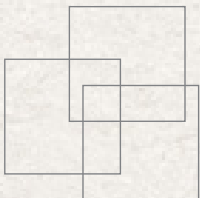




International
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Office

JOBS AND SKILLS FOR YOUTH:

REVIEW OF POLICIES FOR
YOUTH EMPLOYMENT
OF CYPRUS



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FOREWORD

This thematic review of the youth labour market in Cyprus and of the policies and institutions for youth employment is part of the work that supports the ILO's member States in collecting information on, and analysing the effectiveness of, country policies and programmes including those undertaken through voluntary multi-country peer reviews. More specifically, it is part of one of the areas of collaboration between the ILO and the government of Cyprus that revolves around the provision of technical support to addressing the youth employment crisis.

The review was conducted by the International Labour Office during the period July-October 2013 with the purpose of serving as an assessment of the current situation and supporting the development of a National Action Plan for Youth Employment (2014-16) that includes the introduction of a youth employment activation strategy in the form of a national youth employment guarantee.

This report was prepared by Valli' Corbanese and Gianni Rosas, with the statistical assistance of Valia Bourboula for chapter 1 and Dragana Marjanovic for chapter 2. Gratitude is expressed to Ms Azita Berar Awad, Director of the Employment Policy Department, for leading the youth employment consultation and the fact-finding missions of the ILO to Cyprus, which took place in July and September 2013. The inputs and comments of Steven Kapsos, Donna Koeltz and Sebastian Kuenzel are acknowledged with many thanks.

Appreciation is expressed to the team of the Ministry of Labour and Social Insurance of Cyprus, led by Mr Andreas Christou, the Public Employment Service, Ministry of Education, Human Resources Development Authority, Cyprus Productivity Centre, employer organizations and trade unions for the background information and feedback for this report. Gratitude is also expressed to the Youth Board of Cyprus for having organized a discussion with the many youth organizations of Cyprus.

EXECUTIVE SUMMARY

This report is the fruit of cooperation between the International Labour Office (ILO) and the government of Cyprus on employment and social policies to tackle the economic crisis. In the area of youth employment, this cooperation focuses on the development of a plan to steer country action on youth employment promotion through structural measures and the introduction of an activation strategy in the form of a youth guarantee. The information contained in this report is the result of information collected by the ILO during two missions that took place in early July and September, 2013 through discussions with government officials, the social partners and representatives of young people, as well as through the review of available data.

The report reviews the youth labour market developments in Cyprus over the past few years and provides labour market projections until 2018. It also assesses existing policies and programmes for youth employment and suggests a number of short- and medium- term measures that the government may consider in its endeavours to tackle the unprecedented youth employment crisis. The main messages stemming from the review are briefly highlighted in this executive summary.

The impact of the crisis in the economy of Cyprus was relatively mild in terms of output contraction, but very severe in terms of job losses, particularly for young people. Between 2008 and 2013 the country was affected by two different crises. Similarly to what occurred to other countries of the European Union (EU), the first crisis in 2009 affected Cyprus mainly through the trade channel. In that year, economic growth contracted by 1.9 per cent of Gross Domestic Product (GDP), driven by decreasing domestic consumption. Although related to the first crisis, the second one (in 2012-2013) was more specific to Cyprus and was caused by the over-exposure of the financial and banking sector in foreign markets. The large fiscal consolidation measures introduced to re-adjust public finances caused a further contraction of domestic demand and of output (by 2.4 per cent of GDP in 2012 and over 5.2 per cent in the first quarter of 2013).

The crisis has hit young people (15-24) particularly hard, putting an entire generation at risk. Between 2007 and 2012, the employment-to-population ratio of the working age population (15-64) declined by over six percentage points, while the unemployment rate increased from four per cent to 12.1 per cent of the labour force. The level of youth employment dropped by 14 per cent between 2007 and 2012 with job losses affecting young workers with low educational attainment the most (for this group employment declined by over 30 per cent).

In April 2008, the rate of unemployment among young Cypriots was 7.1 per cent – one of the lowest recorded in the EU during that year. Five years later, it was five times higher and among the highest within the EU (37.5 per cent in April 2013). The youth labour market of Cyprus was one of the hardest hit among EU countries. In the countries seriously affected by the crisis (e.g. Greece, Portugal and Spain), in fact, the youth unemployment rate increased on average three times. Age, poor educational attainment and labour market status significantly increase the risk of poverty and social exclusion in Cyprus. This means that high, and rising levels, of youth unemployment may well represent the single most important strain on future economic growth. Once economic recovery rebounds, those young people that experienced longer unemployment spells, have depleted skills or have given up job search because they think that no jobs is available to them, are likely to be left behind.

The current jobs gap is expected to increase, with employment and youth employment remaining below pre-crisis levels for the coming years. In 2012, the jobs gap resulting from the crisis was estimated at 25 per cent of total employment. The size and composition of the adjustment effort, the restructuring of the banking sector, the restriction on capital flows and the still high economic uncertainty may further depress domestic demand and reduce enterprise activity. Employment losses are estimated to continue until 2015, with a modest recovery starting only in 2016.

The distribution of young workers in economic sectors and occupations most affected by the downturn explains the unprecedented youth employment losses. The “first to be fired, last to be hired” effect has also contributed to such a drastic loss of jobs among young Cypriots. Between 2008 and 2012, the employment-to-population ratio of adult workers (25-64) decreased by 5.2 percentage points, while that of young workers decreased by nearly 10 percentage points. This was caused by sharp drops in employment in the manufacturing and construction sectors

(22.5 and 11.4 per cent, respectively) that have high shares of youth employment. The high incidence of flexible contractual arrangements among young workers may have also played a role in exposing youth more to contractions in labour demand. The Cypriot employment protection legislation was not effective in protecting young workers during the downturn. Young people are, to a large extent, employed in economic sectors and occupations where atypical forms of employment, low wages and informal work arrangements prevail. As they are more willing to accept these forms of work to gain a foothold in the labour market, their employment outcomes are also more sensitive to the economic cycle.

Young women were more affected by employment losses than young men. Contrary to what happened in many other countries during the recent crisis, the employment rate of young women decreased more than that of young men (from 36.7 per cent in 2008 to 26.1 per cent in 2012, while for young men the decline was from 39.4 per cent to 30.5 per cent). The sectoral distribution of youth employment explains the different impacts of the crisis on young men and women. The losses for young women were due to their prevalence in the service sector, which shed labour, while the loss of employment among young men is attributable to the drop in the construction and manufacturing sectors, which was balanced by more contained losses in other economic sectors where young men are also represented. This widened the employment gender gap from 2.7 percentage points to 4.4 percentage points.

Young workers in Cyprus face higher youth-to-adult wage gaps compared to youth in other European countries (34 per cent and 28 per cent, respectively). They are also more exposed to low-paid work than the European average (37.6 per cent and 22.7 per cent, respectively) and to involuntary temporary and part-time work. In addition, the share of young individuals working at unsocial hours has doubled since 2003.

Education and training pays a premium in the labour market and has a positive impact on the length of the school-to-work transition, but does not protect against unemployment or over-qualification. Educational attainment in Cyprus is among the highest in Europe. These achievements place the country well above the targets set to be reached in European countries by 2020. This is positively related to labour market outcomes, as individuals with lower educational attainment are more likely to be unemployed compared to workers with secondary and tertiary education. For young people, however, this relation is not as strong. Unemployment

among youth is concentrated at both ends of the educational scale with low- and high-educated young people being more prone to unemployment than those with middle-level education (the unemployment rates of low-skilled youth and university graduates are at around 30 per cent). This situation reflects a misalignment of educational outcomes with the requirements of an economic system characterized by micro (often family-owned) and small enterprises unable to absorb increasing cohorts of young high-skilled individuals. Having a tertiary education attainment pays a wage premium (38 per cent) and shortens the period required to gain the first job (five months compared to the 16 months needed by a young person with at most lower-secondary education). Such returns, however, are undermined by the high rates of over-qualification (21.4 per cent of total employment) and the prevalence of employment in economic sectors exposed to high job turnover, temporary work arrangements and lower wage levels (elementary occupations and clerical, services and sales jobs).

The unprecedented youth employment crisis in Cyprus calls for the development and implementation of a national action plan for youth employment that tackles the crisis through structural measures, together with the introduction of a youth guarantee. This requires the development of an integrated framework that contextually promotes action to: (i) increase aggregate demand and create jobs, especially through sectoral policies; (ii) support micro- and small enterprises that are the largest providers of youth employment in the country; (iii) enhance the relevance of education and training to labour market requirements, particularly through the inclusion of work-experience components; and (iv) introduce an activation strategy for young people through the implementation of a national guarantee programme. This action plan will permit to address both structural and cyclical issues that are currently affecting the youth labour market and to channel both human and financial resources towards the achievement of measurable youth employment targets. The action plan can provide a valuable tool to foster cooperation and coordination across a variety of government institutions and other actors, and particularly, the social partners, whose participation is paramount to addressing the youth employment crisis.

The current youth employment crisis is essentially due to a slowdown of aggregate demand and the uncertain economic environment. Policies to support investment and sectoral development, as well as micro- and small enterprises, can have a significant impact on youth employment and improve overall competitiveness. The measures

planned for the exploitation of natural resources and the promotion of the tourism sector can have a high youth employment potential. These initiatives should make explicit reference to employment and youth employment by setting specific, measurable employment-creation targets. This could be done through coordination between the Ministry of Labour and Social Insurance as well those government agencies responsible for the development of the master plan for the tourism sector, and the strategy for the natural gas industry. Policies that loosen constraints on the growth of micro-, small and medium-sized enterprises can play a significant role in the creation of jobs for young people. The levels of investment have a substantial effect on the capacity of the economy to generate jobs. In turn, investment is dependent on access to credit and its cost. When financial institutions are reluctant to lend, or only lend at high interest rates, enterprises face serious barriers to doing business and recruiting young workers. The debate on measures to increase Cyprus's competitiveness has mostly focused on wages and labour productivity, with limited attention paid to the competitiveness of enterprises and, foremost, their capacity to innovate, absorb skilled human resources and adopt environment-friendly production processes.

An increase in the relevance of education and training to labour market requirements would maximize the returns on investment and reduce skills mismatches. The establishment of work-experience programmes as part of education curricula would also help students connect with prospective employers, which has already proven to give a premium in the Cypriot labour market. Such measures would also allow for a reduction of support to newly-graduated students through long and costly "curative" labour market measures. On the labour demand side, measures are needed to increase innovation, business sophistication and the technological readiness of enterprises in general so that the talent of highly-skilled youth can be maximized. This would reduce the gap between the level of skills delivered by the education system and the qualifications required by enterprises.

The delivery of employment services should be reviewed with the objective of offering a set of standard services to all young unemployed and more intensive assistance to disadvantaged youth. The huge increase in the number of unemployed has required a redeployment of all available human resources within the Public Employment Service (PES) in order to manage intake services. Medium- to long-term measures to address current understaffing should be put in place as soon as possible in order to

re-instate the provision of employment services beyond registration. The contracting out of certain functions would free up the more experienced PES employment officers and allow them to focus on specialized segments of employment service provision (such as individualized services to young jobseekers at risk of long-term unemployment and social exclusion). A lack of interest from young people in PES services is an initial sign of disengagement, worker discouragement and labour market detachment. The introduction of a comprehensive and integrated package of labour market services and measures specifically designed for young people, assigning dedicated staff to youth services or running events such as job fairs – more popular among young jobseekers – can act as incentives to register.

The design and funding of active labour market policies should be improved to support the introduction of a national youth employment guarantee. More efforts should be deployed by labour market institutions to reach out to low-skilled youth. Despite the recent increases, the funding envelope available to active labour market programmes is still below the average recorded in the European Union. The findings of the performance monitoring exercise carried out on the programmes implemented during the period 2009-2012 indicate that schemes focusing on those skills most demanded by enterprises and providing real work experience appear to be more effective than general vocational training. However, this assessment did not investigate targeting approaches, nor did it measure labour market distortions. The introduction of an impact evaluation system on all active labour market policies implemented in the country would allow identifying which programmes work, for which target group and under what circumstances. It would also serve to support policymakers in the identification of the most cost-effective measures.

The reform of the social protection system in Cyprus offers a unique opportunity to introduce an activation system for young jobseekers in the form of a youth guarantee. The introduction of an activation strategy for young people through a guarantee – i.e. a good-quality offer of employment, continued education, apprenticeship or traineeship provided to youth aged less than 25 within four months of becoming unemployed or leaving formal education – offers an important opportunity to implement a single national youth employment programme based on multiple service and programme delivery through early intervention, partnerships across a wide variety of actors and service providers, and the establishment of a sound system for monitoring and evaluation of youth employment

measures. This would help streamline the different programmes that currently exist in Cyprus, improve their targeting and sequencing, and broaden the portfolio of employment and training options available to young people. The connection between programme participation and eligibility for the Guaranteed Minimum Income (GMI) would introduce a genuine activation strategy for young jobseekers. The mix of active and passive measures, conditional to active job search and programme participation, could also help diversify the portfolio of labour market programmes. It could, for instance, allow for expanding work-experience programmes (e.g. introduction of regulated quality internships cum GMI allowance) and, at the same time, reduce the costs of remedial active labour market measures. Finally, the provision of funds for young people to undertake their university studies abroad could be specifically linked to skills needed in the labour market, but which are unavailable in the country.

The proposed framework for the introduction of a National Youth Guarantee – initially targeting young jobseekers registered with the PES – envisages: i) an initial profiling of young beneficiaries and the provision of a range of basic, low-intensity services (e.g. labour market information, job-search training, referral to job vacancies, group counselling); ii) individualized job search assistance; iii) assessment of the barriers encountered in the labour market and development of an individual employment plan; and iv) provision of the range of active labour market programmes included in the individual employment plan matched to the needs of the young beneficiaries and labour market opportunities. The range of programmes includes a remedial education pathway, on-the-job training, work experience schemes, employment subsidies and self-employment opportunities.

Social dialogue and broad-based consultations with representatives of young people are key to forging consensus and making youth employment measures socially acceptable. As Cyprus faces enormous challenges in tackling the effects of the crisis on the labour market, it is of key importance for social dialogue institutions to be given a more prominent role in the formulation and monitoring of anti-crisis measures targeting youth, as well as in broader structural reforms. The consultation and involvement of employers' and workers' organizations (through existing social dialogue mechanisms) in the areas of intervention of the national action would ensure a balanced interest by both workers and enterprises. The involvement of young peoples' organizations in such process would give them a voice and align any decisions to the real needs of young people.

1 OVERVIEW OF THE ECONOMIC AND SOCIAL CONTEXT

1.1. Recent macroeconomic developments

During the period from the mid-1970s and up to 2010, the economy of Cyprus was characterized by macroeconomic stability and employment growth. The stock market crisis of the late 1990s had a marginal effect on consumer demand and economic growth with employment returning to positive trends within two years from the start of that crisis.¹ An analysis of economic trends during the first decade of the 2000s shows an average annual output growth of three per cent. This was twice the average growth rate recorded by countries in the European Union (EU). With increasing employment and low inflation, economic growth was fuelled by domestic demand which, in turn, was driven by credit expansion, capital liberalisation and inflows of foreign investment. Rising private consumption led to increasing private investment, especially in the construction sector.

The limited size of the domestic market and the openness of the economy made foreign trade a key driver of domestic growth. In the last few years, however, trade in services (travel, transport, financial and business services), which represented roughly 20 per cent of the Gross Domestic Product (GDP), was unable to fully offset the increasing goods trade deficit. Export of goods declined, and imports started to increase, which reflected the acceleration of domestic consumption. The negative current account balance – which had averaged 5-6 per cent of GDP since the mid-1990s – had further deteriorated during the five years prior to the crisis. By the end of 2008, the negative balance had reached -15.6 per cent of GDP (see Table 1.1).

¹ Zenios S. A. 2013. “The Cyprus debt: Perfect crisis and a way forward” in *Cyprus Economic Policy Review*, Vol. 7, No. 1, pp. 3-45.

Table 1.1 Key macroeconomic indicators and projections, Cyprus (2008-2016)

	2008	2009	2010	2011	2012	2012	2013	2014	2015	2016
							Projections			
Real GDP growth (% change)	3.6	-1.9	1.3	0.5	-2.4	-2.4	-8.7	-3.9	1.1	1.9
Domestic demand (% change)	8.0	-7.0	1.9	-1.6	-5.5	-5.5	-13.9	-5.9	1.0	2.1
Private consumption (% change)	7.8	-7.5	1.5	0.5	-3.0	-3.0	-12.3	-5.6	1.6	2.9
Public consumption (% change)	6.1	6.8	1.0	-0.3	-1.7	-1.7	-8.9	-3.7	-1.7	-1.3
Fixed investment (% change)	6.0	-9.7	-4.9	-13.1	-23.0	-23.0	-29.5	-12.0	2.3	3.5
Export of goods and services (% change)	-0.5	-10.7	3.8	4.4	2.3	2.3	-5.0	-2.5	1.7	2.7
Import of goods and services (% change)	8.5	-16.6	4.8	-0.7	-7.2	-7.2	-16	-6.5	1.7	3.3
General government balance (% GDP)	0.9	-6.1	-5.3	-6.3	-5.6	-5.6	-5.9	-7.7	-5.6	-2.4
Revenue	43.1	40.1	40.9	39.8	40.1	40.1	40.6	39.0	39.8	41.2
Expenditure	42.1	46.2	46.2	46.1	45.7	45.7	46.6	46.7	45.4	43.6
General government debt (% GDP)	48.9	58.5	61.3	71.1	86.2	86.2	109.1	123.3	125.7	121.7
Current account balance (% GDP)	-15.6	-10.7	-9.8	-4.7	-11.7	-11.7	-2.0	-0.6	-0.5	-1.0
Goods balance (% GDP)	-32.4	-25.5	-26.8	-24.2	-21.5	-21.5	-19.8	-19.4	-19.7	-20.1
Service balance (% GDP)	21.0	20.0	20.6	19.9	19.0	19.0	22.2	23.3	23.5	23.5

Source: International Monetary Fund (IMF), *Country report Cyprus*, IMF, Washington D.C., Country report No 13/125, 2013, at: <http://www.imf.org/external/pubs/ft/scr/2013/cr13125.pdf>

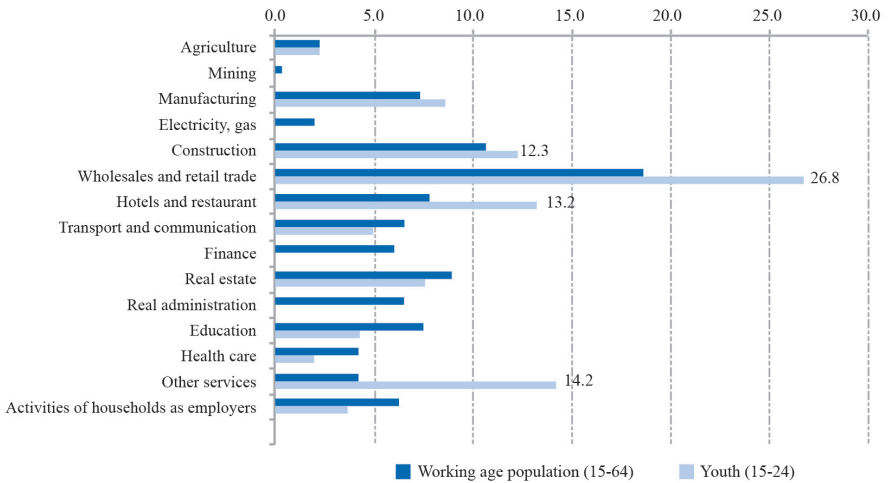
The declining trend in goods export reflects the shift of productive resources from goods to services, on the one hand, and the loss of competitiveness of domestically-produced goods on the other, which accelerated with trade liberalisation. Competitiveness started to slide in 2008, with a marked acceleration in 2009, as shown by the country global competitiveness ranking.²

Until the onset of the 2013 crisis, the financial sector was a major contributor to GDP and employment (9.2 and five per cent, respectively). Together with other economic sectors closely related to it (e.g. trading, real estate activities and professional services), the financial sector accounted for 50 per cent of both output and employment throughout 2012 (see Figure 1.1). The contribution of industry to GDP, conversely, declined from 39.2 per cent in 2006 to 35 per cent in 2011. In 2012, industry accounted for 20 per cent of total employment. The contribution of agriculture to GDP and employment remained fairly stable (around 2 per cent of GDP and 2.3 per cent of total employment).³

² The competitiveness ranking of Cyprus declined from 34th place (out of 133 countries) in 2009 to 58th place (out of 144 countries) in 2011. World Economic Forum, *Global Competitiveness Report*, Geneva, various years, available at: <http://www.weforum.org/issues/global-competitiveness>.

³ Statistical Service of the Republic of Cyprus, *Agriculture, Industry and Service statistics*, Nicosia, 2011.

Figure 1.1 Sectoral contribution to total and youth employment, 2012 (%)



Source: EUROSTAT, *Detailed Annual Labour Force* data, 2012, available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

Small and medium-sized enterprises (SMEs) in Cyprus represent the near totality of enterprises (99.8 per cent). Micro-enterprises (i.e. companies with less than 10 workers) account for more than 92 per cent of the total and for more than one third of total employment (38.7 per cent).⁴ Small and medium-size enterprises contribute to 76 per cent of value added, which is well above the average of 58 per cent found in other European countries. The sectoral distribution resembles that found in Europe, where a significant share of SMEs operates in the trade and service sectors.

