poverty



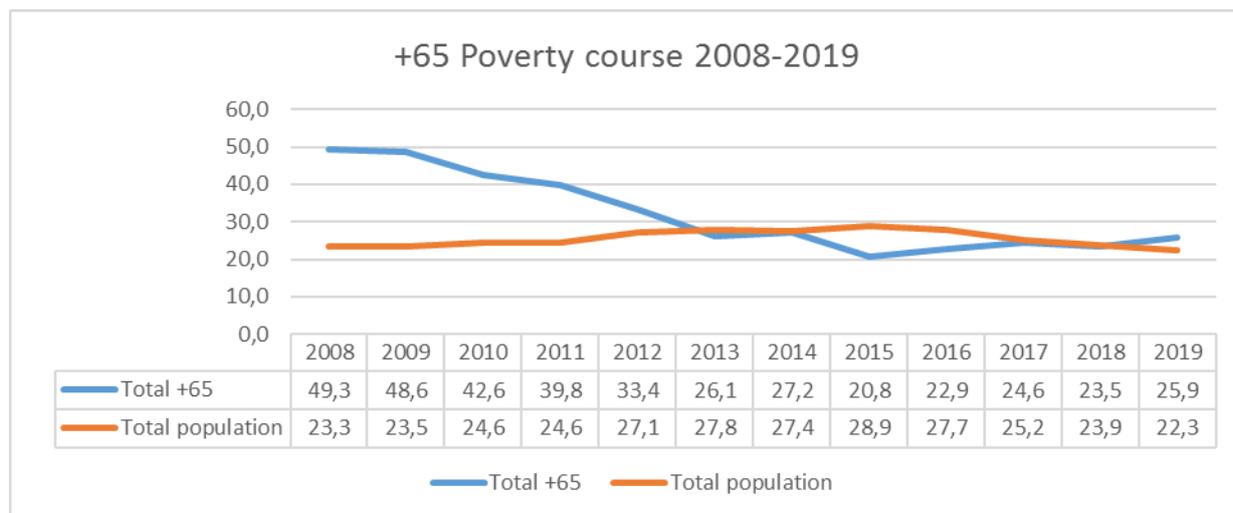
People 65+ years of age and poverty:

Poverty in the elderly population (+65) has reduced from 49.3% in 2008 to 20.8% in 2015 (AROPE). Similar reductions have been recorded for the Severe Material Deprivation rate (from 10.9% to 2.5% within ten years, 2008-2019). The improvement in the relative income position of the elderly is also reflected in the numbers which shows the relative median income ratio³⁷ and the aggregate replacement ratio.³⁸

³⁷This is the ratio between the median equivalised disposable income of persons aged 65+ over the median equivalised disposable income of persons aged up to 64).

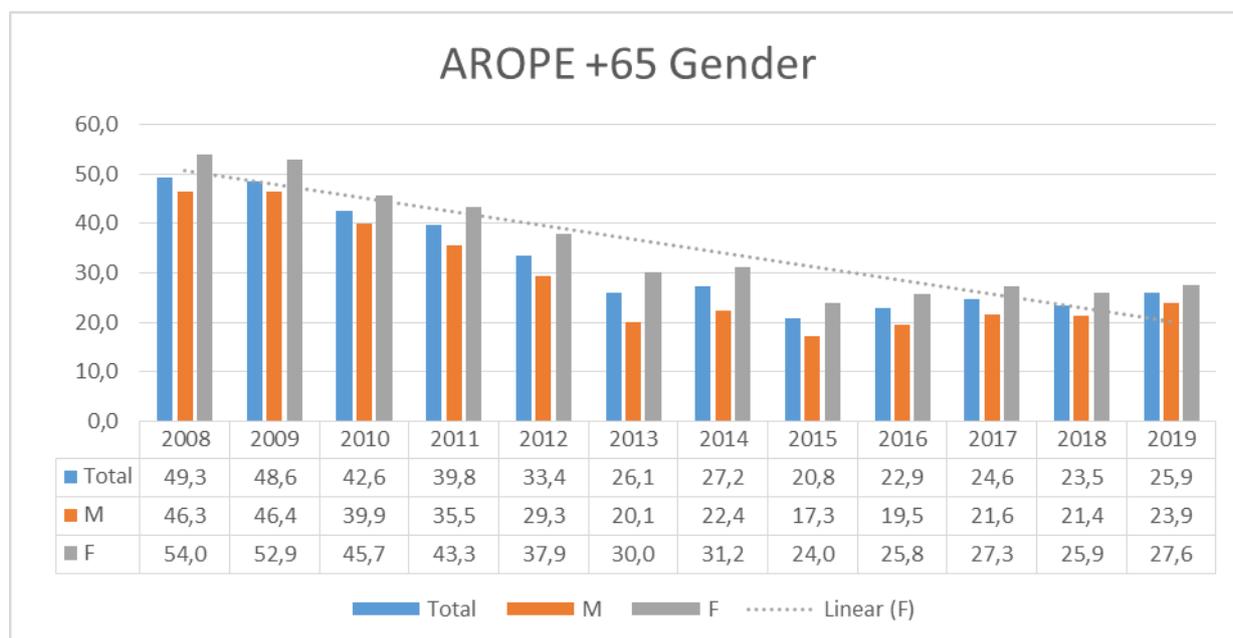
³⁸ The relative median income ratio has been steadily improving during the last few years to reach 0.80 in 2015, from 0.61 in 2009. The aggregate replacement ratio increased from 0.37 to 0.43 over the same period.