Prior to the crisis, the net inflow of foreign capital (mainly deposits, but also investment in the housing sector and re-invested profits of foreign companies) allowed the current account deficit to widen, which triggered a credit boom in the domestic economy. Private indebtedness increased from 213 per cent of GDP in 2007 to 310 per cent in 2011. Inflows of foreign capital financed roughly 60 per cent of the current account deficit in the period 2000-2007, and fuelled a real estate bubble.

⁴European Commission, *Small Business Act (SBA): Fact sheet Cyprus*, Brussels, European Commission, 2012 at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/cyprus_en.pdf

The two largest banks in Cyprus (the Popular Bank and the Bank of Cyprus) expanded their loan operations and investment in government bonds in Greece, thus increasing their concentration risk and their exposure to the negative developments of the Greek economy. The Cyprus banking sector accumulated total liabilities amounting to about 700 per cent of the country's GDP. The losses caused by a rising number of non-performing loans – around 16 per cent of the total in 2011– and by the investment in Greek sovereign debt, - resulted in severe under-capitalization of the two above-mentioned banks, both “too big to fail” and “too big to save”. The housing boom came to a halt, market confidence started to wane, capital outflows accelerated and soon the country was in a full blown financial and economic crisis. By December 2012, non-performing loans had increased to 26 per cent. In February 2013, an independent assessment of asset quality revealed that the capital needs of the two banks amounted to 60 per cent of GDP.⁵

The Cypriot authorities took a number of steps to resolve, downsize, and recapitalise the Popular Bank and the Bank of Cyprus that had become insolvent: i) the foreign operations of both banks were sold to a Greek bank; ii) the assets, insured deposits and interbank liabilities of the Popular Bank were transferred to the Bank of Cyprus; iii) the Bank of Cyprus was recapitalized with the participation of bank creditors, including uninsured depositors. A six-day bank holiday in mid-March 2013 allowed putting the restructuring strategy into effect. In order to avoid a run on deposits after the re-opening, the authorities decided to temporarily freeze uninsured deposits in the Bank of Cyprus and impose restrictions on all bank cash withdrawals and transfers within the country and abroad. Since the summer of 2013, deposit restrictions and capital controls have been gradually relaxed.

The budgetary position of the country improved in the years of EU accession and adoption of the Euro (from a deficit of seven per cent of GDP in 2003 to a surplus of three per cent in 2007), driven by increasing tax revenues. Receipts from taxes levied on production, imports, income and labour increased substantially, with corporate income taxes collected from international companies increasing five-fold, despite the introduction of a flat corporate income tax rate of 10 per cent in 2003. This reform decreased the tax rate by 10 to 15 percentage points for local enterprises, but doubled it for international businesses (as the rate was 4.5 per cent up to 2003).

⁵ International Monetary Fund (IMF), *Cyprus: First review under the extended arrangement under the extended fund facility*, Washington D.C., 2013.

Public finances started to deteriorate in 2009 and more markedly in 2010, as a result of the economic crisis, increased public expenditure and a fall in tax revenues. The average six per cent deficit, recorded during the period 2010-2012, caused an increase of the public debt from 61.3 per cent of GDP in 2010 to 86.6 per cent in 2012.

Despite the important fiscal consolidation measures adopted by the government in 2012, the deficit remained above six per cent of GDP due to stagnating revenues (low corporate profits and deteriorating labour market conditions) and higher than expected expenditures. In the second quarter of 2013, output declined by 5.2 per cent, reflecting the impact of the banking crisis on private sector consumption and investment, as well as the contracting effect of the fiscal adjustment package introduced in 2012, which led to a reduction of consumption (by 26 per cent). In the same period, the balance of payments position improved (to -2 per cent of GDP) due to a 20 per cent reduction of imports.⁶

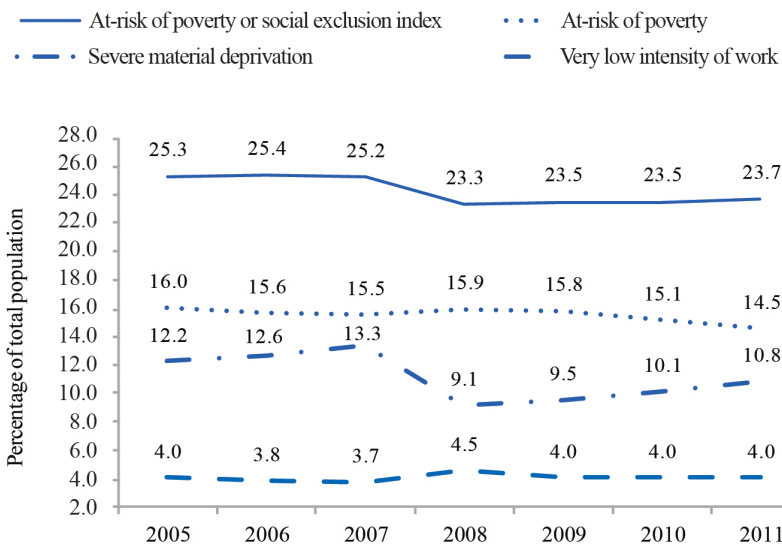
1.2. Poverty, social exclusion and income ⁷

In 2011, approximately 24 per cent of the total population of Cyprus was at risk of poverty or social exclusion (Figure 1.2), with virtually no change since the decline recorded between 2007 and 2008 (nearly two percentage points).

⁶ International Monetary Fund (IMF), *Cyprus: First review under the extended arrangement under the extended fund facility*, op. cit.

⁷ The analysis of the income and living conditions surveys of 2008 and 2011 conducted by the Ministry of Finance and Statistical Services of the Republic of Cyprus can be downloaded at : [http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/92AB0A3C219CADDBC22577DD003523E8/\\$file/EUSILC_2008-2011-280213.pdf?OpenElement](http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/92AB0A3C219CADDBC22577DD003523E8/$file/EUSILC_2008-2011-280213.pdf?OpenElement) (in Greek only).

Figure 1.2 Share of the population at-risk of poverty or social exclusion, 2011 (%)



Source: EUROSTAT, *European Union Statistics on Income and Living Conditions (EU-SILC)*, 2011, available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database.

Note: The age-group for the “very low intensity of work” index refers to population aged 0-59 years old.

The decomposition of the poverty or social exclusion index into its three distinct dimensions (see Box 1.1) points to a raising share of the population living in households with very low work intensity and a more marked increase in the proportion of the population facing severe material deprivation. Conversely, the share of the population living below the poverty line declined from 15.9 per cent in 2008 to 14.5 per cent in 2011.

Box 1.1 At-risk of poverty or social exclusion index

The at-risk of poverty or social exclusion index corresponds to the share of the population that i) lives below the poverty line; or ii) lives in a households facing severe material deprivation; or iii) lives in households with very low intensity of work. The relative poverty line is set at the 60 per cent of the median equalized disposable income calculated after social transfers.

In 2011, the relative poverty line in Cyprus was €10,328 per person annually, with 14.5 per cent of the total population living below this threshold.⁸

The index for severe material deprivation refers to the population facing difficulties in at least four out of nine dimensions:

- 1) Paying utility bills, rent or loan instalments for primary residence, or other loans;
- 2) Affording one week of vacation away from home,
- 3) Paying for unexpected expenses,
- 4) Affording adequate heating at home,
- 5) Paying for a diet including chicken, meat, fish or vegetables every other day,
- 6) Paying for a car,
- 7) Affording a telephone,
- 8) Paying for a colour television,
- 9) Affording a washing machine.

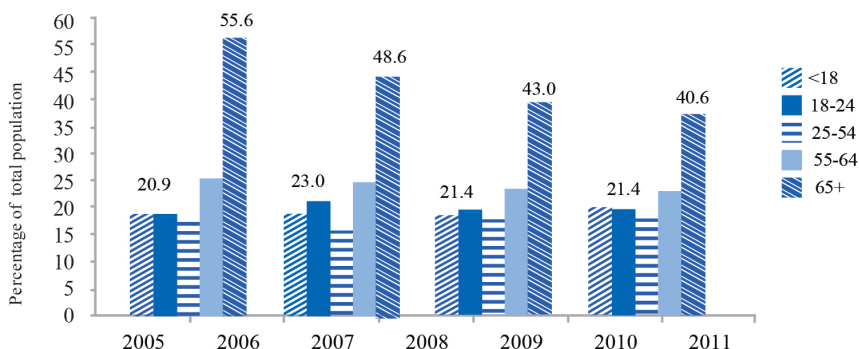
Very low work intensity refers to individuals aged less than 60 years old living in households where adults work less than 20 per cent of the time they could have worked during the reference year.

Source: EUROSTAT, People at risk of poverty or social exclusion. (EU-SILC) 2011, accessible at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion

⁸This is the threshold based on the 60 per cent of median equalised income for a single person.

In 2011, approximately 21.4 per cent of the population between 18 and 24 years old was at risk of poverty or social exclusion. Elderly persons (aged 65 and above) were the most at risk (40.6 per cent), followed by individuals in the 55-64 years old cohort (see Figure 1.3). Women are generally more at risk of poverty or social exclusion than men (25.5 per cent and 21.8 per cent, respectively). Compared to other age groups, children and young people are more at risk of severe material deprivation (13.7 per cent and 13.3 per cent, respectively).⁹

Figure 1.3 Share of population at-risk of poverty or social exclusion, by age-group (%)



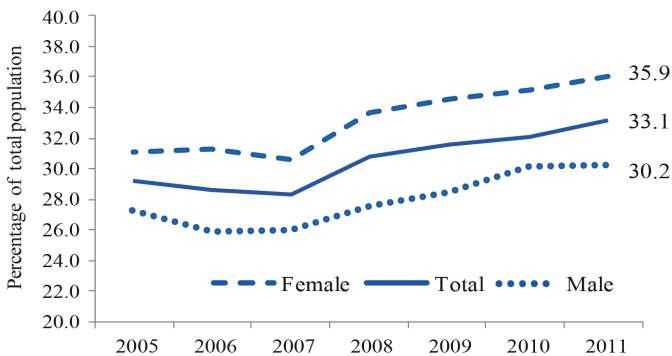
Source: EUROSTAT, *People at risk of poverty or social exclusion* (EU-SILC), various years

Unemployed and retired individuals are, respectively, 3.6 and 2.8 times more likely to be at risk of poverty and social exclusion than employed persons. Educational attainment is positively related to a lower risk of social exclusion: nearly 40 per cent of individuals with low educational attainment (i.e. ISCED level 0-2) are at risk of exclusion, compared to less than 11 per cent of tertiary graduates.

⁹ Data on the very low intensity of work are available by a number of individual characteristics. Given the limited incidence of this dimension compared to poverty and material deprivation, such figures are not reported here. EUROSTAT, *People at risk of poverty or social exclusion*, 2011, accessible at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion

Social transfers have a remarkable effect in reducing the risk of social exclusion in Cyprus. As shown by Figure 1.4 below, in 2011 the at-risk of poverty rate excluding any type of transfers was 33.1 per cent, more than double the actual index for the same year.

Figure 1.4 Population at-risk of poverty before social transfers, by sex (%)

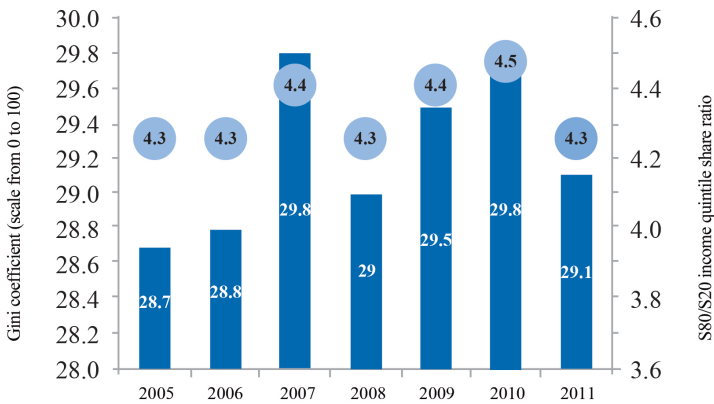


Source: EUROSTAT, 2011. *People at risk of poverty or social exclusion*, op.cit

The impact of social transfers is slightly larger for pensions (10 percentage points) compared to other social transfers (nine percentage points), and higher for women compared to men (20 and 18 percentage points, respectively).

The distribution across income brackets and the Gini coefficient – which measures income inequality on a scale of 0 (complete equality) to 1 (complete inequality) – shows that, in 2011, the income share of the 20 per cent richest segment of the population was 4.3 times higher than that of the poorest segment of the population (Figure 1.5).

Figure 1.5 Inequality of income distribution



Source: EUROSTAT, *People at risk of poverty*; op.cit.

2 THE YOUTH LABOUR MARKET

2.1. Socio-demographic characteristics of young people

2.1.1 Demographic outlook

In 2012, Cyprus had a population of 862 thousand inhabitants (48.6 per cent men and 49.4 per cent women). Demographic projections indicate that, similar to most EU countries, the Cypriot population is aging. By 2050 the old age dependency ratio (i.e. the share of the population aged 65 and above over the working age population) will double, compared to that of 2010. This, coupled with the declining shares of children (0 to 14 years of age) and young people, will reduce the share of the working age population from the current 70 per cent to about 61 per cent.

Table 2.1 Population estimates and projections, 1990-2050

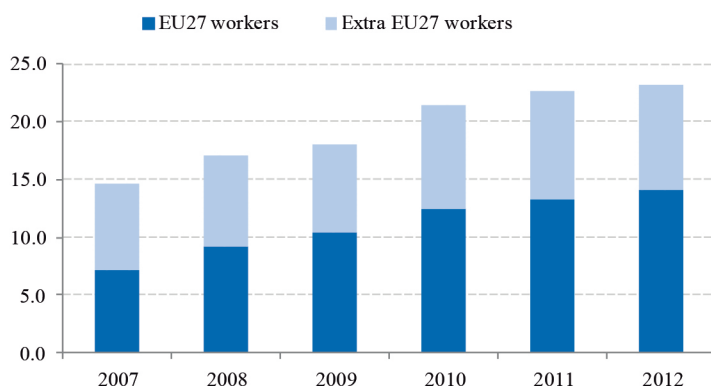
	1990	2000	2005	2010	2030	2050
0-14	26.0	22.8	19.2	17.2	16.6	14.8
15-24	15.4	15.5	15.9	16.1	11.0	10.3
15-24	63.1	66.0	68.9	70.3	63.8	60.9
65+	10.8	11.2	11.9	12.5	19.6	24.3
Old age dependency ratio (*)	17	17	17	18	31	40

(*) Share of the population 65 and over on the total population aged 15 to 64 years old.

Source: EUROSTAT, *Population figures*, various years, accessible at: <http://epp.eurostat.ec.europa.eu/>

Labour migration data by age group show that, in 2011 youth aged between 15-24 years of age represented nearly 19 per cent of the total number of immigrants in Cyprus.¹⁰ The share of foreign individuals working in Cyprus increased from 14.6 per cent in 2007 – year in which employment figures by country of origin are available – to 23.2 per cent in 2012. Workers from other European countries represent the largest share of migrant workers (Figure 2.1).¹¹ In the same period, the share of foreign workers from countries outside the European Union has ranged between seven and nine per cent.¹²

Figure 2.1 Share of foreign workers over total employment by area of origin, 2007-2012 (%)



Source: EUROSTAT, *Employment by nationality*, varios years, at: <http://epp.eurostat.ec.europa.eu/>

Emigration flows show an uneven pattern, with periods of relative decline (such as between 2001 and 2003) and periods of increasing outflows (i.e. 2006-2008). From 2009 onward, however, emigration flows have followed a downward trend. In 2011, the share of young people emigrating from Cyprus represented 18.7 per cent of all emigrants.¹³

¹⁰ A recent analysis of youth labour migration trends points to the age bracket 23-27 as median age for immigration in Cyprus.

¹¹ The data for EU migrants living in Cyprus include Greek nationals who were born or have been living in the country for many years, but have not applied for citizenship (Communication by the Ministry of Labour and Social Insurance of Cyprus to ILO's fact-finding mission of September 2013).

¹² The figures of the Ministry of Labour and Social Insurance, responsible for issuing work permits to third-country nationals, show that these workers are mostly employed in low-skills jobs, particularly in agriculture and domestic work.

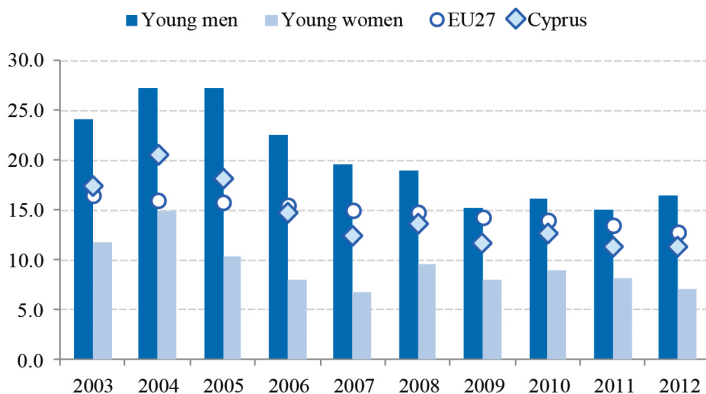
¹³ EUROSTAT, *Demographic figures*, various years, accessible at: <http://epp.eurostat.ec.europa.eu/>

2.1.2 Trends in education

The educational attainment in Cyprus is generally high. The education system has wide coverage, with high literacy rates (100 per cent for youth 15 to 24 years old and 98 per cent for adults) and nearly universal gross primary education enrolment (99.3 per cent in 2010).¹⁴

Educational attainment has improved across the generations with the share of individuals between 25 and 34 years old with at most lower secondary education being three times lower than that of individuals in the age cohort 55-64 (14.1 per cent and 43.6 per cent, respectively in 2012), well below the average recorded by other countries of the EU (18.5 per cent in the same year). Secondary education completion rates have also improved in the last decade (from 62.9 per cent in 2001 to 77.4 per cent in 2012). However, the share of young students attending vocational education is much lower than the EU average. In 2012, only 20.7 per cent of boys enrolled in secondary education were attending vocational education (compared to an EU average of 56.6 per cent) and only 4.3 per cent of girls (compared to 46.3 per cent in the EU).

Figure 2.2 Early school leavers in Cyprus and the European Union, 2003-2012 (%)



Source: EUROSTAT, *Educational outcomes*, various years, accessible at: <http://epp.eurostat.ec.europa.eu/>

¹⁴ In 2012, the primary education system of Cyprus ranked 7th (out of 144 countries) according to the Global Competitiveness Index, see World Economic Forum, *Global Competitiveness Report*, Geneva, 2012.

The proportion of young people between the ages of 18 to 24 who leave school early has been on a declining trend since 2005. In 2012, this share amounted to 11.4 per cent of the total youth population, which compares favourably with the 12.8 per cent EU average in the same year (see Figure 2.2). Young men are twice as likely to leave school early compared to young women (16.5 per cent and seven per cent, respectively).

In terms of higher education, Cyprus is performing above the EU average, with nearly 50 per cent of individuals aged between 30 and 34 years old having attained a tertiary education degree (35.8 per cent in the EU). Women are generally better educated than men: 55.5 per cent of women aged 30-34 have a university degree, compared to 43.6 per cent of men.

Young men and women are nearly equally distributed among tertiary education students, but women are slightly under-represented among students enrolled in scientific streams (12.3 per cent of all female students enrolled in tertiary education institutions). In 2011, the share of students studying science, mathematics, computing and technology represented 19.5 per cent of the total student population. A high level of educational attainment does not always ensure a smooth transition into the labour market. The figures on labour market status and educational attainment show that young people with high educational attainment are more likely to enter the labour market compared to those with lower educational achievement. Their unemployment rate, however, is relatively high and similar to that experienced by under-educated youth (see Table 2.2)

Table 2.2 Youth (15-24 years old) activity, employment and unemployment rates by educational attainment (2012)

		Activity rate	Employment to population ratio	Unemployment rate
Cyprus	Less than lower secondary (ISCED 0-2)	15.4	10.8	30.1
	Upper secondary (ISCED 3-4)	47.4	35.5	25.1
	University (ISCED 5-6)	66.4	56.4	30.5
EU27	Less than lower secondary (ISCED 0-2)	28.2	19.6	30.3
	Upper secondary (ISCED 3-4)	54.4	43.5	20.0
	University (ISCED 5-6)	81.2	54.6	17.9

Source: EUROSTAT, *Labour Force Survey*, 2012, detailed annual data

A higher level of education helps find the first job. The results of the 2009 ad hoc school-to-work transition module suggests that tertiary graduates find their first job within approximately five months of starting a job search, while the period for young people with secondary education only was 14 months. Lower-educated youth had the longest job search period (nearly 16 months).

The employment outcomes five years after completing formal education are also higher for tertiary educated youth, as 83 per cent of them had a job. This compares to a rate of 80 per cent for young people with secondary education and about 70 per cent for those with primary education. Young women find their first job faster than men (6.5 months and 10 months respectively), but they are less likely to be employed five years after leaving education (Table 2.3).