Figure 5: Reduction on +65 poverty trend 2008-2019, %



If we compare the risk of poverty and social exclusion by age, apparently the risk is higher in +65 age group 49.3% (AROPE 2008) compared to the 23.3% of the total population. The risk is even higher for women than men, on that age group (+65), since the percentage is at 54% whereas, for men is 8% lower, at 46.3%.

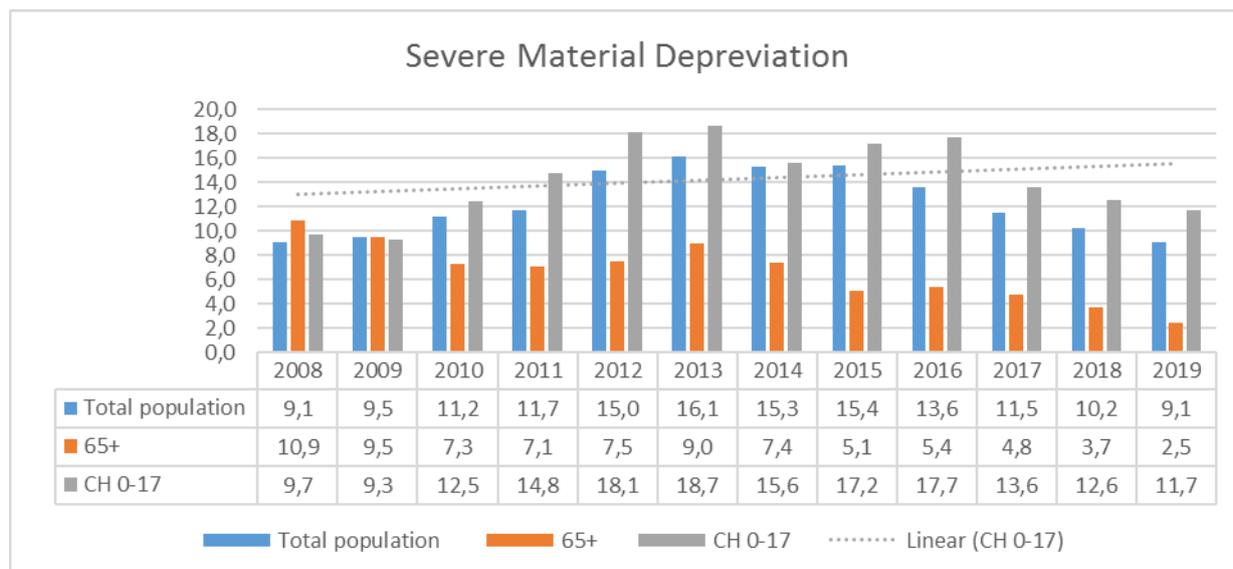
Figure 6: +65 Gender poverty 2008-2012, in % AROPE



Severe material deprivation

The percentage of the population which cannot afford to pay at least 4 out of the 9 material deprivation items, during the last ten years (2009-2019) has risen from 9.1% to 16.1% in 2013 in order to subside to 9.1 in 2019. If however, we examine the data further, and by age group, we see that there is an impressive reduction of the percentage in the +65 age group, from 10.9% in 2008 to 2.5% in 2019. At the same time there is an increasing course of the child poverty.

Figure 7: Risk of Poverty and social exclusion – Severe Material Deprivation

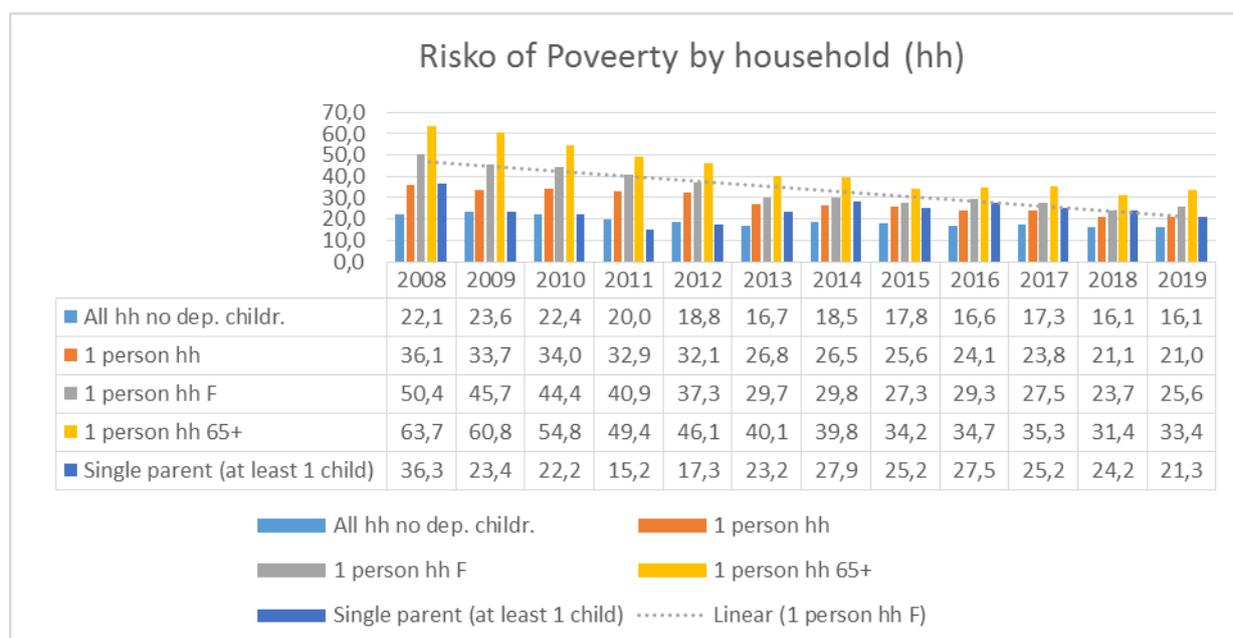


Risk of poverty by household type

Another very interesting indicator, when discussing poverty and social exclusion is the risk of poverty rate by household (hh). Although there is a declining tendency in all groups, our attention should go to specific groups. The risk of poverty is extremely higher in 1 person households (2019, 21%), and this is even higher in female population (25.6%). This number is doubled for people +65 (33.4%), and this is a proof of the risk of poverty for the elder population in Cyprus (even with the decrease we detect, from 63.7% in 2008 to 31.4% in 2018).

Furthermore, another group that has a very high risk of poverty is the single parents (at least one child), although the risk has been reduce from 2008 (36.3%) to 21.3% in 2019.

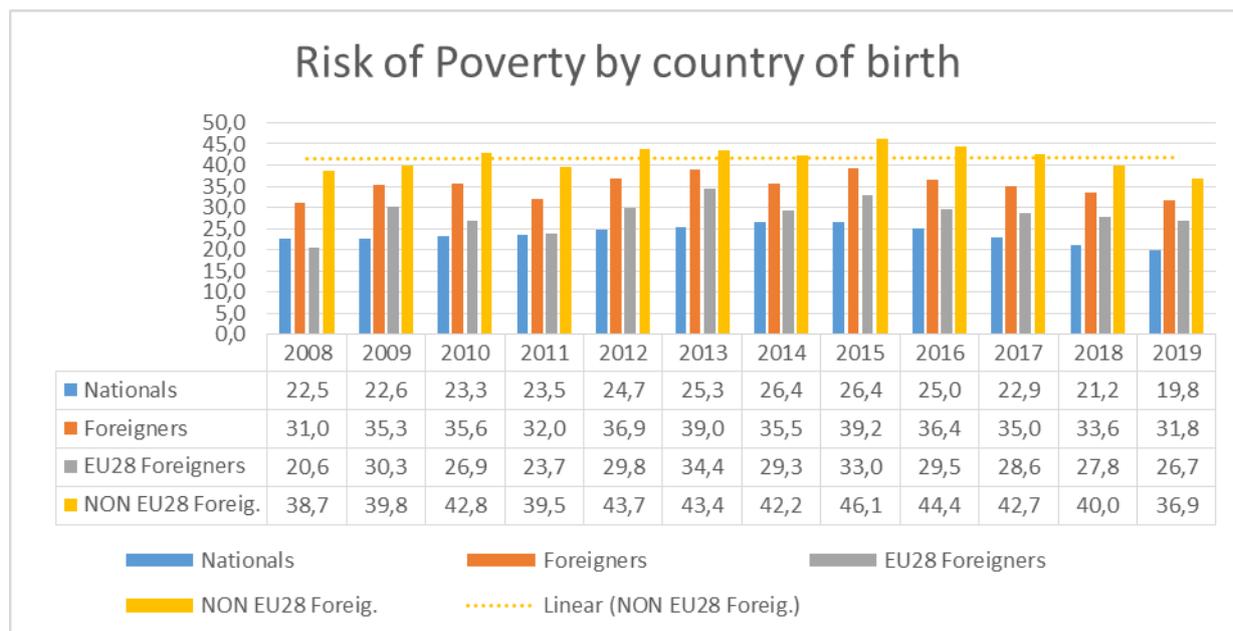
Figure 8: Risk of Poverty by household type



By country of birth

When examining the risk of poverty by country of birth, two groups are facing very high risk of poverty, those of foreigners and non EU28 foreigners since they are greater risk of poverty and social exclusion than the nationals and or the EU28 foreigners. The risk of poverty and social exclusion of the foreigners has increased since 2008 (31%) to 39.2% in 2015 and 31.8% in 2019. Whereas, the risk of poverty and social exclusion is even higher for the non EU28 foreigners, with the risk rising at 46.1% in 2015 (from 38.7% in 2008) in order to show a remarkable reduction to 36.9% in 2019.