Table 2.3 Young people's entry into the labour market, by sex and education level, 2009

	Total	Men	Women	ISCED 0-2	ISCED 3-4	ISCED 5-6
Average age when leaving education (years)	21.3	20.9	21.6	15.1	18.5	23.3
Average time between leaving formal education and starting the first job (months)	8.1	10.1	6.5	15.7	13.9	4.8
Employment rates five years after leaving formal education (percentage)	81.2	85.0	78.3	70.3	80.0	83.0

Source: EUROSTAT, *Ad hoc school to work transition module*, 2009, accessible at: <http://epp.eurostat.ec.europa.eu/> at: <http://epp.eurostat.ec.europa.eu/>

Young people between the ages of 18 and 24 are three times more likely to engage in lifelong learning activities compared to the overall population (35.7 per cent and 11.1 per cent, respectively).

Table 2.4 shows that young women participate in lifelong learning more than young men (40 per cent and 30.6 per cent), and youth with upper-secondary education more than young people with lower secondary and tertiary education. Among the population of 18-64 years old, highly educated individuals are more likely to participate in lifelong learning than other groups.

Table 2.4 Life-long learning by individual characteristics, 2011

	Youth 18-24	Population 18-64
Total	35.7	11.1
Men	30.6	10.1
Women	40.0	12.0
<i>Education attainment</i>		
Lower secondary	29.5	3.9
Upper secondary	41.2	12.0
Tertiary	26.2	15.0
<i>Labour market status</i>		
Employed	15.5	8.6
Unemployed	10.8	7.9

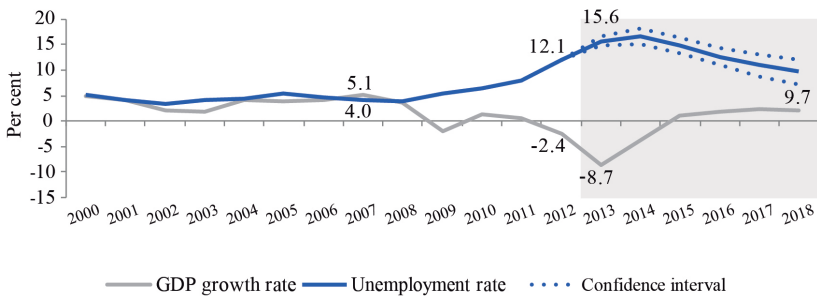
Source: EUROSTAT, *Lifelong learning*, 2011, at: <http://epp.eurostat.ec.europa.eu/>

2.2. Youth employment developments and projections

The economic and financial crisis has had a severe impact on the Cyprus labour market. Between 2007 and 2012, the overall unemployment rate (for the working age population) increased by 8 percentage points (see Figure 2.3). The overall unemployment rate is projected to further increase and reach 15.6 per cent (± 0.9 per cent) by the end of 2013.

On the basis of the current macro-economic projections, the ILO estimated a modest decline of the unemployment levels over the medium term, but still insufficient to return to pre-crisis levels.

Figure 2.3 Projections of unemployment rates (15-64) and real annual GDP growth rate (%)



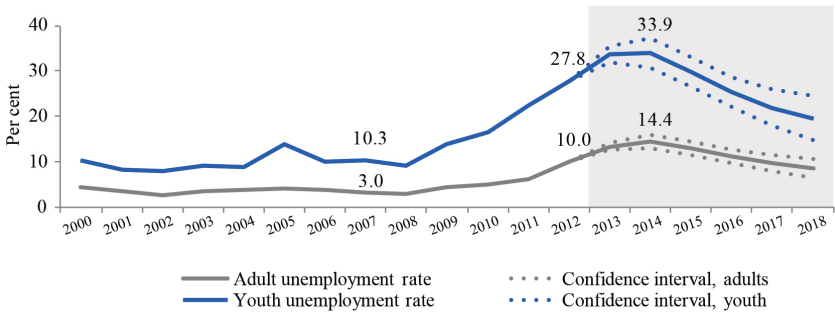
Source: ILO *Trends Econometrics Models*, Geneva, 2013; and (IMF). World Economic Outlook, Washington D.C., 2013. Note: The ILO econometric model uses the *Global Employment Trends (GET)* figures, which present some small differences compared to the data reported by EUROSTAT for Cyprus for the period 2000-2012.

The economic crisis has hit young people extremely hard (see Figure 2.4).¹⁵ Between 2007 and 2012, the youth unemployment rate increased by 17.5 percentage points, over twice the increase recorded in the adult unemployment rate (eight percentage points). The analysis at two points in time, i.e. prior to the impact of the global crisis that affected Cyprus later than other countries and after the March 2013 crisis, shows

¹⁵ If not otherwise stated, young people quoted in this report refer to individuals aged between 15 and 24.

that unemployment among young Cypriots has increased five times. This is evidenced by a rate of unemployment among young Cypriots being one of the lowest in the European Union (7.1 per cent in April 2008) to one of the highest after five years (37.9 per cent in April 2013). In this sense, the youth labour market in Cyprus was the hardest hit within the whole European Union. Even the youth labour markets of countries that have been severely affected by the crisis (e.g. Greece, Portugal and Spain) have experienced an average three-fold increase of the rate of youth unemployment.

Figure 2.4 Projections of youth and adult unemployment rates (%)



Source: ILO, 2013. *Trends Econometrics Models*, op. cit. The data presented in the graphics projecting employment and unemployment relate to youth (15-24) and adults (25-64) as compiled in the Global Employment Trends. The data of the model are slightly different from those reported by EUROSTAT in the period 2000-2012. This is the reasons for the discrepancies in the data reported in this graph and those of Table 2.5.

The greatest increase in the adult unemployment rate (3.8 percentage points year on) was recorded between 2011 and 2012, while for young workers the greatest increase is estimated that will occur between 2012 and 2013 (around six percentage points). As shown in Figure 2.4, the unemployment rate for both young and adult workers is projected to remain above pre-crisis levels for the years to come. Table 2.5 gives a snapshot of the main indicators of the labour market in Cyprus by age group and compares them to the average rates of the EU27.

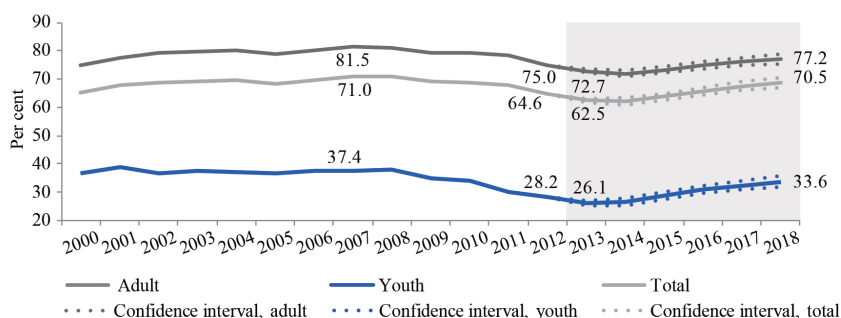
Table 2.5 Key labour market indicators Cyprus and EU27, by age and sex, 2012 (%)

Age groups	Labour force participation rate	Unemployment rate	Employment-to-population ratio
Total			
15-64	73.5	12.1	64.6
15-24	39.0	27.8	28.2
25-64	81.2	10.0	72.8
EU27 (15-64)	71.8	10.6	64.2
EU27 (15-24)	42.6	22.8	32.9
Men			
15-64	80.7	12.8	70.4
15-24	42.8	28.8	30.5
25-64	89.1	11.1	79.1
EU27 (15-64)	78.0	10.5	69.8
EU27 (15-24)	45.5	23.4	34.9
Women			
15-64	66.9	11.2	59.4
15-24	35.5	26.7	26.1
25-64	74.1	9.5	67.0
EU27 (15-64)	65.6	10.6	58.6
EU27 (15-24)	39.6	22.0	30.9

Source: EUROSTAT, Labour Force Survey 2012, detailed annual data, accessible at: <http://epp.eurostat.ec.europa.eu/>

Employment is expected to start recovering in 2015, at a slightly faster pace for young people compared to adults (Figure 2.5), but remaining below pre-crisis levels for both groups until 2018. In the period 2000-2007, the youth employment-to-population ratio was relatively stable (at around 37 per cent). Since the onset of the crisis, this rate has dropped by almost 10 percentage points, well over the decline recorded among adults (six percentage points).

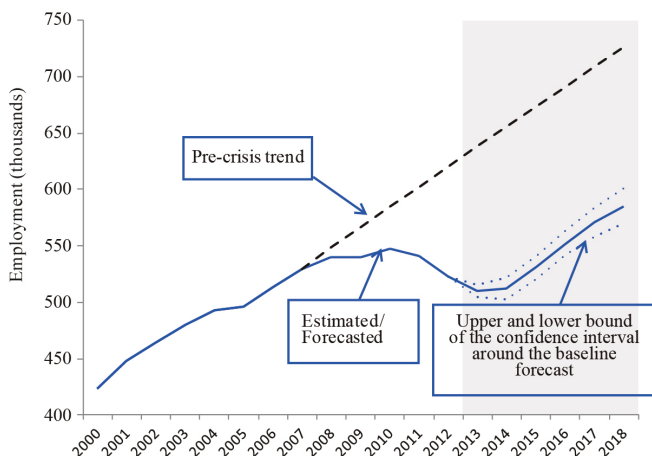
Figure 2.5 Projections of employment-to-population ratio, by age group (%)



Source: ILO, *Trends Econometrics Models*, 2013, op.cit., The figures of the Global Employment Trends model are slightly different from those reported by EUROSTAT for the period 2000-2012. This explains the discrepancy in the data reported in this graphics and those of Table 2.5.

ILO estimates show a job gap of 97 thousand workers resulting from the crisis (see Figure 2.6). This means that, in 2012, employment levels were 15.6 per cent lower than it would have been expected based on pre-crisis trends. The current projections, in addition, show a widening of the gap over time, reflecting the severity and persistency of the economic downturn and its impact on the labour market.

Figure 2.6 Projections of jobs gap until 2018, Cyprus (thousands)



Note: To calculate the gap, the employment-to-population ratios for young men and women and for adult men and women were projected from 2008 based on the historical trends of 1999- 2007 (average annual changes). This was multiplied by each group's population to estimate the positive/ negative gap between actual and forecasted employment.

Source: ILO, *Trends Econometrics Models*, September 2013, op. cit.

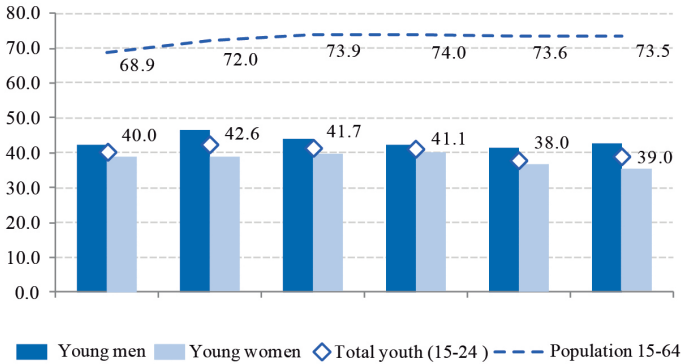
2.2.1 Youth labour force participation

In 2012, the labour force participation rate of young people (15-24) was 39 per cent. This rate was below that recorded in the EU for the same age group (i.e. 42.6 per cent). By the second quarter of 2013, this gap had further increased to reach 6.3 percentage points.

Youth labour force participation in Cyprus has been on a decreasing trend since 2005, when it peaked at 42.6 per cent (see Figure 2.7). The decline has been slightly more pronounced in the last few years, as the increase in the youth population translated mostly into inactivity for education purposes.

Low activity rates are mostly due to the higher participation in education of young people in Cyprus, compared to other EU countries. Over 42 per cent of this age-group is currently attending school (41 per cent of young men and 43.9 per cent of young women).

Figure 2.7 Labour force participation of youth (15-24) by sex, 2000-2012



Source: EUROSTAT, *Labour Force Survey*, various years, detailed annual data at: <http://epp.eurostat.ec.europa.eu/>

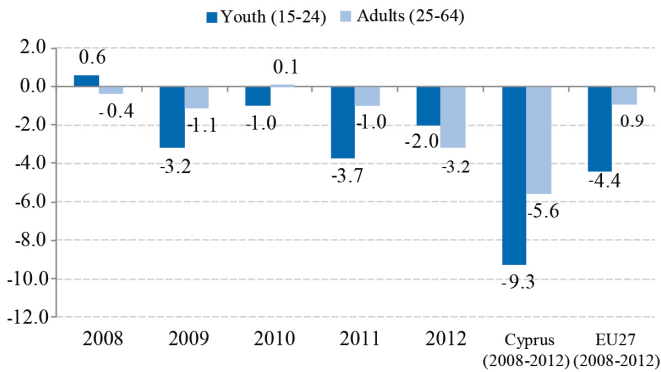
Similarly to what occurs in other European countries, the labour force participation rate of young men is higher than that of young women. This is partly explained by the higher participation of young women in education, but also by their higher rates of inactivity due to family reasons. The labour force participation is positively related to educational attainment: the higher the educational achievement, the higher the labour force participation rate for both young and adult individuals. In 2012, over 86 per cent of young people with tertiary education were in the labour force compared to 12.6 per cent of young people with at most lower secondary education (88.9 per cent and 67.2 per cent for adults 25-64 years old, respectively).

2.2.2 Youth employment

In 2012, the youth employment-to-population ratio (or “employment rate”) in Cyprus was 28.2 per cent, the lowest rate recorded since 2000. This was nearly five percentage points below the average recorded among youth in the European Union. The adult employment-to-population ratio, conversely, was higher than that recorded in the EU (72.8 per cent and 70.7 per cent, respectively). In the same way as their European peers, young men in Cyprus are more likely to be employed (30.5 per cent) compared with young women (26.1 per cent).

Employment started to decline slightly in 2008 with a marked acceleration in 2009. The data on employment (see Figure 2.8 below) show that the impact of the economic crisis in the period 2009-12 was very severe in terms of job losses, compared to the relatively mild output contraction registered in the same period (2.5 per cent of GDP).

Figure 2.8 Changes in employment, youth and adults, Cyprus and EU27, 2008-2012 (percentage points)



Source: EUROSTAT, *Labour Force Survey*, various years, detailed annual data at: <http://epp.eurostat.ec.europa.eu>

Employment losses have been more severe than the average recorded in the European Union. Between 2008 and 2012, the employment-to-population ratio among adult workers decreased by 5.6 percentage points (less than one percentage point in EU countries), while that of young workers declined by 9.3 percentage points (4.4. percentage points for youth in the European Union). The data for the second quarter of 2013 show that the employment gap between young and adult workers in the country has been widening, as the youth employment rate had further declined by 7 percentage points to reach 21.2 per cent. Such a sharp decline in total youth employment is due to the fact that the increase in the youth population recorded in Cyprus between 2008 and 2012 translated mostly into inactivity, while all employment losses resulted into unemployment.¹⁶

¹⁶ This also explains the severe increase in the youth unemployment rate, since the youth labour force remained stable in the period 2008-2012.

The largest employment losses were experienced by unskilled workers, new labour market entrants and in economic sectors where there is a prevalence of low-paid occupations. Employment figures disaggregated by level of education and age group show that employment among low-educated youth decreased by over 30 per cent during the period 2008-12.

Box 2.1 Employment outcomes of national and foreign youth during the economic crisis

The economic and financial crisis had a different effect on the labour market position of young Cypriots and young foreigner workers. The labour market data of the period 2009-2013 by national origin, show that:

- The population of young Cypriots increased in the period under consideration, but this increase translated mainly into inflows into inactivity (with 77 per cent of the total population increase shifting to inactivity and 22.9 per cent shifting to unemployment). This caused the unemployment rate of young Cypriots to quadruple.
- The population of young foreigners increased until the first quarter of 2012 (by 15 per cent, cumulatively), to then decline sharply at the beginning of 2013 (by 12 per cent). By 2013 the population of young foreigners had returned to 2009 levels.
- Employment among young foreign individuals increased up to 2012 and then dropped sharply (by nearly 41 per cent) at the beginning of 2013. Over 54 per cent of this decline is due to the decrease of the population (probably due to the fact that young foreign workers who lost their jobs returned to their home country or moved to another country). Another 36 per cent of the employment drop translated into inactivity, while slightly less than 5 per cent translated into unemployment.

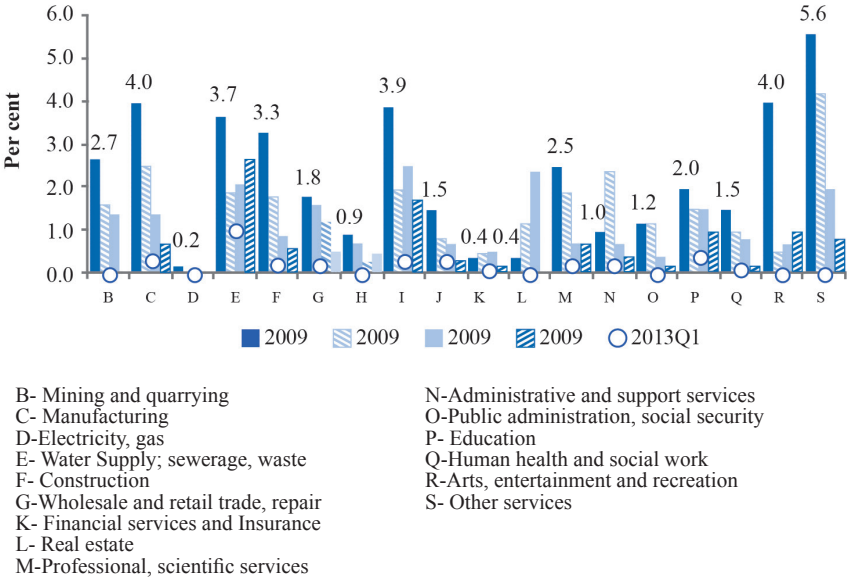
Source: EUROSTAT, *Labour Force Survey*, quarterly data, various years, at: <http://epp.eurostat.ec.europa.eu>.

Contrary to the experience of many other countries during the recent crisis, ***young women were more affected by employment decreases than young men.*** The employment-to-population ratio of young women decreased from 36.7 per cent in 2008 to 26.1 per cent in 2012, while that of young men declined from 39.4 per cent to 30.5 per cent. This widened the gender gap in youth employment (from less than 2.7 percentage points to 4.4 percentage points). Among adults, the situation was reversed, as employment losses were recorded mainly among men, while the employment-to-population ratio of adult women increased between 2008 and 2010 (from 68.9 per cent to 70 per cent), to then declined in 2011 (to 69.7 per cent) and 2012 (to 67 per cent).

Such differences in employment performance are explained by the different distribution of workers by sex and age across economic sectors. ***Employment losses were largest for young men in the manufacturing and construction sectors, while employment losses among young women were more spread across a number of service-related sectors*** (professional services, education, health and other services). For adult men, employment losses were particularly high in manufacturing, construction and public administration. For adult women, conversely, employment gains were recorded mainly in the wholesale and retail trades, and public administration. Figure 1.1 in the previous Chapter shows the concentration of youth employment in the wholesale and retail trade, other service activities, accommodation and food industries, as well as construction.

The contraction of employment affected most economic sectors. The overall job vacancy rate declined from 2.5 per cent in 2009 to 0.2 per cent in the first quarter of 2013 (see Figure 2.9). In one-third of the sectors the drop was between 2 and 4.8 percentage points, while for another third it was above one percentage point. By the first quarter of 2013, roughly 40 per cent of economic sectors (mining; electricity and water supply; transport; real estate; public administration; arts and entertainment and other services) reported no vacancies.

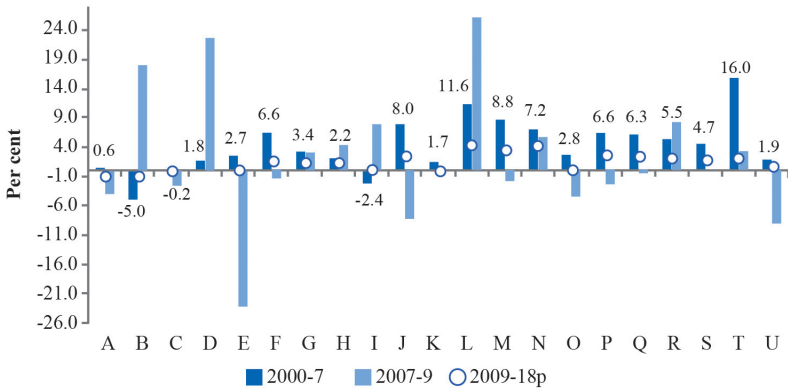
Figure 2.9 Job vacancies as a share of wage employment, NACE 1-digit sector (%)



Source: Statistical Service of Republic of Cyprus available at:
http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour_31main_en/labour_31main_en?OpenForm&sub=1&sel=2.

An analysis of employment by economic sector and occupation – conducted every two-three years by the Human Resource Development Authority (HRDA) of Cyprus to forecast employment trends – shows that, prior to the economic crisis the fastest growing sectors were households as employers (annual employment growth of 16 per cent in the period 2000-2007), real estate (11.6 per cent) and professional, scientific and technical services (nearly nine per cent).