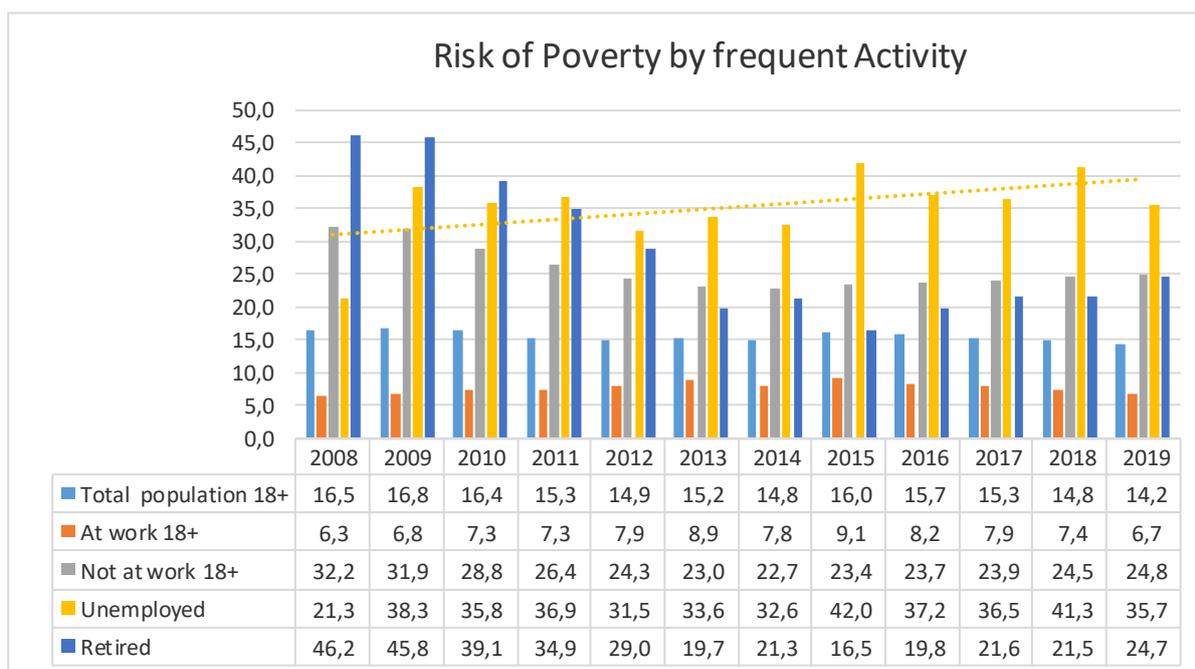
Figure 9 Risk of Poverty by country of birth



Employment and work activity

A very interesting comparison can be done as to the risk of poverty percentage for the population 18+ that are at work or not, or they are unemployed and or retired. The data shows that the population that is unemployed is at the highest risk of poverty since the percentage has been doubled from 21.3% in 2008 to 41.3% in 2018, in order to drop to 35.7% in 2019. Another group that is at a high risk of poverty is the population that are not at work, although the percentage has fallen from 32.2% in 2008 to 24.8% in 2019, mostly due to unemployment and other benefits (minimum income ect).

Figure 10: Risk of Poverty at work/not at work



Chapter 4 - The impact of COVID-19 and government policy on people experiencing poverty.

Government Action³⁹

Overall strategy and policy initiatives in response to COVID-19

The COVID-19 pandemic has caused major social and economic disruption. In this context the Government of Cyprus has taken significant steps to protect public health and reduce the severity of the outbreak. The strategy adopted for dealing with the crisis is divided into 3 main stages as described below. It should be noted that the transition from one stage to the next will be largely determined by epidemiological data.

(a) Stage 1: Full restrictive Measures - Economic Support Programme to deal with COVID-19 impact

(b) Stage 2: Gradual re-opening of businesses

(c) Stage 3: Strategy for restarting the economy

The Strategy is flexible and able to adapt according to epidemiological data, allowing economic activity to be carried out without unnecessary health risks. The Strategy will aim, among others, at:

- Mitigating the effects in the sectors most affected by the crisis.
- Supporting viable businesses, further developing the digital technology sector, including the promotion of telecommuting and the provision of government services online.
- Supporting those sectors that can retain more jobs.
- Promoting development projects/policies that will have the greatest positive impact on the labour market.
- Utilising the new tools introduced by the EU in order to tackle the crisis.

Measures adopted in response to COVID-19 crisis

The support package during Stage 1 included measures that were of a temporary and one-off nature and provide direct support to companies and employees through direct transfers, tax reliefs and increased liquidity, as follows:

(a) Income support and protection of employees and vulnerable groups

(b) Tax relief measures and certain contributions suspensions

(c) Reinforce the health system

(d) Support for Tourism recovery

(e) Support provided by the banking sector

- Suspension of loan instalments for enhancing liquidity
- Supervisory and macro prudential measures taken by the Central Bank of Cyprus (CBC)

³⁹ Cyprus National Reform Programme, Europe 2020, April 2020.