Figure 2.10 Average annual employment growth, NACE 1-digit sector (%)



- A-Agriculture
- B-Mining and quarrying
- C-Manufacturing
- D-Electricity, gas
- E- Water Supply; sewerage, waste
- F- Construction
- G-Wholesale and retail trade, repair
- H-Transportation and storage
- I- Accommodation and food service
- J- Information and communication
- K-Financial services and Insurance
- L-Real estate
- M-Professional, scientific services
- N-Administrative and support services
- O-Public administration, social security
- P-Education
- Q-Human health and social work
- R-Arts, entertainment and recreation
- S-Other services
- T-Households as employers

Source: Human Resource Development Authority (HRDA), 2010. *Employment Projections 2010-2020*, available in Greek only at: http://www.anad.org.cy/easyconsole.cfm/page/project/p_id/27

The real estate, mining and electricity sectors continued to expand to double digits in the period 2007-2009. Conversely, employment in the water supply industry dropped by over 23 per cent (see Figure 2.10 above). The estimates up to 2018 point to administrative support services and real estate as the two fastest growing sectors (4.5 and 4.4. per cent, respectively).¹⁷

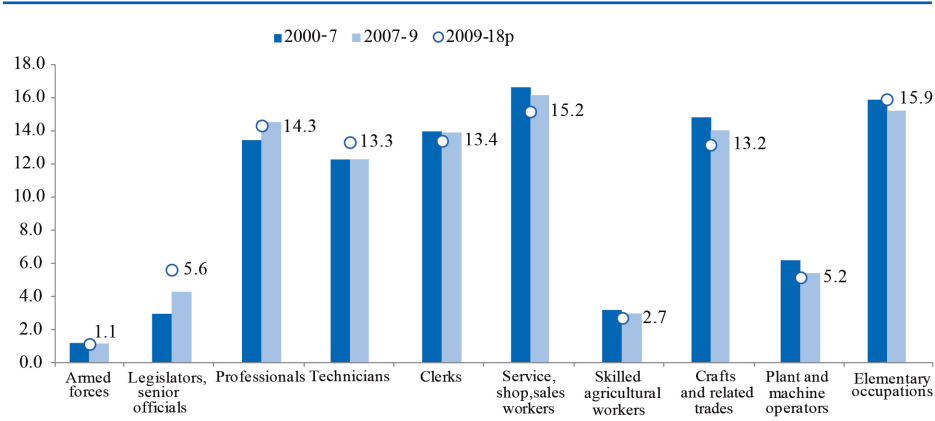
¹⁷ It is worth noting that these estimates, however, date back to August 2010, prior to the unfolding of the banking sector crisis of March 2013.

Micro, small and medium-size enterprises are the largest providers of jobs for the Cypriot population. The latest available figures show that over one-third of total employment is in micro-enterprises (firms with less than ten workers), while small and medium-sized enterprises employ 23.4 and 19.3 per cent of total workers, respectively. *The distribution of young workers (less than 30 years of age) by enterprise size shows that micro-enterprises account for 34.3 per cent of total youth employment, small enterprises account for approximately one quarter and medium-sized ones for 33.3 per cent.*

In the period preceding the crisis, over half of total employment was in medium-skilled occupations (i.e. occupations classified in category 4 to 8 of the International Standard Classification of Occupations, 2008). Another 30 per cent was in high-skilled occupations and the remaining 16 per cent in elementary occupations.

The distribution of employment across broad occupational categories does not appear to have been affected by the crisis (Figure 2.11). The 2018 forecast does not point to significant changes in this distribution: the estimates prepared in 2010 point to a slight increase in elementary occupations, technicians, professionals and senior officials and a slight decrease of some other occupations like clerks and those related to crafts.

Figure 2.11 Employment by occupation, average share in total employment (%)



Source: Human Resource Development Authority(HRDA), *Employment Projections 2010-2020*, op.cit

This occupational distribution is broadly in line with the educational attainment of young workers: roughly 30 per cent of these have tertiary education, around 50 per cent has upper secondary education and the remaining 20 per cent has at most lower secondary education. The distribution of young workers by sex shows that nearly half of young female workers have tertiary education (46.9 per cent), while only 13.4 per cent of young male workers have completed this level of education. Approximately two-thirds of young men have upper secondary education (61 per cent), while the share of young male workers with low educational attainment is nearly twice the share recorded among females (25.6 per cent and 13.9 per cent, respectively).

The education and occupation mismatch figures (21.4 per cent of all workers, see the shaded area of Table 2.6) disaggregated by sex show that women are much more likely than men to be over-qualified (27.2 per cent of women are overqualified compared to 15.8 per cent of men). *A combined analysis of these data and those relating to youth employed by educational attainment, points to low labour market rewards of high educational attainment among young women.* The overall mismatch, in fact, is mostly accounted for by upper-secondary graduates working in elementary occupations, and tertiary graduates working as sales and clerical workers. In both these categories, women are proportionately more represented than men. Elementary occupations account for 24 per cent of total women's employment (10.9 per cent for men) while 18.4 per cent of all women workers are employed as clerical workers (compared to 4.8 per cent of men).

Table 2.6 Education and occupation mismatch as a function of ISCO and ISCED, 2012, (thousands)

ISCO-08 Major Groups		ISCED-97 Educational attainment						
		0	1	2	3	4	5	6
1	Managers	1 000			3 600		10 600	
2	Professionals				1 100		66 900	
3	Technicians and associate professionals	2 100			21 000		29 500	
4	Clerical support workers	1 400			23 600		18 200	
5	Service and sales workers	13 400			38 100		21 900	
6	Skilled agricultural, forestry, fishery workers	4 800			1 700		...	
7	Craft and related trades workers	13 600			24 400		4 100	
8	Plant and machine operators and assemblers	7 000			8 700		1 900	
9	Elementary occupations	30 100			27 200		8 000	
0	Armed forces occupations				1 900		1 900	

Source: EUROSTAT, Labour Force Survey 2012, detailed annual data, accessible at: <http://epp.eurostat.ec.europa.eu>.

The employment structure in Cyprus is similar across sex and age-groups. The overwhelming majority of young workers are wage employees (see Table 2.7). In 2007 the share of young own account workers reached its peak at 7.1 per cent of total youth employment, to decline thereafter, following closely the trends of adult workers. Own account work among women has been increasing over the years (from 21.3 per cent in 2000 to 28.8 per cent in 2007).

In 2007, the sex distribution among young own account workers was similar (48 per cent of all young own account workers were young women). This changed dramatically during the economic and financial crisis, with the proportion of female own account workers declining to 25 per cent. The share of young contributing family workers, conversely, increased from 1.7 per cent of total youth employment in 2007 to 2.3 per cent in 2012.

The incidence of part-time work among young workers has increased three-fold since 2001, while, for adults, it has remained fairly stable at around 10-13 per cent. In 2001, part-time work was more common among young men than among young women (7.5 per cent and 5.7 per cent, respectively). This trend reversed in a period of a few years: by 2007 young women were more likely to work part-time compared with young men (13.7 per cent and 10.2 per cent, respectively). By 2012, the share of young women working part-time was 22.3 of total employment (i.e. a four-fold increase in a decade).

Table 2.7 Structure of youth employment, 2001-2012 (%)

	2001	2007	2012
Status in employment			
Employees	92.6	91.1	93.7
Employers	...	...	...
Self-employed workers	4.5	7.1	4.0
Contributing family members	3.0	1.7	2.3
Type of contract			
Full-time	93.4	88.0	81.2
Part-time	6.6	10.1	18.8
<i>Involuntary part-time</i>	31.6	37.8	56.4
Permanent contract	85.3	76.7	81.3
Fixed-term contract	14.7	23.3	18.7
<i>Involuntary fixed-term</i>	52.5	65.6	78.3

Source: EUROSTAT, *Labour Force Survey*, various years, detailed annual data at: <http://epp.eurostat.ec.europa.eu>.

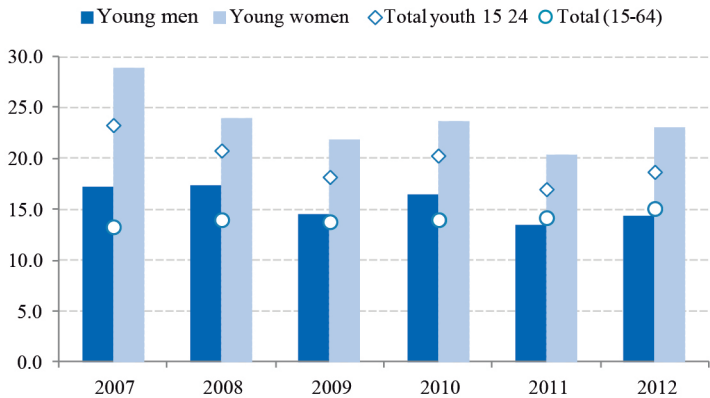
The employment figures by type of contract points to a growing trend of involuntary part-time among youth. In 2001, the share of involuntary young part-timers was slightly over one third of total part-time; by 2012, it had evolved to over half of all youth part-timers. A similar trend can also be discerned among adults: the fraction of involuntary part time increased from 15.6 per cent in 2001 to 46.8 per cent in 2012.

Temporary work has increased steadily over the last few years for all workers (from 10.8 per cent in 2001 to 15.1 per cent in 2012). In

the period 2001-2007, this increase was particularly pronounced among young people, and especially among women. Temporary work among young women increased from 17.4 per cent in 2001 to 28.9 per cent in 2007, while for young men it increased from 11.6 to 17.2 per cent. Since 2008, the trend in youth temporary work closely followed that of overall youth employment, with noticeable decreases in the years when youth employment losses were accelerating as, for example, in 2009 and 2011 (Figure 2.12).

This seems to confirm the situation recorded in other countries of the European Union, where young workers in temporary employment were the first to lose their jobs. This is also confirmed by the data of Table 2.7 that shows an upward trend in the share of involuntary temporary work among youth, which may be due to young jobseekers perceiving the difficulty of finding a stable job in worsening labour market conditions.

Figure 2.12 Young workers in temporary work, by sex, 2007-2012, (%)



Source: EUROSTAT, *Labour Force Survey*, various years, detailed annual data

2.2.3 The informal economy

There is, unfortunately, very little information or numerical estimates on informal employment in Cyprus, especially by age-group. Available estimates put its size at over 28 per cent of GDP and on an upward trend since the early 2000s.¹⁸ A thorough analysis of informal employment, the characteristics of informal workers and main determinants of informality has never been conducted in the country.

A study of the European Commission that was conducted in 2004 reports that undeclared work accounted for 4.2 per cent of GDP.¹⁹ The figures obtained from the Labour Inspectorate, however, show a decrease in the share of undeclared work between 2010 and 2012 (from 8 per cent to 5 per cent).²⁰ In 2010, nearly 60 per cent of third country nationals subjected to inspection were found to be working under informal arrangements, compared to 32 per cent for migrant workers from other EU countries. The lowest share of undeclared work was recorded among Cypriot workers (13.5 per cent of all workers inspected).

By April 2013, the share of undeclared workers among third-country nationals had decreased to 39 per cent, while the respective shares for EU migrant workers and Cypriots had declined slightly (to 30 and 10 per cent, respectively). The economic sectors more exposed to undeclared work arrangements were the accommodation and food industries (nearly 37 per cent of all workers inspected) and construction (19 per cent of all workers inspected).²¹

¹⁸ Schneider F., Buehn A., Montenegro C.E., *Shadow economies all over the world: New estimates for 162 countries from 1999 to 2007*, World Bank, Washington D.C., 2010, accessible at: http://www.econ.jku.at/members/Schneider/files/publications/LatestResearch2010/SHADOWECONOMIES_June8_2010_FinalVersion.pdf

¹⁹ European Commission, Employment and Social Affairs, *Undeclared work in an enlarged Union: An analysis of undeclared work*, Brussels, European Commission, 2004.

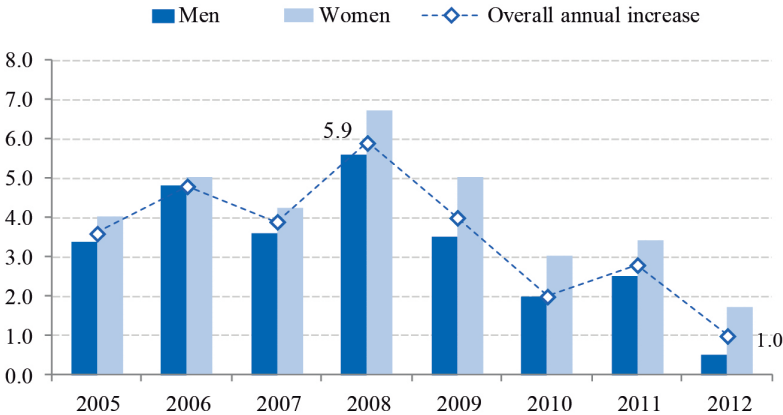
²⁰ These figures are similar to the difference found between individuals contributing to the Social Insurance system (369 thousands) and those detected as employed by the Labour Force Survey (394 thousands) in 2011 (e.g. roughly 6 per cent of total employment is not registered). See Statistical Service of the Republic of Cyprus, *Labour Statistics 2011* and EUROSTAT, *Annual labour force surveys*, 2011.

²¹ Information provided by the Labour Inspectorate.

2.2.4 Wages and other conditions of work

Between 2005 and 2012, average monthly earnings increased in nominal terms by approximately 27 per cent (from €1,560 to €1,984). The largest increase was recorded in 2008 (5.9 per cent compared to the previous year). After that, however, earnings started to decelerate with an increase of just one per cent in 2012 (Figure 2.13). The increases in average earnings were higher for women compared to men in all years considered. This reduced the overall gender wage gap from 22 per cent in 2005 to 17 per cent in 2012.

Figure 2.13 Percentage change in average earnings (seasonally adjusted), by sex (2005-2012)



Source: Statistical Service, Republic of Cyprus, *Quarterly average earnings*
at: http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour_31main_en/labour_31main?OpenForm&sub=1&sel=2&c=&highlight=average%20quarterly%20earnings

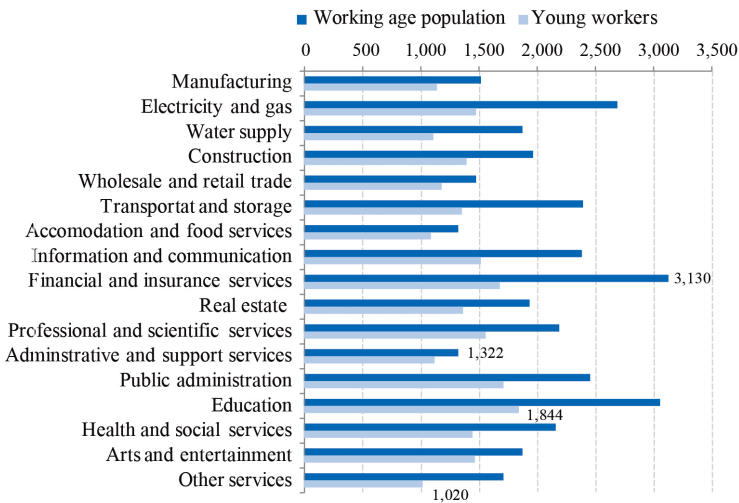
The latest available figures disaggregated by age-group are for 2010.²² In this year, the earnings gap for individuals under 30 years old was 34 per cent, while the gender gap among this group of young workers was twice as lower than the average gender gap (7.5 per cent and 18.7 per cent, respectively). Figure 2.14 shows that differences in earnings across economic sectors were less pronounced for young workers compared to

²² Available at the EUROSTAT portal, Structure of Earnings Survey. The figures are available disaggregated for the group aged 30 years or less.

the total working age population. The wage gap across mean earnings between the lowest (administrative and support services) and the highest-paying sectors (financial and insurance services) was over 86 per cent for adults, while for youth the gap between lowest (other services) and the highest-paying sector (education) was 59.7 per cent.

Over 37 per cent of workers under the age of 30 were in low-paid work in 2010 compared to an average of 22.7 per cent for the population within the working age. The share of young workers in low-paid employment, however, has decreased substantially since 2006 (when 56.5 per cent of workers under 30 were in low-paid employment). The higher incidence of low pay among young workers is in part due to their concentration in economic sectors where low-paid work is more widespread: for instance administrative and support services (where low-paid employment affects 53.9 per cent of workers) accommodation and food services (46.4 per cent of workers), trade (36.9 per cent) and manufacturing (33.2 per cent).

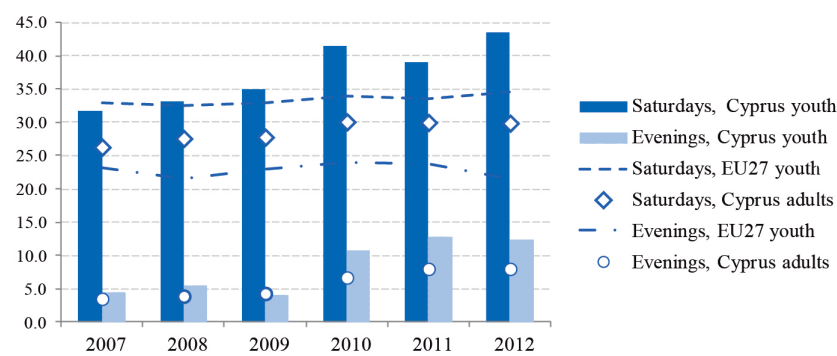
Figure 2.14 Mean monthly earnings by economic sectors, working age population and young workers, 2010 (Euro)



Source: EUROSTAT, *Structure of earnings survey*, 2010 at: <http://epp.eurostat.ec.europa.eu>.

Available data on hours of work show that the share of young people working on Saturdays increased substantially between 2003 and 2007, with a further acceleration over the past five years (Figure 2.15). The share of adults working on Saturdays also increased, but at a more moderate pace.

Figure 2.15 Unsocial working hours, youth and adults, Cyprus and EU 27 (%)



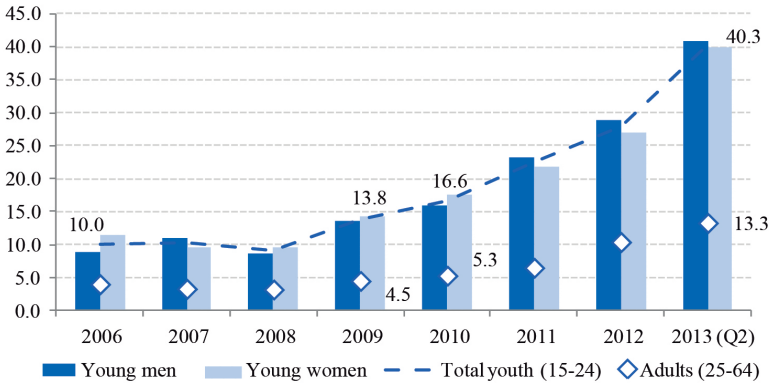
Source: EUROSTAT, *Labour Force Survey*, various years, detailed annual data.

By 2012, the share of young people working on Saturdays had reached 43.6 per cent, compared to an average of 35 per cent of young workers in other European Union countries. Evening work also increased for both adult and young workers, albeit at a slower pace compared to work on Saturdays.

2.2.5 Youth unemployment

Since 2000, the youth unemployment rate in Cyprus has consistently been higher than for adults, albeit on a slow, declining trend. In 2008, the youth-to-adult unemployment rate ratio was 2.9. Since 2009, youth unemployment has increased sharply and at a much faster pace compared to that of adults. By 2012, the youth-to-adult unemployment rate ratio had reached 3.5.

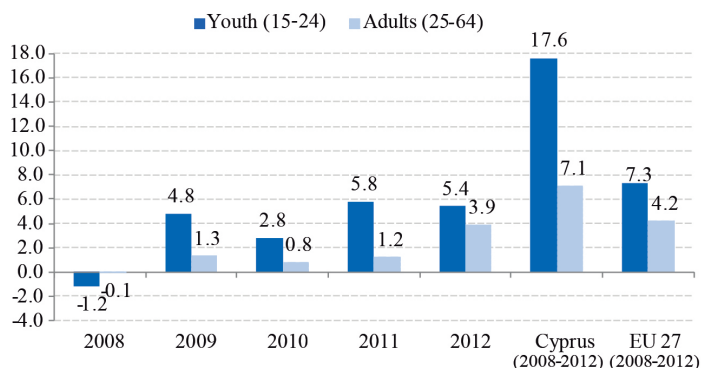
Figure 2.16 Youth unemployment rate, by sex, 2000-2013, (%)



Source: EUROSTAT, *Labour force surveys*, various years, at: <http://epp.eurostat.ec.europa.eu>.

In 2012, the youth unemployment rate in Cyprus was five percentage points higher than the average recorded in the European Union (27.8 per cent and 22.8 per cent, respectively), with a sharp acceleration in 2013. In the second quarter of 2013, the youth unemployment rate had reached 40.3 per cent, equally distributed among the sexes (Figure 2.16). As already mentioned, the most striking development has been the five-time increase of this rate within five years that made Cyprus move from one of the EU countries with the lowest youth unemployment rate to the group of countries with the highest rates.

Figure 2.17 Changes in unemployment rates, youth and adults, Cyprus and EU27, 2008-2012 (percentage points)



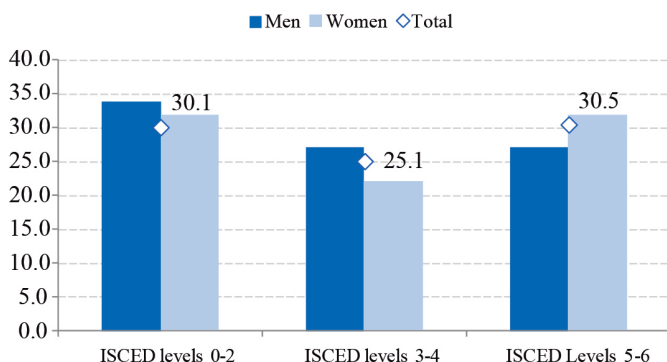
Source: EUROSTAT, *Labour force surveys*, various years, at: <http://epp.eurostat.ec.europa.eu>.

The cumulative increase in the youth unemployment rate in the period 2007-2012 was 17.5 percentage points, three times the increase recorded in the adult unemployment rate (Figure 2.17).²³ Similar to what occurs elsewhere, the unemployment rate in Cyprus is higher among teenagers, especially boys (47.3 per cent compared to 39.9 per cent for girls), compared to young adults.

Contrary to the trends in the adult labour market, a higher level of education does not have a positive effect on the probability of escaping unemployment for young people (Figure 2.18). For adult workers, the unemployment rate decreases from 12.6 per cent for those with at most lower secondary education, to 8.7 per cent for those with tertiary level. Adult women, however, have similar rates at both ends of the education scale (9.4 per cent for low-skilled women and 9.1 per cent for high skilled ones).

²³ As already mentioned in paragraph 2.2.2., such hikes in the youth unemployment rate are due to the flows from employment into unemployment in the presence of stable labour force participation.

Figure 2.18 Youth unemployment rates by education level, 2012



Source: EUROSTAT, *Labour Force Survey*, various years, at: <http://epp.eurostat.ec.europa.eu>.

For young people, the lowest unemployment rate is found amongst those with upper secondary education (25.1 per cent), especially among young women (21.8 per cent). The unemployment rates of low-skilled and high-skilled youth are similar (around 30 per cent), but with tertiary educated women more exposed to unemployment compared to their male counterparts (31.6 and 27.2 per cent, respectively).

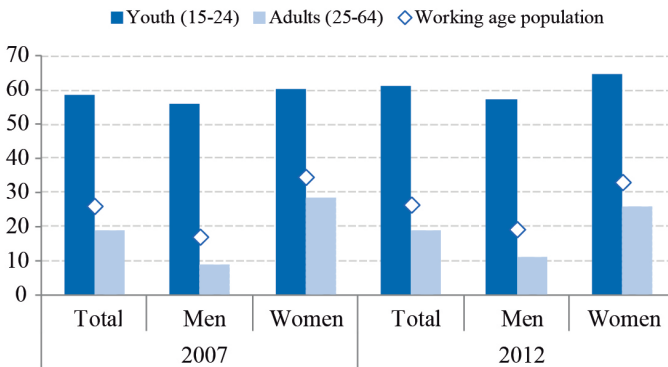
Long-term unemployment (over 12 months) is more pronounced for adults than for youth (31.5 per cent and 25 per cent, respectively), with young men more exposed to long-term unemployment compared to women (29.4 per cent and 19.9 per cent, respectively).

2.2.6 Youth inactivity and discouragement

Between 2007 and 2012, the inactivity rate of the working age population remained fairly stable (26.1 per cent and 26.5 per cent, respectively). Inactivity is more widespread among women than men. The main reason for inactivity among adult women is household and care responsibilities (63.9 per cent), while for adult men it is illness or disability. In the same period, inactivity among young women increased more than that of young men. This may be due to the fact that young women tend to

remain in school longer than young men and to engage more in household and care duties (5.1 per cent of all inactive young women and 2.8 per cent for young men in 2012.).

Figure 2.19: Inactivity rates by sex and age-group, 2007-2012



Source: EUROSTAT Labour force survey, various years

Adults are more likely than young people to be discouraged workers (8.6 per cent and less than one per cent, respectively).²⁴ In 2012, this figure was over 17 per cent of adults and nearly 8 per cent of young inactive individuals willing to work.

In the same year, the share of young people in neither employment nor education and training (NEETs) represented 16 per cent of the total youth population, with sharp increases recorded in 2010 and 2011 due to the rising numbers of young unemployed (from 4.4. per cent of the youth population in 2009 to 8.8 per cent in 2012) and inactive youth in education or training (from 5.5 per cent to 7.4 per cent). Over a span of just five years, the rate of “idleness” shifted from below the average recorded in the EU27 (9.7 per cent in Cyprus and 10.3 per cent in the EU) to over 3 percentage points higher than in the EU27.

²⁴ The definition of discouraged workers refers to individuals who, owing to lack of (perceived) success, have stopped seeking work, although they are willing and able to engage in productive activities. See Rosas, G. and Rossignotti, G., *Starting the millennium right: Decent work for young people*, in International Labour Review, Vol. 144 (2005), Geneva.

3 Policies and institutions for youth employment

The years leading to the economic and financial crisis were characterized by positive economic growth, a good labour market situation and rising incomes. Credit expansion – driven by large capital inflows – fuelled domestic demand and output growth. External imbalances, however, started to rise, due to falling exports and increasing imports. Over two- thirds of the negative current account balance was financed by foreign capital inflows. Excess bank liquidity – caused by foreign capital inflows –was mainly invested in foreign operations and Greek sovereign bonds, which exposed the banking sector to negative external developments.

On the fiscal front, the consolidation measures deployed in 2009 were insufficient to reduce the budget deficit (amounting to 6.1 per cent of GDP). Given the difficulties experienced in raising the resources needed to finance the deficit, the increasing concerns about the sustainability of public finances, a deteriorating financial sector and housing market, the Cypriot authorities requested the financial assistance of the European Union and International Monetary Fund in mid-2012. The crisis reached its peak in spring 2013, when the two largest banks in Cyprus became insolvent. The measures enacted by the Government to restructure the failing banks helped to avoid the collapse of the banking sector and a massive outflow of capitals, but could not avoid the credit crunch that affected the real economy with a loss of output of 5 per cent on an annual basis in the first quarter of 2013.

Although the impact of the crisis in the period 2009-2012 was mild in terms of output contraction (2.5 per cent of GDP cumulatively), it was very severe in terms of job losses, especially for young workers. By the second quarter of 2013, the rate of unemployment among youth had skyrocketed to 40.3 per cent and working conditions had worsened for youth more than for adults.

Available employment projections show that the labour market situation will further deteriorate in 2013 and 2014, with a tepid recovery starting only in 2015. Employment, however, will remain below pre-crisis levels for the coming years.

3.1. Macro-economic and sectoral policies

The youth employment crisis will not be overcome without stronger employment growth. This requires coordinated policy efforts to support aggregate demand through pro-employment macroeconomic policies.²⁵

Policies that foster strong aggregate demand, increase productive investment and improve access to finance can have a positive impact on young people's employment prospects.

Macroeconomic policies can support youth employment by encouraging economic diversification and the development of sectors that are conducive to the creation of jobs for youth. In Europe, for example, a number of sectors have been identified as having a high job-creation potential. These include the green economy, health and social care, and information and communications technology.

In early 2013, the Government of Cyprus signed an *Economic Adjustment Programme* with the European Commission, the European Central Bank and the International Monetary Fund. This Programme envisages additional fiscal consolidation measures for the period 2013-2015, amounting to roughly five per cent of GDP. Box 3.1 describes the main measures to be introduced, with structural adjustment focused on a mix of tax hikes and lower public spending.

²⁵ International Labour Office, *Global Employment Trends 2013: Recovering from a second jobs dip*. Geneva, ILO, 2013

Box 3.1 The economic adjustment programme for Cyprus

In April 2013, the Cypriot authorities signed the Economic Adjustment Programme with the European Commission, the European Central Bank and the International Monetary Fund. The Programme objective is to help the Government of Cyprus address the current financial, fiscal and structural challenges and return the economy to a sustainable growth path. The financial package amounts to approximately €10 billion in the period 2013-2016.

In agreement with the EU, the authorities committed to undertake measures to achieve a primary balance of four per cent of GDP by 2018. For the biennium 2013-2014, the amount of fiscal consolidation is about 6.5 per cent of GDP, while for the following one the amount is estimated at around 2.5 per cent of GDP. The consolidation effort centres mainly on: (i) compensation of public sector employees; (ii) social benefits and discretionary spending; (iii) the pension system; and (iv) tax rate increases, both for indirect (VAT) and direct (withholding tax, corporate income tax, bank levy) taxes. The public finance targets to achieve a primary balance of 1.2 per cent of GDP in 2016 are summarized in the table below.

Public finance targets 2012-2016 (% of GDP)

	2012	2013	2014	2012	2016
GDP growth	-2.4	-8.7	-3.9	1.1	1.9
Fiscal target	...	-2.4	-4.2	-2.1	1.2
Debt	85.8	109.5	124.0	127.9	123.9
Consolidation measures (total)	0.3	4.8	1.7	...	...
<i>Expenditure measures</i>	0.1	2.2	0.7	...	...
<i>Revenue measures</i>	0.2	2.6	1.0	...	...

- The reduction of the wage bill will amount to 1.2 per cent of GDP to be achieved through wage cuts (in 2012 and 2014) and the streamlining of allowances (in 2013). A contribution of 1.5 per cent will be applied to civil servants' earnings from 2014 onwards. In addition, the number of public employees will be reduced (one recruit every four retirees).
- Means testing for social benefits will be tightened to improve targeting. This will be accompanied by the streamlining of discretionary spending (with estimated savings of 0.6 per cent of GDP in 2013 and 0.25 per cent in 2014).
- The reform of the pension system (linking the statutory retirement age to life expectancy, introducing an early retirement penalty, and linking the pension benefit to life-term service, instead of end-career salary) is expected to accrue 0.5 per cent of GDP in 2016.
- Increases in property taxes are estimated to yield 0.4 per cent of GDP in 2013, while increases of excise duties (alcohol, tobacco, and petrol) are expected to amount to 0.7 per cent of GDP in the period 2012-2014.

Box 3.1 The economic adjustment programme for Cyprus (continued)

- Two increases in VAT rates, one percentage point on the standard rate in 2013 (from 17 to 18 per cent) and another percentage point on both the standard and reduced rates in 2014 are expected to yield 0.2 per cent and 0.25 per cent of GDP, respectively.
- Other measures on the revenue side include an increase in government fees (by 17 per cent), in excise duties and an extension of the temporary contribution applied to public sector wages until 2016.

Source: European Union (EU), *The Economic adjustment programme for Cyprus*, 2013, Occasional Paper No 149

The size and composition of the adjustment effort, the restructuring of the banking sector and the still high economic uncertainty are expected to further depress domestic demand. The restriction on international capital flows is likely to reduce the activity of both domestic and international enterprises. The fall in domestic demand will cause a further deterioration of the labour market, with employment losses projected to persist until 2015, especially among young people, to then start recovering, albeit at a modest pace.

Despite the limited policy space available, a number of measures could be considered to mitigate the impact of fiscal consolidation on domestic demand and on the labour market.

The first set of measures concern the strengthening of the tax administration to fight the informal economy – estimated at 25.6 per cent of GDP – and the expansion of the tax base.²⁶ This includes: (i) addressing the division of tasks between the Inland Revenue Department, responsible for direct taxes, and the Customs and Excise Department that administers the value added tax (these reforms are already underway); ii) the introduction of a compliance strategy encompassing administrative enforcement powers to the tax administration, speedier court proceedings

²⁶ Schneider F., *Size and development of the shadow economy of 31 European and 5 other OECD countries from 2003 to 2012: Some new facts*, at: http://www.econ.jku.at/members/Schneider/files/publications/2012/ShadEcEurope31_March%202012.pdf; European Commission, Tax reforms in EU Member States 2012. *Tax policy challenges for economic growth and fiscal sustainability*, EU 2012 at: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-6_en.pdf

for the resolution of tax-related disputes and the pursuing of criminal prosecution for tax evasion. Such a system should take full effect after giving business operating in the informal economy a grace period to regularize their position at a discounted tax penalty. The running of joint audits in areas at high risk of non-compliance (including self-employment activities, three quarter of which declared an income below the taxable threshold in 2011) is a first step in the reform process.²⁷

The second set of measures should be aimed at accelerating the removal of barriers that still hamper private sector development, in particular (i) reducing the cost of starting a business; (ii) accelerating the procedures for the enforcement of contracts and the issuance of building permits; and (iii) increasing investment in research and development (R&D).

Small- and medium-sized enterprises (SMEs) represent the overwhelming majority of Cypriot enterprises and account for 83 per cent of all jobs. Many of these enterprises are family-owned and approximately 40 per cent are active in the trading sector. In the last few years, Cyprus has been losing ground in the global competitiveness index, especially with regard to institutions (mainly government services for improved business performance), infrastructure, market efficiency (customer orientation and financing through local equity market) and innovation, the latter probably also due to limited spending on research and development (see Table 3.1).

²⁷ IMF, *Cyprus: First review under the extended arrangement under the extended fund facility*, August 2013, op. cit.

Table 3.1 Changes in Cyprus' global competitiveness index (2010-2013) ²⁸

	2010	2011	2012
Overall scoring (1 to 7)	4.5	4.4	4.3
Basic requirements	5.3	4.5	4.9
Institutions	4.9	4.6	4.6
Infrastructure	5.1	5.0	4.8
Macroeconomic environment	4.6	4.8	3.9
Health and primary education	6.5	6.5	6.5
Efficiency enhancers	4.5	4.3	4.4
Higher education and training	4.9	4.7	5.0
Goods market efficiency	5.0	4.8	4.7
Labour market efficiency	4.6	4.4	4.6
Financial market development	5.0	4.8	4.6
Technological readiness	4.4	4.4	4.8
Market size	2.8	2.8	2.8
Innovation and sophistication factors	4.1	3.8	3.8
Business sophistication	4.5	4.2	4.2
Innovation	3.7	3.5	3.4

Source: World Economic Forum, *Global Competitiveness Report*, Geneva, various years,

The cost of starting a business in Cyprus equals 13 per cent of per capita income as against less than six per cent in the European Union. Likewise, transfer of property is twice as expensive in Cyprus than in the European Union (10 per cent of the property value in Cyprus versus less than five per cent in Europe). A major obstacle for business is access to finance. This is mainly due to payment delays and the share of lost payments (both negative compared to EU average) and the limited access of small and medium-sized enterprises to EU funds.²⁹

²⁸ The Global Competitiveness index measures country performance on a scale from 1 (lowest) to 7 (highest) derived from a weighting of factors organized around twelve pillars (institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation). In 2013 the highest ranking was achieved by Switzerland (with a score of 5.72). World Economic Forum, *The Global Competitiveness Report*, Davos, World Economic Forum, 2013.

²⁹ European Commission, *Small Business Act (SBA) Fact Sheet 2010/11: Cyprus*, at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/cyprus_en.pdf

A recent econometric investigation of the ILO analysed the impact of macroeconomic determinants on youth employment.³⁰ On the demand side, it concluded that the higher the investment, the lower the youth unemployment rate. In turn, investment is dependent on access to and the cost of credit. ***When banks are reluctant to lend, or only lend at high interest rates, enterprises, particularly micro- and small-sized enterprises, face serious obstacles to doing business and recruiting young workers.***

Other constraints relate to labour gaps (i.e. the low attractiveness of manufacturing jobs, which deterred investment in new technology and expansion); technology constraints (deferring the high level of investments needed to ensure a presence in technologically advanced European markets); as well as working capital shortages (i.e. the limited availability of financial instruments to finance working capital for small enterprises).

To address these challenges, the government is planning to implement a set of measures to: i) promote high-skilled, high value-added activities, mainly in the services sector (including tourism, health and education); ii) increase the competitiveness of both the private and the public sector; and iii) ease the requirements for business entry and expansion.³¹ Box 3.2 summarizes the key measures planned for the promotion of SMEs.

³⁰ See Matsumoto, M., Hengge, M., Islam, I., *Tackling the youth employment crisis: A macroeconomic perspective* Geneva, ILO, 2012.

³¹ These measures are part of the *Cyprus National Reform Programme 2013*.

Box 3.2. Initiatives for the promotion of SMEs in Cyprus

The **Entrepreneurship Fund** is an initiative developed jointly by the European Investment Fund (EIF), the European Investment Bank (EIB) and the Ministry of Finance. A loan of €125 million from the European Investment Bank will support the establishment of a state-owned fund for the financing or guarantee of small and medium-sized ventures in various sectors of the economy, including services, tourism and energy.

The **Joint European Resources for Small and Medium-sized Enterprises (JEREMIE)** aims to promote access to finance for SMEs with a funding envelope of € 20 million. The initiative comprises two financial products (Funded Risk Sharing and First Loss Portfolio Guarantee) offering loans with lower interest rates, longer repayment and grace periods and lower collateral requirements. By early 2013, approximately 300 loans were approved and disbursed.

The **SME competitiveness grant scheme**, co-funded by the EU Structural Fund and the Government of Cyprus with €26.7 million, supports enterprises in the manufacturing sector to upgrade their technology base and promote innovation. By the end of 2012 over 270 enterprises were supported (of which 25 were start-ups), with the creation of over 300 new jobs. In addition, there is a funding envelope of €4 million for the development of innovative products and services in SMEs .

Additional measures were approved in early 2013 to: i) reduce loan rates; ii) protect business owners; iii) decrease the cost of utilities and rent charges in industrial areas; and iv) accelerate the procedure for issuing building permits.

Source: European Commission, Assessment of the 2012 national reform programme and stability programme for Cyprus, Brussels, 2012.

The third set of measures that may be considered relate to the promotion of economic sectors with higher youth employment elasticity. These include the natural gas industry and the tourism sector that, together with measures for the greening of the economy, have been identified by the government as drivers for development.³²

³² For the identification of skills required in the green economy and in the gas industry see HRDA, 2010. *Identification of green skills needs in the Cyprus economy 2010 - 2013* (Nicosia, Department of Research and Planning) and from the same Authority. *Early identification of employment and training needs for the effective utilisation of natural gas in Cyprus*, Nicosia, HRDA, 2012.

The tourism sector is recovering after a period of reduced revenues caused by rising costs, deteriorating infrastructure and increased competition from other Mediterranean countries. Since 2011, tourism has experienced a significant increase in arrivals (+10 per cent) and revenues (+12.9 per cent), with good prospects for further increases (by September 2013 arrivals had increased by 6.7 per cent).

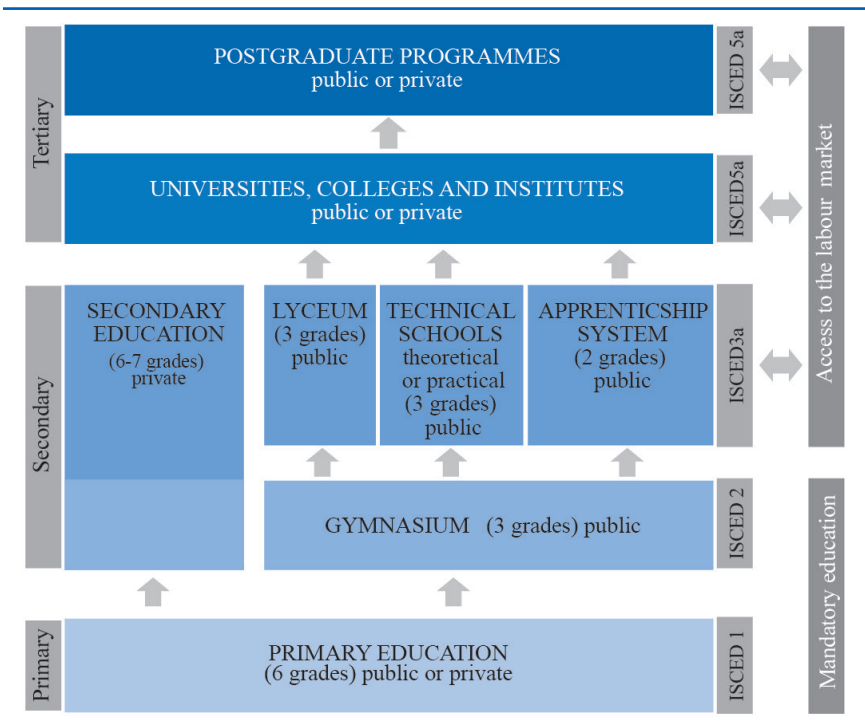
For this sector and the natural gas industry, the government is developing a master plan and a strategy. Together with the measures taken in support of micro- and small enterprises, it will be important to gauge the employment impact made by these initiatives and to make explicit reference to employment and youth employment by setting specific numerical employment-creation targets and measures. This could be done through coordination between the Ministry of Labour and Social Insurance and the government agencies in charge of the development of the master plan for the tourism sector and the strategy for the natural gas industry.

The financial service sector – together with those closely related to it (like real estate activities and professional services) – accounted for about half of total employment throughout 2012. The public sector has also been a major contributor to overall employment (19 per cent in 2011), with annual growth rates above 2 per cent. For youth employment, however, the picture is different. The economic sectors that provided the largest number of jobs for young people prior to the 2008 crisis were trading (averaging 23 per cent of total youth employment), construction (14 per cent), manufacturing (9.7 per cent), hotel and restaurants (9.7 per cent), real estate (8.7 per cent), education, health and other services (18.4 per cent), with lower contributions from the public administration and financial sector (5 per cent and 3.8 per cent, respectively). In the period 2009-2012, construction and manufacturing decreased their overall contribution to youth employment (by 12.3 per cent and 8.6 per cent respectively), while that of the trade, food and accommodation industry increased (by 26.8 per cent and 13.2 per cent, respectively).