- Measures with regard to payment services and payment systems

Due to the outbreak of COVID-19 pandemic and the disturbance it has caused to the socioeconomic structures all over the world in order to combat the disease, the economic outlook for 2020 is surrounded by extreme uncertainty and the final outcome will depend on the depth and duration of the health crisis. The previous crises that Cyprus faced in 2008 - 2009 and 2012 - 2013, when it eventually entered into a macroeconomic adjustment programme in March 2013, cannot be used as an analogy as they were domestic crises stemming from imbalances mainly in the financial sector. This time around, the health crisis is expected to affect the whole spectrum of the economy - including a significant impact on neuralgic sectors due to the pandemic nature of the crisis - as the measures needed to contain the spread of the pandemic, result in a big demand shock, on top of a production shock/supply chain disruption that will also be inevitable. Furthermore, since the same crisis is severely affecting Europe and the rest of the world, exports will be negatively affected, especially concerning the tourism sector.⁴⁰

As at this moment, there are no official results on an effective treatment for COVID-19 and a vaccine to contain it is still months away, a more prolonged period of lockdown, even if less strict than the one currently in place, cannot be excluded. Furthermore, as experts indicate, a second wave of the virus could not be excluded. In that case, the negative effects on the economy would be prolonged because of possible longer periods of lockdown and travel bans. The contraction of the economy under this more adverse turn of events would be more severe. However, these estimates should be taken with the appropriate degree of caution and for expositional purposes only because at this stage it is impossible to quantify with certainty the magnitude of the impact and disruption on the economy.⁴¹

Cyprus Antipoverty Network and COVID-19

The Cyprus Antipoverty Network, recognizing the health crisis and its aftermath, which has entered the whole world from the COVID 19 pandemic and which is expected to hit in particular the citizens facing the risk of poverty and social exclusion, lists the most below suggestions:

Immediate Priorities

1. The state should help all citizens in real need, those who have been unexpectedly left out of the labor market, the elderly, single women and men, the poor workers and, in general, all citizens who need support.
2. It should therefore simplify the procedures for access to all social transfers such as pensions (disability, disability, old age, etc.) as well as benefits (child, mother, motherhood, elderly, single parent, Minimum Guaranteed Income, etc.).
3. Those citizens who did not have contributions to the funds according to the announcement of the Ministry of Labor, Welfare and Social Insurance, and are in real need of support, should find ways to locate and support them, either through the community or the Services Social Welfare.
4. Single parents are in a dilemma and have to choose to stay home with the child, since the schools are closed and at the same time manage their obligation to go to work, otherwise they may lose their job. There are countries such as France, where parents receive payment from health funds.

⁴⁰ Ibid.

⁴¹ Ibid.

Necessary Long-Term Actions

1. Measures to strengthen public health and social protection systems.
2. Cooperation, coordination and consultation between the government and the social partners should be continued on the basis of streamlining the measures taken, so that no vulnerable social groups are excluded for support.
3. Introduction of National Minimum Wage, observance of the terms of the Collective Labor Agreements, while at the same time making an effort to lose as few jobs as possible, so that we have as limited a deregulation of the labor market as possible.
4. Measures to reduce social inequalities, which widen in cases of crisis.
5. In view of the forthcoming European Day of Solidarity between the Generations (April 29), we call on the state to create the conditions and provide opportunities for cooperation between young and old.

We are facing perhaps the greatest crisis of the modern era, even though Cyprus had experienced the most negative effects of the 2013 haircut, knowing that poverty rates at their peak had approached 30%.

The government priorities must be defined, in a way that will set human rights as the foundation for tackling the pandemic, placing people above profit and, more specifically, focusing policies on the needs of disadvantaged groups. Cyprus and Europe must emerge from the crisis stronger.

Chapter 5 - Key challenges / Priorities / Recommendations

For the Cyprus Antipoverty Network, the challenges are very specific. We believe that in order to have any possibility in our efforts to eliminate poverty and social exclusion, we need to work on various directions. Social protection necessity becomes even more crucial during times of crisis, either financial ones (austerity and troika memorandum, COVID-19 pandemic) or other national catastrophes. Under these circumstances it is generally accepted that there is a better understanding regarding the impact of a welfare state and even further of minimum income systems, not only on poverty and social exclusion, but on other benefits and labour market as well.

We require a comprehensive Social Protection Strategy that will include an efficient, effective and competent GMI, alongside with a strategy on fair wages and decent work (fight undeclared work and working poverty), access to a bundle of essential services, and a modern, effective education system that will take the needs of the people and the economy and build on that, taking into consideration the rapidly changing skills that are needed for the future, and not living behind the need for on-going and lifelong learning training and education.

The above should be always taking into consideration, when configuring the needs of at risk of poverty groups, such as women, people over +65, young people in search of their 1st job, unemployed and people with disabilities.

National Level

Guaranteed Minimum Income (GMI) scheme

The introduction of a completely new social protection scheme changed the philosophy for the safeguard of vulnerable groups of people and incidentally configures a new environment within society and labour market.

Minimum income support is provided by the GMI scheme, which was introduced in 2014; substituting the PAB. The aim of the GMI is to ensure a minimum acceptable standard of living for every person legally residing in Cyprus, who fulfils the relevant eligibility criteria. Consequently, it guarantees a decent level of living for all citizens, when they are unable to cover their needs, by providing the necessary amount of living and incidentally by providing quality services.

Since its introduction, there is no evaluation or any impact assessment by the State yet, which will be analysing the impact of the GMI, identifying the possible gaps and distortions, highlighting the good practices and most importantly recommending changes for improvement.

Cyprus Antipoverty Network evaluation regarding GMI in 2018, noted a few worrying factors and gaps and additionally proposed recommendations. Concerns like, the quality of state social services and their infrastructure, the lack of jobs (due to the financial crisis), the fact that the GMI covers the working poor in a supplementary manner influences the labour market (on a positive and negative aspect), non-take ups at the first few years (accessibility problems), limited progress of the 3rd pillar of the GMI which is the activation of the beneficiaries, (the other 2 being adequacy and accessibility).

More specifically, on the issue of adequacy as well as activation, we have to note that, this particular point illustrates the significance of the national minimum wage, while there are cases of families who receive benefits above EUR1,100, hence the possibilities of entrapment in benefits is progressively becoming bigger. Even though the benefits are actually inadequate

there is a controversy between the economic support provided and the perspectives for re-integration in the labour market which are characterised by disincentives.⁴²

There is an imminent need for the GMI to be reviewed in order for necessary, essential corrections and amendments to take place. Within this context, there is a need for evaluation of the Structure of the Department of Welfare Service and implement the necessary changes in order to be able to fulfil its role and function in a prompt and efficient way.

Tax

The tax levied on the gross monthly emoluments of all employees, self-employed and pensioners in the private and public sector, and had a progressive structure⁴³, as well as the immovable property tax, entered into force in 2013, helping the reduction of income inequality. The anticipated effect of their abolition, in 2016, will be an increase in income inequality. The rationale of those policies is to boost economic transactions, hoping that, eventually, the fruits of growth will benefit all citizens, including the economically vulnerable ones.

The disaggregation of social expenditure shows a mismatching between social outcomes and the allocation of social spending. Even more, spending on social exclusion appears to have remained at relatively low levels.⁴⁴

In general, it could be said that non-contributory benefits were more affected by fiscal consolidation⁴⁵ than contributory benefits, which at a large degree remained intact. Nonetheless, non-contributory benefits have stronger redistributive effects.

Analysis indicates that, in Cyprus context, non-contributory benefits in fending off the effects of economic crisis, especially on families with children, and more important to those most vulnerable⁴⁶ are very important and needed in the effort for eliminating poverty and inequalities. An immediate policy implication is that every euro spent in social transfers to families with children is likely to have a larger poverty-reducing effect during or immediately after the economic crisis, thus increasing the poverty effectiveness of social spending.

Labour market

Overall, labour market conditions are improving but challenges remain. Unemployment was very high during the financial crisis, 2012-2015, only starting to show signs of recovery after 2016. Outreach to young people not in employment, education or training (NEETs) and other vulnerable groups continues to be one of the key issues. Active Labour Market Policies and targeted schemes for vulnerable groups remain below the EU average, indicating another key issue and most of them are characterised as temporary without permitting the integration in the labour market .

The discussion between the stakeholders has started in order to introduce a comprehensive minimum wage scheme in Cyprus. However, and due to the events following the COVID-19 pandemic, this dialogue is now on hold. The absence of a minimum wage directly affects many aspects of the welfare state and any policy on the elimination of poverty and social exclusion.

⁴² Nicos Satsias, *ibid*, p.73.

⁴³ Specifically, 0% for income up to €1,500, 2.5% for income between €1,501 and €2,500, 3% for income between €2,501 and €3,500 and 3.5% for income above €3,500. Furthermore, an extra 0.5% is added to the contribution rate of highly ranked public officials.

⁴⁴ Panos Pashardes, Christos Koutsampelas, *ibid*.

⁴⁵ In terms of reductions in benefit rates, stricter means-testing, tightening of the eligibility criteria.

⁴⁶ Koutsampelas, Polycarpou and Pashardes, 2013.

Pension System

Sustainability of the pension system is the most important aspect of it. Due to the demographic ageing of the population this will exert pressure on the fiscal sustainability of the system. There are no clear indications that the state is working on the ageing of the population problem.

One issue arising in the context of the recent crisis is to what extent the unemployment spells will affect future pensioners. The prospective replacement rates for both genders under the assumption of unemployment show that they do not impact heavily on the pension adequacy of the average earner.

That said the recent economic crisis in Cyprus created negative effects on the labour market and the careers of thousands of employees. These developments highlighted some critical evolutions like for example, the long absence from the labour market, discontinuous employment trajectories and engagement in unsatisfactory, non-rewarding employment, e.g. low-paid jobs and jobs with non-standard contracts. Thus, the impact of the economic recession on the future adequacy of pensions (especially among workers in vulnerable categories) has not yet been adequately analysed.⁴⁷

Gender

Under the above developments it is quite important to point out the immediate need for improving gender equality as one critical social aspect. Cyprus ranks as one of the least equal countries in the EU on the Gender Equality Index 2019, with its score being 11.1 points lower than the EU's average score (56.3 out of 100 points). The inclusion of women in digital jobs, careers and entrepreneurship is considered as another challenge.

People with disabilities

Challenges also persist for people with disabilities. The at-risk-of-poverty-or-social-exclusion (AROPE) rate for people with disabilities is significantly higher than the EU average (34.1% vs. 28.7% in 2018). People with disabilities face particularly strong challenges regarding poverty, educational attainment and employment. The employment rate for people with disabilities is lower than the EU average. As a response, in July 2019, the government increased and expanded the mobility benefits of people with disabilities by 50%.