3.2. Education and training policy

Education in Cyprus is compulsory at the pre-primary, primary (grades 1 to 6), and lower-secondary levels (grades 7 to 9). Upper-secondary education (grades 10 to 12) is divided into two streams (lyceum and technical and vocational education) both of which give access to tertiary education, available in three public and four private universities. Secondary technical and vocational education comprises the second cycle of secondary education only, and it is open to pupils who have successfully graduated from the Gymnasium.

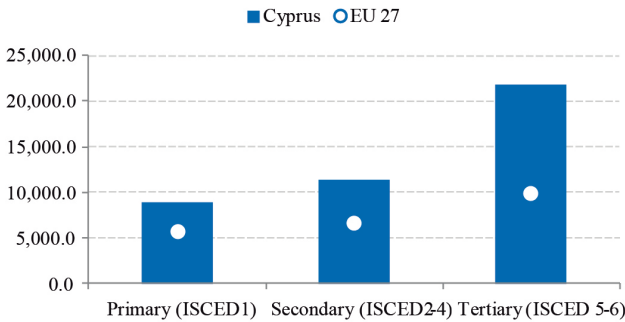
Figure 3.1 Education system in Cyprus



Public expenditure in education increased considerably in the 2000-2010 period (from 5.6 per cent of GDP to 7.9 per cent), much faster than the average increase recorded in the EU27 (from 4.9 per cent of GDP to 5.4 per cent). In the period 2001-2010, the largest increase in spending

was recorded for university education (over 84 per cent), followed by primary education (30 per cent increase) and, lastly, by secondary education (13 per cent increase). Cyprus spends more per students than the European average at all levels of education, and especially so for students in tertiary education (see Figure 3.2).

Figure 3.2 Annual expenditure per pupil in PPS by education level, 2010 (full-time equivalents, Euro)



Source: EUROSTAT, 2012, *Spending on public education institutions*

The increase in education expenditure can be imputed to the fact that the number of university students has doubled (from less than 14,000 to over 32,000 students). Because of this increase, the supply of tertiary education services is unable to keep up with demand. Approximately 45 per cent of the students enrolling in tertiary studies do so abroad (especially in Greece and United Kingdom).³³

Cyprus is currently reforming its education system. This reform— expected to be completed in 2016 – includes the upgrading and modernization of school curricula and improved teacher training (both initial and continuing) from the pre-primary to lower secondary levels. The scope of the curricula is geared to ensure the acquisition of skills, knowledge and competences currently demanded by the labour market.³⁴

³³ Information provided by the Ministry of Education. According to UNESCO, however, (Institute of Statistics, *Global flow of tertiary students abroad*, Paris, 2012) the international student mobility ratio is higher (with the share of students abroad representing over 78 per cent of total tertiary enrolment).

³⁴ Ministry of Education and Culture, *The Cyprus Educational System: The way Forward*, Nicosia: 2012, Ministry of Education and Culture

One of the objectives of the education reform is to reduce the share of early school leavers (currently at 11.4 per cent) to the 10 per cent target established by *Europe 2020*. The measures deployed centre on the early identification of learning difficulties, the development of integration programmes for students of immigrant background and the promotion of vocational education programmes.

Although the country has already exceeded the EU target for its share of the population with higher educational attainment (49.9 per cent of the population in 2012), the share of tertiary students enrolled in science, mathematics, computing, engineering, manufacturing and construction lags behind the EU average (19.5 per cent and 26.5 per cent, respectively). In addition, the share of tertiary graduates among the unemployed is twice as high as that recorded in the EU (see Table 3.2 below), with tertiary educated youth experiencing similar unemployment rates as those with lower secondary education or less, and persistent rates of over-qualification.

Table 3.2 Distribution of the population by educational attainment and labour status, 2011 (%)

		ISCED 0-2	ISCED 3-4	ISCED 5-6
CYPRUS	Youth (15-24)			
	Total	43.9	40.3	15.7
	Employed	19.7	50.0	30.3
	Unemployed	11.5	51.7	36.8
	Adults (25-64)			
	Total	24.8	37.4	37.7
	Employed	21.2	37.4	41.4
	Unemployed	24.1	39.8	36.1
EU 27	Youth (15-24)			
	Total	45.1	46.4	8.5
	Employed	27.9	58.7	13.4
	Unemployed	40.5	49.6	9.9
	Adults (25-64)			
	Total	26.6	46.6	26.8
	Employed	20.1	48.2	31.7
	Unemployed	38.0	43.6	18.4

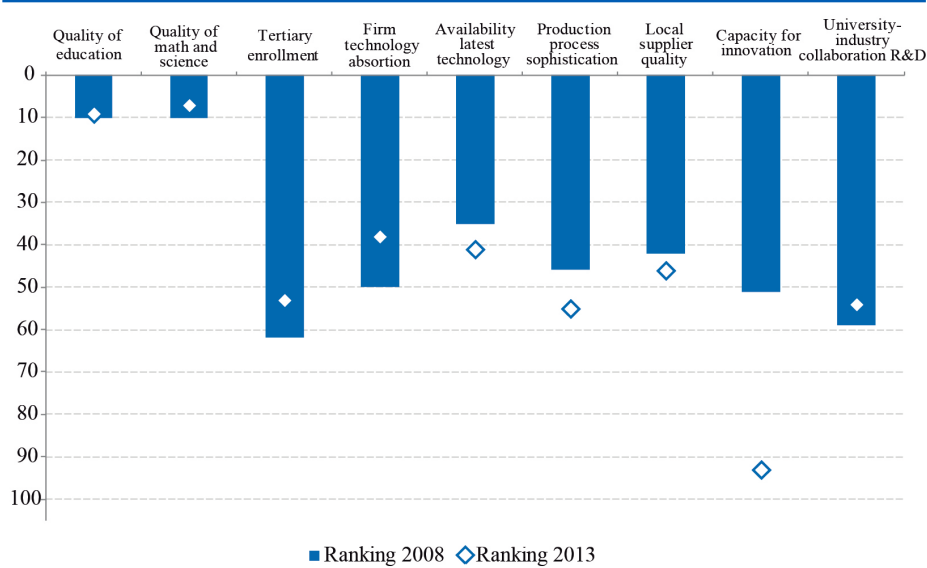
Source: EUROSTAT, *Population by education level and labour status, 2011*.

The policy priorities established by the authorities to address these issues (i.e. increasing the number of students attending scientific and technological programmes; improve cooperation between universities and the business community and aligning the provision of tertiary education to labour market requirements) go in the right direction. *The establishment of work-experience programmes as part of university curricula would provide tertiary students with credits as well as the work experience that is highly desired by employers. This preventative measure would also allow for: (i) increasing the number of young people with some degree of familiarity with the world of work; and (ii) reducing the support of newly-graduated through long and costly “curative” active labour market measures.*

On the labour demand side, measures are needed to increase innovation, business sophistication and the technological readiness of enterprises, so that the potential of high-skilled youth can be maximized. This would help reduce the gap between the skills and qualification levels required by enterprises and those delivered by the education system. In this connection, helping enterprises to increase their competitiveness would reduce the gap between education and enterprise. In fact, Cyprus’s higher education and training system ranks 7th on the global competitiveness index (Figure 3.3.), but only ranks in the 40th place for technological readiness, 55th for business sophistication and 95th for innovation. This may be one of the causes of the number of educated unemployed in Cyprus.

The establishment of a National Qualification Framework (NQF), aligned with the *European Qualifications Framework and the European Credit Transfer System for Vocational Education* are expected to increase labour mobility of young people and recognition of prior learning.

Figure 3.3 Cyprus' ranking in selected competitiveness indicators



Source: World Economic Forum, *Global competitiveness report*, Davos, World Economic Forum, various years. In 2013, Cyprus' ranking was 58th out of 144 countries in 2013.

3.2.1 Vocational education and training

Vocational education is offered at upper-secondary level for three years and provides access to both the labour market and tertiary education. This stream of education provides both theoretical and practical programmes. Only final year students enrolled in the practical stream are offered a mix of classroom-based learning and practice in a real work environment (enterprise), and only for one day per week.

In the academic year 2010-11 only 12.7 per cent of secondary education students were enrolled in vocational and technical education schools (20.7 per cent boys and 4.4 per cent girls), the lowest share recorded among EU countries. The share of students enrolling in vocational education has been declining over the years, reflecting the shift from manufacturing to service jobs, as well as the increasing preference of students and their families for programmes that can more easily lead to university enrolment.

Labour market data point to higher rewards in terms of employment outcomes for young people who complete the vocational education and training stream. In order to ensure that vocational education and training graduates have the skills to perform on the job and are able to respond to changing requirements, curricula need to envisage more enterprise-based learning opportunities in both streams. ***Adding work-experience to both streams of vocational education and training through collaborative arrangements with industry would allow employers to get to know young students and, at the same time, reduce the cost rigidities related to the establishment of workshops or simulated work environments in schools.***

More importantly, it would help young people connect with prospective employers, which has already proven to give an employment premium in the Cypriot labour market. Vocational and technical education programmes are also available in the form of afternoon or evening classes, leading to upper-secondary education qualifications. These programmes were introduced to help respond to skills shortages.

Young people (15 years old and above) who leave compulsory education may also opt for the apprenticeship system. This system – (designed and operated by the Cyprus Productivity Centre, the Ministry of Labour and Social Insurance, the Ministry of Education and Culture and the Human Resource Development Authority) – lasts for two years and provides access to a number of occupations. Apprentices attend theoretical courses for two days a week at technical schools and are offered practical training for three days a week in enterprises. Apprentice wages are covered by the Human Resource Development Authority, while co-financing from the Cyprus Productivity Centre and the European Social Fund subsidizes part of the wages of enterprise-based trainers. In the academic year 2010/2011 apprenticeship courses were attended by over 250 students. A *New Modern Apprenticeship (NMA) Programme* was agreed upon in 2007 as a means of providing alternative pathways for youth between 14 and 21 leaving the formal education system early. It includes two levels: i) preparatory, for those young people not having completed lower secondary education, and ii) core, through which a Skilled Craftsman qualification is awarded upon successful completion. This programme should become fully operational in 2015. Although the NMA was primarily designed to respond to the problems of the existing apprenticeship system (poor links with the education and labour market systems and lack of certification), it is also aimed at changing public attitudes towards it. However, since it targets mainly school dropouts, it may reinforce the perception of a

remedial programme, rather than a pathway to employment via enhanced work practice. *The piloting of the New Apprenticeship Programme has coincided with the introduction of work-experience elements in vocational education and training. Together with the stigma attached to a programme that targets a particularly hard-to-place group, this may have been the reason for the expansion of a dual system of apprenticeship. There are many positive experiences from second chance programmes that Cyprus might wish to consider in order to target school dropouts.*

The main features of the vocational education and training reform are outlined in the *Lifelong Learning Strategy 2012-2015*. The reform mainly aims to: i) Increase the attractiveness of the vocational and technical education system; and ii) Improve the alignment of vocational education provisions to the needs of the labour market. The reforms also include an upgrading of curricula, focusing on key competencies, and a reduction of the number of specializations.

This reform also envisages the establishment of a post-secondary vocational education and training system, providing further technical specialisation. *Post-secondary education programmes are open to all-age students and are designed to respond to the needs of emerging economic sectors. The learning programmes are supported by industry expert, and the system can help channel secondary graduates into post-secondary, non-tertiary vocational programmes. However, in order to make it viable, its intake capacity would need to be expanded.*³⁵ The reform of the vocational education system should be accompanied by an improvement of vocational guidance services.

3.2.2. Lifelong learning

In 2011, the share of the population aged 15 to 64 and attending non-formal education and training was 9.7 per cent, higher than the average of 6.8 per cent for EU27 countries. Interestingly, the share of youth (15-24 years old) attending non-formal education is three times that recorded in the European Union (27.6 per cent and nine per cent, respectively). This is may be due to the high number of young people who are inactive and in non-formal education (over 41 per cent compared to the European average of 8.6 per cent).

³⁵ The number of participants during the first year of implementation of the reform was just below 200.

Adult education and training programmes are provided for young people aged 15 and over with any labour market status. The key providers of lifelong learning are the Human Resource Development Authority (HRDA), the Ministry of Education and Culture, the Ministry of Labour and Social Insurance and other public and private institutions (see Box 3.3). The funding system for workers' training is managed by the HRDA with a levy on employers of 0.5 per cent of payroll. In 2011, the resources collected through the training levy totalled approximately €27 million.³⁶

Box 3.3 Adult education and training in Cyprus

The main provider of adult education and training is the Human Resource Development Authority, a semi-governmental institution funded by a human resource development levy paid by enterprises. The HRDA provides training programmes for both employed and unemployed individuals, some of which are contracted out on a competitive basis to both public or private institutions.

The Ministry of Education and Culture offers a one-year programme of continuing education and training (afternoon and evening classes at technical schools). This Ministry also manages 400 adult education programmes that offer literacy and Greek language courses.

The Cyprus Productivity Centre (under the supervision of the Ministry of Labour and Social Insurance) offers short modular programmes for the upgrading of occupational skills of workers.

Other specialized training programmes are provided by the Ministry of Agriculture (extension services and training of forestry officers) the Ministry of Interior (vocational training for the integration of immigrants) and the Ministry of Health (training for nurses).

Source: Information provided to the ILO mission in September 2013.

³⁶ Human Resources Development Authority (HRDA), 2012. *Annual Report 2011*, (Nicosia, HRDA).

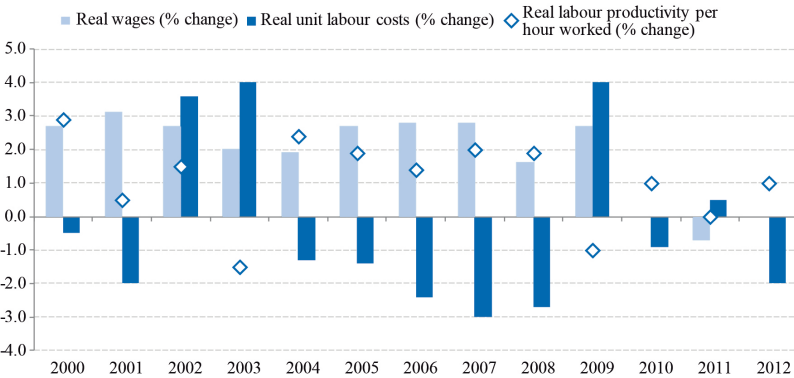
3.3. Labour market policies and institutions

3.3.1 Wage policy

The most distinguishing feature of the Cypriot wage-setting mechanism is the Cost of Living Allowance (COLA) that indexes collectively-agreed wages to inflation. The share of workers benefitting from wage indexation is about 60-65 per cent of the total. The COLA system is currently suspended until 2016, although there are plans to reform the wage indexation system by reducing its index (from 100 to 50 per cent); limiting the frequency of adjustment to once a year; and building an automatic suspension mechanism during economic downturns.

The figures on labour productivity and real wages for the period 2000-2012 show that real wage growth often exceeded the increase of real labour productivity per hour worked (see Figure 3.4).

Figure 3.4 Real wages, labour productivity and unit labour costs (% growth), 2000-2012



Source: EUROSTAT, *Unit labour cost and productivity*, various years, For real wages see Statistical Service of the Republic of Cyprus, *Key labour indicators*, 2012.

This may have contributed to the loss of competitiveness, but cannot – on its own – explain its overall decline. Other factors, such as the appreciation of the real effective exchange rate, increases in commodity and energy prices as well as the indebtedness of the corporate sector that slowed down investments, also played a role.³⁷

In the period prior to the crisis, labour productivity in Cyprus grew slightly faster than the average for the Euro area. This was due to output growth in conditions of full employment and low inflation. The consumer and producer prices, as well as labour costs, grew faster compared to the averages for the euro area.

The minimum wage is about 40 per cent of the average wage and is applicable to those occupations that are considered vulnerable and are not generally covered by collective agreements. The occupations covered include clerks, auxiliary healthcare staff, sales persons and cleaners, representing about 13-14 per cent of the overall employed population (and roughly 20 per cent of youth employment). The minimum monthly wage for new recruits was increased in 2010 by 5.5 per cent (to €835), while for workers with six-month tenure it increased by 6.2 per cent (to €887). As part of the reform package agreed by the Cypriot authorities with the European Union and the International Monetary Fund, any future change in the minimum wage will be based on the economic situation of the country.

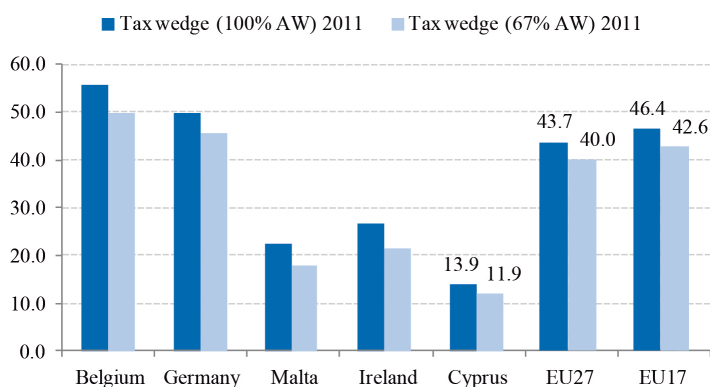
In countries where non-wage labour costs are too high, their reduction has increasingly been considered as a tool for reducing unemployment and informality, especially among youth. An analysis of labour costs in the countries of Central and Eastern Europe found that youth unemployment tends to be higher in countries where payroll taxes are higher.³⁸ These analyses point to a direct relationship between non-wage labour costs and youth unemployment levels. Reducing non-wage labour costs could therefore yield youth employment gains. **In Cyprus, both the minimum wage and payroll taxes, including social security contributions, appear not to play a significant role in determining labour market outcomes.** In 2007, the tax wedge was 13.9 per cent for workers earning the average wage and 11.9 per cent for low-paid

³⁷ European Commission, *Macroeconomic imbalances – Cyprus*, European Economy Occasional paper No 101, 2012.

³⁸ Cazes, S., Nesporeva, A. (eds.), *Flexicurity: A relevant approach in Central and Eastern Europe*, Geneva, ILO, 2007

workers (earnings 67 per cent of average wage). These are the lowest rates recorded in the EU27 countries (Figure 3.5).³⁹ The introduction of a three per cent contribution from the gross earnings of government employees to government pension schemes, as well as an increase in the standard social security contribution rate (from 15 to 17 per cent), increased the weight of labour taxes, but not to such an extent to represent a barrier to youth employment.

Figure 3.5 Lowest and highest tax wedge in the European Union, 2011



Note: Figures for Malta are for 2010 and for Cyprus for 2007

Source: European Commission, *Tax reforms in EU Member States 2012. Tax policy challenges for economic growth and fiscal sustainability*, European Economy Occasional Paper No 6, 2012.

3.3.2. Employment protection legislation

Employment protection legislation (EPL) consists of labour law provisions governing the recruitment and dismissal of workers, and particularly regulations on temporary and regular contracts and collective dismissals. The impact of employment protection legislation on youth employment is a matter of diverging interpretations. On the one hand, it is argued that stricter EPL increases dismissal costs and reduces the flexibility of enterprises to adjust to the economic cycle. This would negatively affect employment in general – and youth employment in particular –

³⁹ Low-skilled workers are individuals aged 25-54 years old with pre-primary, primary and lower secondary education (ISCED levels 0-2).

by favouring those who are already employed to the detriment of those seeking employment (the “insider-outsider” effect). On the other hand, EPL is thought to ensure basic security, increase incentives for employers to invest in human capital and encourage cooperative labour relations, which should all lead to improvements in productivity, competitiveness and overall efficiency.⁴⁰

Box 3.4 Employment Protection Legislation (EPL) index in Cyprus

Employment protection legislation is described along 18 basic items, grouped in three main areas: i) Employment protection for regular workers against individual dismissal; ii) Epecific requirements for collective dismissals; and iii) Regulation of temporary forms of employment. Each of the 18 basic items is scored on a scale from 0 to 6, with higher scores representing stricter regulation.

These scores are then transformed into weighted averages to build the three sets of summary measures. The EPL scores for Cyprus in all the sub-indexes are shown below.

	Level 3 Scale 0-6	Level 2 Scale 0-6	Level 1 Scale 0-6	Sub- index	Index	
Overall summary indicator	Regular contracts	Procedural inconvenience	1.Notification procedures 2.Delay to start notice	1.00 0.00	1.6	
		Notice and severance pay for no-fault dismissal	3.Notice period after 9 months 4 years 20 years 4.Severance pay after 9 months 4 years 20 years	0.14 0.29 0.14 0.00 0.57 0.95		
		Difficulty of dismissal	5.Definition of unfair dismissal 6.Trial period 7.Compensation 8.Reinstatement	0.00 0.00 1.25 0.50		
	Temporary contracts	Fixed term contracts	9. Valid cases for the use of FT contracts 10.Maximum number of successive contracts 11.Maximum cumulated duration	3.00 0.00 0.50	2.9	
			Temporary work agency employment	12.Types of work for which it is legal 13.Restriction on number of renewals 14.Maximum cumulated duration		0.75 0.50 1.00
		Collective dismissal		15.Definition of collective dismissal 16.Additional notification requirements 17.Additional delays 18.Other special costs to employers		1.12 1.50 0.00 0.75
		SUMMARY EPL INDEX				2.4

Source: Authors' calculation based on information available from ILO, Employment Protection Legislation Database at: <http://www.ilo.org/dyn/eplex/termmain.home> and information provided by the Ministry of Labour and Social Insurance of Cyprus (Communication of November 2013).