EU LEVEL

Europe needs a strong action plan in order to implement the European Pillar of Social Rights (EPSR), so that we have a social Europe within the framework of the Social and Green Deal. We, in addition, underline the need to ensure that EU builds on an emergency mechanism in order to adopt measures to deal with emergency crises, like the COVID-19 crises. The need for a prompt, common action and reaction in an EU level has been proven with the resent reaction to the COVID-19 pandemic.

More specifically, on the COVID-19, EU must ensure that Member States

- **Reinforce adequate income** (quality jobs with fair living wages and minimum income and social protection income support)
- **Access to key public and essential services** (public health and care services, education, training and lifelong learning and social, affordable housing).

⁴⁷ Panos Pashardes, Christos Koutsampelas, *ibid*.

A combination of soft and hard EU law measures, with clear timetable at EU and National Level that will be mapping the progress towards obligatory social rights that guarantee basic living standards for all EU residents is needed.

An EU strategy on how to fight poverty, as one of the Social and Green Deals goals, with poverty targets, on EU and national level. On this aspect we recommend that the following pre-requisites are necessary for the success of the strategy.

- Promote a coherent Europe 2030 Strategy – a Social and Green Deal!
- Adopt an EU integrated strategy to fight poverty as the framework for social rights.
- Adopt an ambitious EU 2030 poverty target to support upward convergence!
- Propose EU Legislation to enforce Social Rights for all!
- Improve monitoring and implementation of rights through EU soft instruments.
- Put people at the heart – empowering people to contribute to solutions, holding governments to account.

Having in mind the EPSR, we recommend the following as being priorities,

- EPSR Principle 14: Minimum Income.
- EPSR Principle 12: Social Protection.
- EPSR Principle 6: Fair Wages.
- EPSR Principle 20: Access to Essential Services.
- EPSR Principle 1: Education, Training and Life-long learning.

Chapter 6 – Conclusions⁴⁸

Despite the introduction of a general minimum income scheme (2014-2015), social protection in general is somewhat underfunded compared to the EU average. Government expenditure on social protection (13.1% in 2018) remains lower than the EU average (18.8% in 2017). Most of the social protection expenditure in Cyprus goes to pensions and health care, with other functions of the social protection system (family benefits, unemployment benefits, disability benefits, housing benefits and social exclusion) receiving relatively less resources. The number of general minimum income beneficiaries has fallen considerably since 2015 on the back of strong employment growth.

Poverty indicators have been improving but the depth of poverty has increased. The proportion of people at risk of poverty or social exclusion (AROPE) and of material and social deprivation is declining but still above the EU average (21.7% and 12.9% in 2018). The depth of poverty increased in 2018 (from 15.1% to 18.6%) with an increasing number of poor people furthest from the poverty threshold. Migrants are more affected as reflected by the proportion of people at risk of poverty or social exclusion of non-EU-born (CY 40% vs. EU 37.2% in 2018)

Children continue to be disproportionately affected by a risk of poverty. The proportion of children below the age of 18 at risk of poverty or social exclusion (AROPE) remained unchanged at 25.5%, unchanged in 2018 and just above the EU average of 24%. However, there has been an increase in the AROPE for children below the age of 6. Supporting measures for vulnerable children in schools co-financed by EU funds have a positive impact on combating child poverty and social exclusion.

Income inequality increased significantly during the crisis years but returned to pre-crisis levels in 2018. In particular, the Gini index increased from 29.5 in 2009 to 34.8 in 2014. Nevertheless, the Gini index recorded an impressive reduction in inequality between 2015 and 2017 (falling from 33.6 in 2015 to 29.1 in 2018), returning to its pre-crisis level. Furthermore, while in 2017 the disposable income of the richest 20% of the population was 4.6 times that of the poorest 20% (vs. 5.1% in the EU), this ratio further dropped to 4.3 in 2018, implying a reduction in inequality. However, in 2018, the annual real gross disposable household income (GDHI) per head remains significantly lower than the EU average (90 vs. 106) and below the 2008 levels.

The cost of housing is increasing with particularly negative consequences for young people. Rents and purchasing prices of residences, in particular new properties, are on the rise. Although the housing cost overburden rate for the poor is well below the EU average, the severe housing deprivation among young people is more than double the rate of the general population⁴⁹.

Notwithstanding the visible improvement of the economy there are still serious social challenges that need to be overcome. The levels of poverty and social exclusion are at high levels (indicatively, the current AROPE (2018 23.9% stands far above the national target 2020 of 19.3% by 2020), while the risk of poverty is even higher among the more vulnerable population groups (children, +65, female population, immigrants). In parallel, we should not underestimate the effect of the worrying demographic changes (i.e. population ageing).

To address these challenges, several policy suggestions are possible. Income support to families with children has weakened during crisis. This is unfortunate as many studies have

⁴⁸ COMMISSION STAFF WORKING DOCUMENT - Country Report Cyprus 2020. Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011 {COM(2020) 150 final}, 26/02/2020. Panos Pashardes, Christos Koutsampelas, *ibid*.