⁴⁰ ILO, *Improving prospects for young women and men in the world of work: A guide to youth employment*, 2004.

The overall index of employment protection legislation (EPL) measures the degree of strictness of employment protection legislation (Box 3.4).⁴¹ The preliminary analysis conducted by the ILO shows that the overall EPL index in Cyprus is 2.4, in line with the average index recorded in most EU countries (Table 3.3.).

Table 3.3 Employment protection in selected European countries and Cyprus (2013)

	Protection of permanent workers against individual and collective dismissal	Protection of permanent workers against (individual) dismissal	Specific requirements for collective dismissal	Regulation on temporary forms of employment	Youth (15-24) unemployment rate (2012)
Austria	2.44	2.12	3.25	2.17	8.7
Belgium	2.95	2.08	5.13	2.42	19.8
Czech Republic	2.66	2.87	2.13	2.13	19.5
Denmark	2.32	2.10	2.88	1.79	14.1
Estonia	2.07	1.74	2.88	3.04	20.9
France	2.82	2.60	3.38	3.75	23.8
Germany	2.98	2.72	3.63	1.75	8.1
Greece	2.41	2.07	3.25	2.92	55.3
Hungary	2.07	1.45	3.63	2.00	28.1
Ireland	2.07	1.50	3.50	1.21	30.4
Italy	2.79	2.41	3.75	2.71	35.3
Luxembourg	2.74	2.28	3.88	3.83	18.8
Netherlands	2.94	2.84	3.19	1.17	9.5
Poland	2.39	2.20	2.88	2.33	26.5
Portugal	2.69	3.01	1.88	2.33	37.7
Slovak Republic	2.26	1.81	3.38	2.42	34.0
Slovenia	2.67	2.39	3.38	2.50	20.6
Spain	2.28	1.95	3.13	3.17	53.2
Sweden	2.52	2.52	2.50	1.17	23.6
United Kingdom	1.62	1.12	2.88	0.54	21.0
Average (unweighted)	2.5	2.2	3.2	2.2	24.4
Cyprus EPL index (*)	2.4	1.6	3.4	2.9	27.8

Source: OECD, *Employment Protection Database*, update 2013, at: [http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm#data/\(Version 3\)](http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm#data/(Version%203)); ILO, *Employment Protection Legislation Database* at: <http://www.ilo.org/dyn/eplex/termmain.home> and information provided by the MLSI; EUROSTAT, *Annual labour force survey*, 2012.

(*) Data for Cyprus refers to the legislation in force in mid 2013 and the annual youth unemployment rate for 2012.

⁴¹ The EPL index ranges from 0 (very liberal) to 6 (very restrictive).

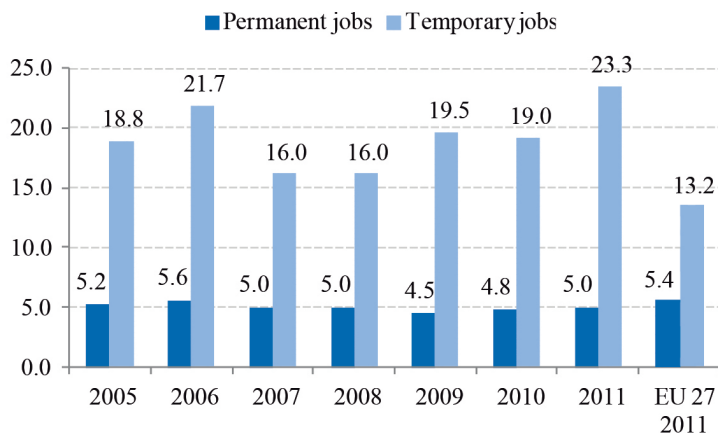
The sub-index on collective dismissal is mostly determined by specific rules that apply to the dismissals of more than 10 employees and the additional notification requirements. The sub-index on individual dismissal is amongst the lowest found among EU countries, given the flexibility of rules on notification procedures, severance pay and unfair dismissal. The sub-index on temporary contracts is affected by the restrictions on the economic sectors to which temporary work agency employment applies and on the maximum duration of the contract (12 months).⁴² At the same time, there are no restrictions on the use of fixed-term contracts and the number of renewals in Cyprus. These indexes indicate that workers in Cyprus are granted higher protection against collective dismissal and when employed in temporary agency work, but not against individual dismissal and when engaged in temporary work. The information available on the length of the notice period and the amount of severance pay, indicate that younger workers may be more easily dismissed than other groups. In fact, the requirements on notice periods and on compensation for unfair dismissals do not apply for the first 26 weeks of the contract and there is no severance pay for workers with nine months or less of tenure.⁴³

For some young workers temporary work may represent a first step towards permanent employment. The available figures, however, show that temporary work among youth has increased substantially in the years leading to the crisis and that this form of employment is, all too often, involuntary. The share of workers shifting from temporary jobs to permanent employment averaged 24.6 per cent in the period 2007-2011, with men more likely to shift from a temporary to a permanent job compared to women. In addition, existing data show that workers on temporary contracts in Cyprus are more exposed to in-work poverty than their counterparts of other EU countries (23 per cent and 13.2 per cent, respectively, as shown in Figure 3.6).

⁴² Information provided by the MLSI on Law N.174(I)/2012 transposing EU Directive 2008/104/EC on temporary work agencies.

⁴³ This information was extracted from the database of ILO's Industrial and Employment Relations Department at: http://www.ilo.org/dyn/eplex/termmain.showCountry?p_lang=en&p_country_id=183

Figure 3.6 In-work poverty rate by type of contract, Cyprus (2005-2011) and EU 27 (2011)



Source: EUROSTAT, *Survey on income and living conditions (SILC)*, 2011.

3.3.3. The Public Employment Service

The Ministry of Labour and Social Insurance (MLSI) has overall responsibility for employment and labour market policy, including the provision of employment services. Together with the Ministry of Education and Culture and the Human Resource Development Authority, it is also responsible for human resources development and adult training. The Public Employment Service (PES) of Cyprus is attached to the Department of Labour of the Ministry of Labour and Social Insurance (MLSI). The fact that the PES is governed by decisions and regulations issued by the Ministry, rather than by legislation, makes its administration and service delivery rather flexible. Currently, four District and ten local labour offices ensure provision of services to clients.⁴⁴

The main objective of a Public Employment Service (PES) is to facilitate the matching of job seekers who are looking for employment with enterprises who need workers to fill job vacancies. In general, the PES implements the core functions of collection of labour market information,

⁴⁴ The district offices are located in the main cities of Nicosia, Limassol, Larnaca and Pafos.

job matching, delivery of labour market programmes and administration of the unemployment benefits to eligible unemployed. The PES of Cyprus was developed on the basis of the organizational principles laid down in the ILO's Employment Service Convention.⁴⁵

Since 2006, the Cyprus PES has been undergoing an impressive modernization process, which is centred on: i) increasing the number of local offices to ease jobseekers' and employers' access to available services; ii) the training of staff, especially employment counsellors, to provides individualized counselling services and employment planning to the unemployed with a view of delivering quality recruitment services to both jobseekers and enterprises; and iii) improving collaboration with other agencies in order to increase the effectiveness of referral services to training and employment incentive programmes.

However the implementation of the reform process has slowed down over the last two years. *The enormous increase in the number of unemployed people has required a redeployment of all available human resources to manage the inflow of individuals who have lost their jobs. Currently, the labour offices are mostly focused on intake services to their clients.*

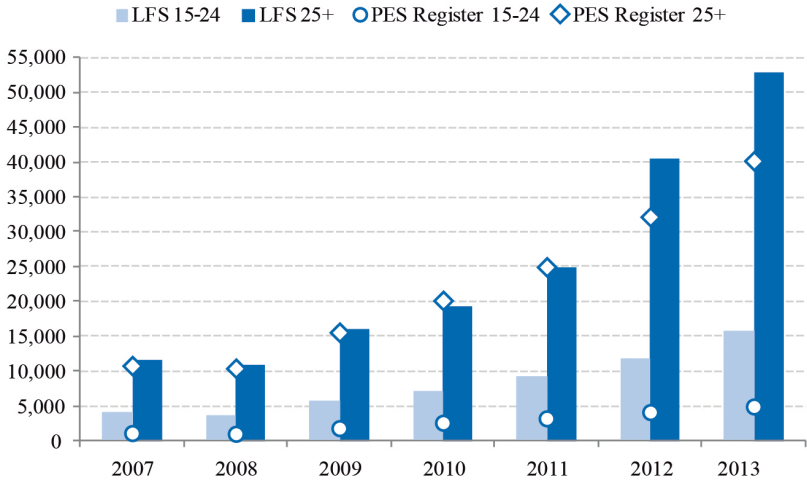
Initial intake services are provided to unemployed individuals, employed jobseekers and economically inactive persons. These services can be accessed in person at the labour offices through an employment counsellor, or remotely through the internet-based Candidate Placement System (CPS).⁴⁶ This system was launched in 2008 with the view to achieving more effective placement and improving the collection of labour market information. The CPS serves as a management tool to support the work of employment counsellors (registration of jobseekers and vacancies; matching of individuals with available job vacancies and preparation of statistical reports). Jobseekers are required to update their registration status every six weeks. During their visits to labour offices they interact with employment officers who verify the job searches that have been undertaken during previous weeks. At this time the officers provide information on job openings and advise on how to find work.

⁴⁵ This information was extracted from the database of ILO's Industrial and Employment Relations Department at: http://www.ilo.org/dyn/eplex/termmain.showCountry?p_lang=en&p_country_id=183

⁴⁶ The CPS is accessible at www.peseps.dl.mlsi.gov.cy.

An analysis of the PES register shows that, compared to the pre-crisis period, the number of unemployed that resort to the labour offices of Cyprus has nearly quadrupled. As already mentioned, this has resulted in the assignment of all employment service staff, including those trained to provide in-depth counselling, to front-end services. This is why there is currently very limited provision of individualized counselling and guidance services. The review of the recent historical data of the same register evidences that until 2011 the number of adult jobseekers (aged 25 and above) registering with the labour offices closely matched the number of individuals who identified themselves as unemployed in the Labour Force Survey (see Figure 3.7).

Figure 3.7 Administrative and survey-based unemployment, 2007-2013



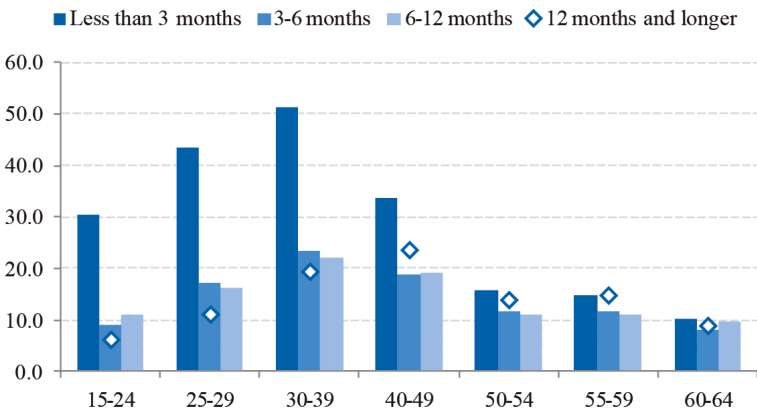
Source: Statistical Service of the Republic of Cyprus, *Registered unemployment*, Nicosia, Statistical Service of the Republic of Cyprus, various years; EUROSTAT, *Labour Force Survey, detailed annual data*, various years.

The number of young people who register with the PES has always been lower than that of the young unemployed detected by the labour force survey. Despite the drastic increase of youth unemployment, the number of young jobseekers registered increased only marginally. **Currently, only 36 per cent of unemployed youth undertake their job search with the support of the PES.** This is, in part, due to the fact that the young

unemployed are less likely than adults to qualify for the unemployment benefit, although access of the unemployed to public health services and social assistance requires registration with the PES.

The widening gap between the number of registered and survey-based adult unemployed from 2011 onward may be a reflection of the increasing difficulties encountered by the employment service to manage the rising inflows of individuals who have lost their jobs and which caused a loss of confidence in the service. The longer duration of unemployment spells and the exhaustion of unemployment benefit entitlements may be another reason. The falling rate of posted job vacancies (20 per cent on an annual basis in the last two years) may have also played a role in lowering the incentive to register.⁴⁷ The 2013 structure of registered unemployed by age-group and length of unemployment, in fact, reveals that over 65 per cent of registered jobseekers had unemployment spells shorter than six months – which corresponds to the duration of the unemployment benefit – while 14 per cent were long-term unemployed (12 months and longer). Of these, 83 per cent are adults aged between 30 to 64, while long-term unemployed youth (aged 15 to 29) represent 17 per cent of total registered unemployment (see Figure 3.8).

Figure 3.8 Structure of registered unemployment by age group and unemployment spell, 2013



Source: Ministry of Labour and Social Insurance (MLSI), Unemployment register, May 2013

⁴⁷ Christou A., *The contribution of Cyprus PES in combating youth unemployment*, presentation delivered in Nicosia in October 2012, as part of the Cyprus' EU Presidency events.

The introduction of the CPS and self-help areas were intended to increase the time available to employment counsellors for the provision of in-depth services to job seekers at-risk in the labour market. However, their impact on reducing counsellors' workload does not appear to have been significant, especially as the number of registered unemployed started to increase.

The human resources allocated to the PES are currently inadequate to meet basic service requirements (see Table 3.4). The current ratio of staff-to-registered unemployed is 1:390. It goes up to 1:580 when considering only the staff actually assigned to deliver the services to clients (i.e. without counting the employees assigned to managerial tasks, particularly in the central office of the Department of Labour). These ratios compare very unfavourably with the average international benchmark of 1:100 that is used as reference to assess quality of employment service delivery. On the basis of this ratio, the current number of PES staff should be increased by approximately four times, i.e. from 115 to 445 staff.⁴⁸ To adequately deliver employment services to all the unemployed detected by the labour force survey in the second quarter of 2013, the number of PES staff should reach at least 500 units.

Table 3.4 PES staff and ratios staff-to-registered unemployed

PES human resources	2009	2010	2011	2012	2013
Central Office	32	33	33	39	37
District and local labour offices	85	85	88	77	78
Total staff assigned to employment services	117	118	121	116	115
Ratio PES staff to registered unemployed	1:135				1:390
Ratio front office staff to registered unemployed	1:185				1:580

Source: Information provided by the Department of Labour; Ministry of Labour and Social Insurance

⁴⁸ This calculation is based on the stock of unemployed registered in May 2013, i.e. 44,424 jobseekers, 11 per cent of whom are aged 15 to 24.

Medium- to long-term measures (i.e. for the period 2014-18) to address the current understaffing should be put in place as soon as possible to re-instate the provision of employment services beyond registration. The government of Cyprus should develop a staffing plan on the basis of the estimates of the number of unemployed up to 2018 (see Chapter 2). Given the current freeze in the recruitment of civil servants, the above-mentioned staffing needs could be met through a redeployment of employees assigned to other institutions and agencies of the public administration – which would require the development of an intensive training programme on employment service delivery – and the contracting out of certain functions. For instance, the delivery of orientation workshops, group counselling and job-search skills training could be contracted to external providers. This would free up the more experienced employment officers of the PES and allow them to focus on specialized segments of employment service provision, such as individualized services to young jobseekers (see next paragraphs on active labour market policies and Chapter 4 on the establishment of a youth guarantee).

Young people's apparent lack of interest in PES services is somehow worrisome. The low level of registration, despite the five-time increase of unemployment among youth, can be an initial sign of disengagement, worker discouragement and labour market detachment. Under normal circumstances (i.e. the pre-2008 situation that had youth unemployment rates below ten per cent), low registration could be interpreted as young people resorting to job-search channels other than those of the employment service (e.g. applying to advertised vacancies, private employment agencies and social networks). This interpretation is less likely to hold true under the current situation.⁴⁹ Once the staffing plan starts to be implemented, the government of Cyprus may consider running a promotional campaign to encourage young people to register by showing the job-search support they can get with the PES. The introduction of a comprehensive and integrated package of labour market services and measures for youth can act as an incentive. In parallel, the PES could consider training and assigning specific staff to youth services or running events such as job fairs that are generally more popular among young people.⁵⁰ In a number of countries, these strategies have proven effective in increasing the attractiveness of PES among young people.

The MLSI has started to take short-term action to address understaffing. In respect of the intake services, for instance, it decided

to team up experienced employment officers with staff assigned to administrative duties relating to the provision of the unemployment benefit. This is an interesting on-the job training opportunity that would also help better integrate active and passive measures.

There are some other actions that may be considered to improve the efficiency of service delivery in the short term. ***The first action involves a change in the sequencing of services provided at the beginning of the unemployment spell. Following the initial intake interview with an employment officer and the determination of benefit entitlements, jobseekers could be directed to the self-help terminals and kiosks on return visits.*** To facilitate the use of self-help area services, many PES assign front-end staff to the welcoming of jobseekers, encouraging the use of self-help resources and providing orientation and assistance as they navigate the self-help area. This can yield a significant reduction of the time spent for face-to-face interviews. Employment officers would have the time for more in-depth employment assistance to jobseekers that face barriers in finding suitable job referrals. In order to facilitate this second-level counselling services, the management could schedule staff time (a specific number of days or hours per week) to initial intake and in-depth interviews.

The second action revolves around the contracting-out strategies mentioned above. Contracting can quickly increase the capacity of the PES to deliver services to clients, while focusing on those groups most in need of the specific expertise available from its staff. The most obvious choice in this regard would be to strengthen cooperation with Private Employment Agencies (PrEAs).⁴⁹ Even though not yet ratified by Cyprus, ILO Convention No 181 on Private Employment Agencies (1997) offers some useful principles, namely: i) the mandate of the ministry in charge of labour and employment to regulate and monitor the activities of PrEAs with a view to protect the rights of workers, both of national and foreign origin; ii) the authority of the competent ministry to establish the conditions of cooperation between the public employment service and private employment agencies; and iii) the obligation of PrEAs to provide the information required for the design of labour market policies. The experience of other European countries show that contracting practices

⁴⁹ It would be important for the government to monitor the micro-data of the LFS on a continuous basis, especially the figures and trends relating to job-search methods and reasons of inactivity among youth. The analysis of these micro-data by “transition” indicators would also allow to monitoring labour market inflows and outflows.

⁵⁰ Young people represent half of the participants in the job fairs organized by the PES of Cyprus (Communication of PES staff to ILO mission of September 2013).

may be particularly effective when the services contracted are for groups with whom the partner is more familiar (for instance in the case of Cyprus one of this group may be jobseekers with tertiary education) and when there are clear performance targets linked to the contract's payment.

The third action is a better use of the electronic matching system.

This system is a good instrument for screening jobseekers' qualifications against the requirements of job vacancies. The results of this kind of matching process, however, are not always complied with. The average referral-to-vacancy ratio is about 8-10 unemployed per vacancy, but there are examples of significantly higher ratios that create the risk of alienating employers.⁵² The PES has a good follow-up system with employers to determine the outcome of referrals. An approach will soon be piloted – similar to that of an account executive system – where one employment officer deals with all the requests from a specific enterprise. This approach may well improve the overall quality of services offered to enterprises, with employment officers becoming more familiar with enterprise-specific needs and requirements.

As already noted, job fairs promoting general job opportunities and those focusing on specific occupations or industrial sectors are particularly suitable for young jobseekers. The number of these events currently run by the labour offices could be increased in the short run in order to reach out to more young jobseekers.

These short-term interventions would complement those planned in the 2013 *National Reform Programme (NRP)* – developed within the framework of Europe 2020 Strategy for smart, sustainable and inclusive growth. This programme has identified two additional broad areas of reform. First, the further development of the capacity to provide counselling and placement services to individuals from various target groups participating in training programmes and subsidized jobs schemes. The target groups include inactive individuals facing barriers to re-enter the labour market (for instance women re-entering the labour market

⁵¹ The Private Employment Agency Law No. 126, enacted in 2012, sets forth provision for regulating its operation through a licensing system administered by the MLSI. In 2012, a total of 132 private employment agencies were licensed to operate in Cyprus. All of these organizations, as well as education institutions and employers' and workers' associations could be engaged to provide basic job search information and partner in the organization of career and job fairs.

⁵² During the ILO mission of September 2013, employment officers reported difficulties in facing jobseekers desperate for work and refusing to refer them to jobs, even when they do not meet the minimum requirements for the job. During the same mission, representative of employers highlighted their difficulty of handling interviews with 100 or more candidates per vacancy that were short-listed by the labour offices.

after raising a family), unemployed individuals (including the long-term unemployed) and jobless university graduates.⁵³ Second, the PES could play a more active role in promoting apprenticeships and traineeships. These mechanisms are considered key to easing the transition of young people from school to work as they enhance vocational skills and provide practical labour market experience. Intervention by the PES can help to ensure employers' commitments to providing job opportunities for young people with different levels of qualifications.