⁴⁹ Grow Digital Cyprus, 2019.

shown that child poverty is characterised by cyclicity⁵⁰. The deriving message sent to policymakers is that preserving, or even enhancing, family policies is the appropriate response in the current environment.

It is likely that the economic growth will gradually result to increases in employment and wages. Nevertheless, there are persistent labour market inequalities which might require an intervention. Regulatory and other initiatives can be employed to combat gender stereotypes in the workplace as well as gender pay gap. Measures such as the reconciliation of family and work will contribute in reducing the gender wage gap, and most likely, child poverty as well.

The frequency of non-standard employment has risen at high levels. It is not clear whether this is the result of the need of enterprises for flexibility or the weak bargaining position of employees. However, there is an empirical evidence that these employees are wage discriminated resulting to high risk of in-work poverty⁵¹. More effective monitoring mechanisms to enforce the regulatory framework might be needed, as well as to design social protection measures suitable to the needs and vulnerabilities of nonstandard employees.

The fiscal sustainability of the pension system appears to have been preserved after the 2009-2014 pension reforms. Furthermore, the most recent quantitative evidence⁵² shows that the current and future adequacy of the average pension has been improved. However, there are still vulnerable groups amongst the pensioners that have high risk of poverty that have not been addressed.

The recent health care developments, and most importantly, the implementation of the National Health System, are expected to provide remedies to several problems of the system. A potential risk is that the final cost of the new system may end up being much higher than projected. There are also concerns regarding the ability of the new system to provide sufficiently good services so as to reduce out-of-pocket expenses and the need to purchase expensive private health insurance from people who are already insured by the NHIS.

The provision of long-term care (LTC) is also a policy area that needs to be reformed. The supply of informal care by family members might prove insufficient in view of population ageing. We stress the need of a comprehensive statutory scheme of LTC services. In this context, the financial burden of LTC will be transferred to the welfare state and treated as an insurable risk.

⁵⁰ Bitler et al, 2017.

⁵¹ Da Silva and Turrini, 2015.

⁵² i.e. poverty indicators, income-based indicators and theoretical replacement rates.

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Definitions

Dependent children: Dependent children include all persons aged below 18 as well as persons aged 18 to 24 years, living with at least one parent and economically inactive (students, in compulsory military service etc.).

Equivalised disposable income: The equivalised disposable income is the total disposable income of a household, divided by its respective equivalised size.

Household disposable income: Household disposable income is the sum of income of all household members from economic activity (wages and salaries; profits of self-employed business owners), property income (dividends, interests, and rents) and social benefits in cash (retirement pensions, unemployment benefits, family allowances, basic income support, etc)

Inequality of income distribution (Gini coefficient): Measure of (income) inequality or concentration. If incomes were equally distributed the Gini coefficient would be 0. At the other extreme if the richest unit received all income the Gini coefficient would be 100. An increase in the Gini coefficient thus represents an increase in inequality.

Persistent risk-of-poverty rate: The persistent at-risk-of-poverty rate is the percentage of the population living in households where the equivalised disposable income was below the risk-of-poverty threshold for the current year and at least two out of the preceding three years.

Risk-of-poverty rate: The at-risk-of-poverty rate is the share of persons with an equivalised disposable income (after social transfer) below the risk-of-poverty threshold. It measures relative poverty and not absolute poverty.

Risk-of-poverty rate anchored at a point in time 2008: The at-risk-of-poverty rate anchored at a fixed moment in time (2008) is the percentage of the population whose equivalised disposable income is below the risk-of-poverty threshold from the base year (2008) adjusted for inflation (current year).

Risk-of-poverty threshold: is set at 60 % of the national median equivalised disposable income.

Risk-of-poverty or social exclusion rate: At risk of poverty or social exclusion (AROPE) rate is the percentage of the population who are: at risk of poverty or severely materially deprived or living in a household with a very low work intensity. Persons are only counted once even if they are present in several sub-indicators.

Severe material deprivation: Severely materially deprived is the population living in conditions severely constrained by a lack of resources, they experience at least 4 out of 9 of the following deprivation items: Cannot afford 1) to pay rent or utility bills, 2) keep home adequately warm, 3) face unexpected expenses, 4) eat meat, fish or a protein equivalent every second day, 5) a week holiday away from home, 6) a car, 7) a washing machine, 8) a colour TV, or 9) a telephone.

Social transfers: Social transfers include all pensions (old-age, disability, invalidity etc) and benefits (family-related, sickness, education-related, social assistance etc).

Very low work intensity (LWI): The percentage of the population aged 0-59, that was living in households whose adults (aged 18-64) worked less than 20% of their work potential during the past year.

Abbreviations – Acronyms

AROPE: At risk of poverty or social exclusion

AROP: At risk of poverty

CAN: Cyprus Antipoverty Network ()

CyStat – CSS: Cyprus Statistical Service

EAPN: European Antipoverty Network

EFTA: European Free Trade Association

EPSR: European Pillar of Social Rights

EU: European Union

EU-27: European Union 27 Member States

GDP: Gross domestic product

GMI: Guaranteed Minimum Income (GMI)

LTC: Long Term Care

NGOs: Non-Government Organizations

NHIS: National Health Insurance System

PAB: Public Assistance Benefit

SDG: Sustainable Development Goals