3.3.4 Active labour market policies

In 2011 the funding for labour market policies amounted to over €185 million (1.04 per cent of GDP), of which 67 per cent were earmarked for the unemployment benefit, and the remainder destined for the employment services and other active labour market policies (see Table 3.5). Funds for active labour market policies (ALMPs) increased nearly five folds in the past five years (compared to 70 per cent increase of spending on the unemployment benefit), with the largest increases experienced from 2008 onwards.

Table 3.5 ALMP expenditures and beneficiaries, 2006-2011 (€ millions)

Programme	2006	2007	2008	2009	2010	2011
Total expenditure (in million €)						
Labour market services	5.03	6.68	6.12	6.03	6.20	5.90
Training	1.16	3.39	3.36	3.27	7.49	10.13
Employment incentives	5.86	8.46	14.78	24.81	35.78	44.47
Supported employment and rehabilitation	0.72	0.97	1.44	0.86	1.03	1.27
Start-up incentives	0.06	0.03	0.04	0.01	0.00	0.02
Total	12.83	19.53	25.74	34.98	50.50	61.79
Total participants (number)						
Training	118	627	304	246	2 850	3 224
Employment incentives	1 115	1 620	2 485	3 042	5 409	6 167
Supported employment and rehabilitation	90	227	265	233	291	314
Start-up incentives	:	:	5	:	:	3
Total	1 323	2 474	3 059	3 521	8 550	9 708

Source: EUROSTAT, *Labour market policies*, various years, accessible at <http://ec.europa.eu/eurostat>.

⁵³ A description of the programmes implemented in Cyprus to serve the above mentioned target groups is provided in *Cyprus National Reform Programme 2013: Europe 2020 Strategy for Smart, Sustainable and Inclusive Growth*, at: <http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations>

During the above-mentioned period, the funding for ALMPs increased from 0.05 per cent to 0.32 per cent of GDP. This amount, however, is still below the average expenditure in the other EU countries (0.54 per cent of GDP).

To alleviate the impact of the fiscal adjustment on the labour market, the government plans to expand existing programmes and introduce new ones in order to create about 8,000 new jobs for youth and adult unemployed. This would nearly double the number of participants to employment programmes as recorded in 2011. The paragraphs that follow outline the main features of the current and planned job search services and employment promotion programmes.

a) Job search assistance

The Cyprus PES has developed a strategy for the provision of job search assistance to its clients. This strategy was implemented up to the outbreak of the crisis and included the development of an online automated system, the introduction of group and individualized counselling services, the development of employment plans for jobseekers and the implementation of staff development programmes for employment officers.

The *Candidate Placement System* allows job seekers to screen job offers and submit applications online, while employers can post job vacancies and explore the data bank of curriculum vitae.⁵⁴ In addition, local offices are equipped with computer terminals and kiosks to help jobseekers explore job options on their own. Under the CPS system, job applications are divided into four categories linked to active labour market programmes that promote: i) better jobs, ii) special working hours, iii) specific locations and iv) an apprenticeship scheme.

⁵⁴ The CPS system is linked to the EURES network, the job mobility network that serves 31 European countries.

Although in place, this capability is used only by a limited number of job seekers.

Individualized counselling services are available for hard-to-place jobseekers and for those considered at risk in the labour market. These services include the development of individual employment plans, vocational guidance tools and the setting of specific activation targets for groups such as the unemployed benefitting from social assistance and secondary education graduates. The individual employment plan designed by the Cypriot PES contains a detailed profile of the job seeker – based on the counsellor’s assessment of individual characteristics, job history and skills gaps – as well as the specific actions agreed upon with the job seekers for labour market re-integration. Individual employment planning can start at any time within the first six months of the unemployment spell, with priority given on the basis of individual characteristics. Due to the enormous increase in the number of registered unemployed and internal redeployment of staff, these services are currently being provided to a very limited extent.

The assignment of jobseekers to the range of services and programmes available is based on the caseworkers’ assessment and mutual obligation approaches. Failure to comply with the obligation stated in the employment plan triggers the termination of services. This sanction, however, is only effective for those who benefit from social assistance. The withdrawal of benefits, however, is generally outside the competence of the PES, except for the most recent programmes that subsidize the recruitment of unemployed individuals. This means that the PES notifies the social assistance authorities of those beneficiaries that failed to comply with activation measures, while the final decision to discontinue the benefit remains with the caseworker of the social assistance service.

Given the increasing growing inflows of jobseekers onto the unemployment register, it would be crucial to exploit the potential offered by the automated system to flag those individuals that, due to their individual characteristics, are associated with a greater risk of poor labour market outcomes (for example, low skilled youth and first time labour market entrants). This would help counsellors to segment unemployed clients towards different service levels since the start of the unemployment spell. When used in conjunction with performance monitoring data, this kind of profiling system would also help counsellors to assign unemployed clients to those programmes that are more likely to yield positive labour market results for them.

As already mentioned the government of Cyprus should take action to address the current staffing situation of the PES in order to re-instate the job-search assistance support and individualized services that have been curtailed during the crisis. The MLSI should review the workflow of the labour offices and other entities working on youth activation strategies in order to integrate the various features of services and programmes.

b) Labour market training

The Human Resource Development Authority has been mandated to organize and implement those active labour market programmes that include training components (see Box 3.5).

Box 3.5 Human Resource Development Authority of Cyprus

The Human Resource Development Authority (HRDA), established in 1979, is a public law agency governed by a 13-member tripartite board and operating under the general authority of the Minister of Labour and Social Insurance. Its overall aim is to provide training to Cyprus' human resources, at all levels and in all sectors, to meet the needs of the economy, increase productivity and strengthen the competitiveness of enterprises. The financial resources to achieve this aim are provided by the Human Resource Development Fund, financed by 0.5 per cent training levy paid by all employers (except the government) on payroll. The HRDA is also involved in initiatives co-financed by the European Social Fund (measures to improve the employability of unemployed and inactive women, schemes to raise the productivity of SMEs and the competitiveness of micro enterprises, and the establishment of the vocational qualifications system).

The HRDA pursues four key priorities: i) human resource training and development; ii) supporting enterprises to upgrade their human resources; iii) strengthening training infrastructures including a system to assess and certify training providers and the development of a vocational qualifications system; and iv) promoting research and development on issues related to training and human resource development.

The HRDA cooperates with the Cyprus Productivity Centre (CPC), the Ministry of Education, the labour offices and the Higher Hotel Institute (HHI). The delivery of training programmes targeting workers, unemployed and inactive individuals are implemented by public and private training providers. The Authority carries out regular performance monitoring of the training interventions financed and it also undertake research to forecast future skills needs.

Financial indicators show that the HRDA income (roughly 90 per cent of which derives from the training levy) increased from €25.7 million in 2009 to €30.2 million in 2011, while spending increased much faster (from €21.5 million to €36.2 million) due to increasing expenditures for programmes aimed at mitigating the labour market impact of the crisis.

Source: Human Resource Development Authority, *Annual Report*, Nicosia, HRDA, 2011

Training provision is characterized by a multiplicity of programmes, organized with different partners. These programmes target various groups of individuals (workers, unemployed individuals and inactive persons). The paragraphs that follow summarize the main labour market training programmes currently available in Cyprus.

Enterprise Continuing Training encompasses two types of training programmes. The single-company programme helps enterprises to organize and deliver training to their workers with a view to providing them with the skills to meet specific enterprise requirements. Programmes can be organized by the beneficiary enterprise in-house or abroad (for the introduction of new technology and know-how). The multi-company programmes provide training courses for the employees of different enterprises implemented by public and private training institutions both in-country and abroad. HRDA's funding covers 60 to 80 per cent of the total training costs. Single-company programmes also cover the costs of salary and social security contributions for the workers involved. In 2011, over 50,000 workers were trained through these schemes with a total investment of €12.8 million.

The ***Employment Support Scheme/individualized on-the-job training*** is a partnership among HRDA, the Cyprus Productivity Centre (CPC) operating under the MLSI, and the Higher Hotel Institute. The programme provides incentives to employers (subsidies, guidance and individualized training) for the recruitment and training of unemployed individuals. The maximum monthly subsidy is €1,600 per month (reduced to €1,200 since March 2012). In 2011, the total investment in this programme amounted to € 3.1 million for 683 participants.

The *Programme for Training the Unemployed* is a partnership between HRDA, the MLSI and the Higher Hotel Institute. It provides individuals who lost their jobs due the economic downturn with core employability and vocational skills. The HRDA covers training expenses as well as a trainees' allowance (€8 per hour). In 2001, a total funding envelope of € 516,000 allowed the programme to target 850 participants.

Employability enhancing programmes, targeting unemployed individuals and inactive women, offer training (8 to 10 weeks) in computer use, English language, office work skills or a period of work experience in enterprises. This initiative, co-funded by the HRDA and the European Social Fund, covers training costs and an allowance for participants (€5 per hour for training programmes and €125 per week for work-experience schemes since March 2012). In 2011, €3.1 million were invested for around 1,600 participants.

The HRDA offers three types of youth programmes, aimed at providing new labour market entrants as well as students with the skills and work experience required to gain a foothold in the labour market. The first programme is the *Accelerated Initial Training Programme*. This programme targets new labour market entrants (especially secondary education graduates) and provides them with the skills and work experience needed to enter the job market. Training delivery (14 to 25 weeks) includes a period of institution-based training (theoretical and practical training) and a period of on-the-job training organized in an enterprise. All training costs are covered by the HRDA and participants receive a weekly training allowance (€125 since March 2012). Total spending in 2011 amounted to just over €1 million for roughly 400 beneficiaries. The second programme is *Practical Training for Students* which provides on-the-job training for students to ease their transition from school to work. The programme covers the training costs (based on the type of training provided and the industry). In 2011, thirty students, mostly attending hotelier technical schools, participated in the programme, for a total disbursement of €228,000. This programme was discontinued in 2013.

The third programme provides subsidies to enterprises for the *recruitment and training of tertiary education graduates* who are unemployed. The grant (from 60 to 80 per cent of total costs) covers the training costs as well as beneficiaries' salary and social security contributions (up to €1,200 per month since spring 2012). In 2011, approximately €4.6 million were disbursed for over 540 graduates..

The re-allocation of resources from the European Social Fund allowed the introduction, in 2013, of two additional programmes to provide work experience for young people. One of these programmes provides *work experience for young university graduates* in their field of study. Financed by a funding envelope of € 8.5 million, it envisages the participation of 2,400 young graduates, each receiving an allowance of €500 per month. Since the performance monitoring results for this programme are encouraging, additional efforts are being deployed to promote its uptake among enterprises and university graduates.

The findings of the performance monitoring conducted on the programmes implemented in the period 2009-2012 (see Annex I) indicate that measures that combine training with job placement and/or a work experience had better employment returns. This is in line with the evaluation findings of similar programmes in several countries around the world, i.e. programmes that focus on the skills demanded by enterprises and provide youth with work experience in a real-work setting are more effective than general vocational training (see Box 3.6).

The programme for the training and job placement of tertiary graduates yielded a gross placement rate of 82 per cent, while the emergency scheme for on-the-job training of the unemployed resulted in an employment rate of 69 per cent. In addition, the majority of participants (around 73 per cent) were still working in the same enterprise that partnered the programme. The good returns recorded by the programme targeting tertiary graduates may, however, hide creaming practices (see Box 3.9 below). Given that the majority of partner enterprises are micro- and small enterprises, the matching procedure used – close scrutiny of production process and human resource structures of potential partner enterprises to match the best possible candidate in the pool of applicants – may indeed encourage the selection of those most likely to succeed.

Box 3.6 Youth employment programmes: Lessons from evaluation

Several evaluation studies of youth employment programmes have shown that some programmes are successful while others fail to improve young participants' chances of gaining a job. Some of the advantages and disadvantages of these programmes are summarized below.

Type of programme	Advantages	Disadvantages
Labour market training	Works better with broader vocational and employability skills that are in demand and when it includes work experience and employment services	May produce temporary, rather than sustainable solutions and, if not well targeted, may benefit those who are already "better off"; training alone may not be sufficient to increase youth employment prospects
Employment services (job search, career guidance and labour market information)	Can help youth make realistic choices and match their aspirations with employment and training opportunities; improve information on job prospects and on the efficiency, effectiveness and relevance of initiatives	May create unrealistic expectations if not linked to labour market needs, and they often only cover urban areas and the formal economy
Employment intensive public works and community services	Help young people gain labour market attachment and, at the same time, improve physical and social infrastructure and the environment, especially when combined with development and sectoral strategies, and can enhance employability if combined with training	Low capacity for labour market integration; young workers may become trapped in a carousel of public works programmes; often gender biased; displacement of private sector companies
Employment subsidies	Can create employment if targeted at specific needs (e.g. to compensate for initial lower productivity and training) and at groups of disadvantaged young people	High deadweight losses and substitution effects (if not targeted); employment may last only as long as the subsidy
Entrepreneurship promotion	Can have high employment potential and may meet young people's aspirations (e.g. for flexibility, independence); more effective when combined with financial and other services, including mentoring	May create displacement effects and have a high failure rate, which limits its capacity to create sustainable employment; is often difficult for disadvantaged youth due to their lack of networks, experience, know-how and collateral

Source: International Labour Office, (ILO). *Policy options to support young workers during recovery*, Geneva, ILO Policy brief, Youth Employment Programme. 2011.

In addition, such programmes – given their subsidizing nature – tend to be exposed to deadweight losses (i.e. resources are invested for individuals who would have been recruited also without the subsidy).⁵⁵ *To gauge the net impact of labour market programmes in Cyprus (i.e. the employment gains after the analysis of possible labour market distortions), it would be important to introduce a performance monitoring and impact evaluation system that applies to all employment promotion implemented in the country. This would allow identifying which programmes work and under what circumstances. It would also support policymakers in the identification of the most cost-effective measures.*

The results of vocational training programmes (accelerated training and training of the unemployed) yielded lower returns, with gross employment rates of 47.3 per cent and 37 per cent, respectively. The characteristics of the target group, the occupations offered, as well as the lack of additional incentives for the recruitment of trainees, may explain their lower performance.⁵⁶ Had the cost-effectiveness criterion been applied to this programme and to that for the recruitment and training of tertiary graduates, these two programmes would have had the same performance (since the first programme had gross employment rates that were half of the second, but the costs of the second were double those of the former).

The procedures for the intake for training programmes envisage the involvement of the PES in the selection of candidates. However, many programmes are also open to direct application by individuals complying with the eligibility criteria. *While programme applications by individuals may allow reaching out to individuals who do not register with the employment service, it may also weaken the efforts to target employment promotion programmes to those individuals more at risk in the labour market. The evaluation findings of ALMPs targeting youth carried out in a number of countries, in fact, show that targeting is possibly the single most important factor in determining the success of employment promotion programmes for young people. The assessment of individual characteristics and the screening of the labour market barriers faced by youth usually carried out by the PES through in-depth counselling and*

⁵⁵ The assessment does not provide information on employment outcomes by specific individual characteristics of the participants. This would provide important insight into profiling practices (match of individual characteristic with the feature of the programme) and targeting approaches (matching individuals, programmes and enterprises).

⁵⁶ More information on the specific characteristics of participants and partner enterprises may shed additional light in this regard.

individual employment planning should be the primary instrument for referral to training and other employment promotion programmes.

Finally, the costs of the above-mentioned training programmes appear to be at the higher end of the average recorded in developed countries. Such costs are usually justified when programmes target disadvantaged youth that require a significant investment by enterprises during their first period in the job.

Box 3.7 Lessons learnt from the evaluation of youth employment programmes

The evaluations of active labour programmes targeting youth identified the following features as key to their success:

- *Formulation and implementation at early stages of joblessness* (unemployment, discouragement or inactivity) are less costly, increase labour market attachment and are more likely to improve the employment of young people.
- *Designs that respond to labour market requirements* improve the employment opportunities of participants. Labour market information and control groups are essential for the design, monitoring and evaluation of initiatives.
- *Targeting and tailoring to individual needs and labour market disadvantages* have produced better programme results. Generic targeting based on age may benefit those who could have found a job without participating in the programmes.
- *Comprehensive packages of services* that combine various components relating to both labour demand (e.g. tax incentives, entrepreneurship) and supply (e.g. training, career guidance and job search assistance) can be more effective than single measures.
- *Provision of work experience and the involvement of the private sector* (e.g. through in-company training and work placement) increase employment opportunities, especially where programmes place participants with private companies.
- *Involvement of the social partners* contributes to the effectiveness of programmes and helps in connecting youth with the world of work.

Source: International Labour Office (ILO), *Policy options to support young workers during recovery*, Geneva, Policy brief of the ILO Youth Employment Programme, 2011.

c) Wage subsidies and other employment incentives

Wage subsidies and other financial incentives (e.g. tax or social security exemptions for a limited period of time) for employers who recruit young people can help improve the school-to-work transition. Indeed, these financial incentives can offset the cost of the initial training that young workers require, or compensate for their limited work experience and initial lower productivity. Besides the training programmes with an employment subsidy component (already discussed in the previous section), wage subsidies are implemented by the Cyprus Productivity Centre (CPC) and the Department of Labour of the MLSI, as well as by the Ministry of Commerce, Industry and Tourism.⁵⁷

The *subsidies for flexible forms of employment*, under the responsibility of the CPC, provide incentives for employers to recruit unemployed or economically inactive individuals who have difficulty in entering and remaining in the labour market without some form of flexible arrangement (e.g. women with family responsibilities or care duties). The concept of flexibility relates to the workplace that can be other than that of the enterprise (e.g. through tele-working) or revolve around a negotiated schedule (working days or hours of work). This programme subsidizes 65 per cent of the labour costs of the individual employed by partner enterprises for twelve months (for an employment period of at least 14 months) and travel costs for participants. The funding envelope is €6.8 million for approximately 1,000 participants. The target group was recently revised and the programme modified by extending eligibility to unemployed persons.

The *subsidy programme for the hotel, food and tourism industry* aims at providing employment opportunities for 6,000 registered unemployed (belonging to the specified economic sectors) as well as enhancing the quality of the services provided by the industry through the recruitment of qualified staff. The subsidy covers 40 per cent of the wage cost of workers for 8 months (for contracts for at least 12 months) and 30 per cent of the costs of workers for 5 months (for contracts of at least 7 months). The programme, co-funded by the European Social Fund (ESF), has an overall allocation of €20 million.

⁵⁷ Until the end of 2011, there were other two wage subsidy programmes that were managed by the MLSI. These programmes were the scheme providing incentives to disadvantaged individuals, mostly low-skilled people, and the scheme providing incentives to persons with disabilities. They were both discontinued due to exhaustion of funds.

Two subsidy schemes specifically target young people. The first scheme (*Grant scheme to support youth employment*) is a new programme co-financed by the ESF. It provides incentives (80 per cent of the salary for a maximum of €15,000) to the over 400 business ventures funded by the scheme of the Ministry of Commerce, Industry and Tourism (*Youth, Women and Innovative Business*, see below) for hiring young tertiary graduates with unemployment spell longer than 6 months. The funds earmarked amount to €3 million. The second programme (*Incentives for the recruitment of young people and long-term unemployed*) targets young people up to 29 years old registered as unemployed for three months and longer, as well as the registered unemployed with unemployment spells of seven months or longer. This scheme, available throughout 2015, has a total allocation of €8 million. Since May 2012 approximately 250 persons have participated in the programme, equally divided between youth and adults.

The costs of wage subsidies in Cyprus have been growing over the years (since 2008 the increase amounts to roughly €10 million per year). In 2012, the overall cost for subsidies was over four times the amount invested in training (€44.5 million and €10 million, respectively), including the subsidies disbursed in conjunction with training programmes (for example, the training programme for tertiary education graduates).

Box 3.8 Duration and targeting make wage subsidies work better for youth

Wage subsidies and other financial incentives (e.g. tax or social security exemptions for a limited period of time) for employers who recruit young people can help improve school-to-work transitions. Indeed, these financial incentives can offset the cost of the initial training that young workers require or compensate for their limited work experience and initial lower productivity.

There is a wide array of measures for sharing initial hiring costs between employers and government. The main features include: duration, amount of subsidy or employer's compensation, and type of contractual arrangement. In some countries, employers receive the equivalent of the national minimum wage per person hired or apprenticed. In others, subsidies are paid for the hiring of young people, on the grounds that these contracts can serve as stepping stones onto the labour market. For instance, in France and Italy, financial incentives are granted to employers who recruit and provide on-the-job training to young jobseekers.

Wage subsidies can be particularly effective in improving the employment rates of young workers facing labour market disadvantages (e.g. low-educated and low-skilled youth, young disadvantaged women, young people exposed to discrimination in employment and occupation) provided they are specifically targeted. An efficient monitoring system is also essential to avoid abuses and achieve the policy objective of improving employability and employment outcomes of young workers, rather than turning them into cheap labour.

Overall, wage subsidies have had positive effects on improving the employment outcomes of youth. Existing evaluations show that generalized subsidies that target young people mainly on the basis of their age are unlikely to have a long-term impact on employment and earnings. If not targeted, these subsidies often result in labour market distortions in terms of deadweight and substitution effects, with employment lasting only as long as the subsidy. Evaluation results also stress the benefit of combining subsidies with on-the-job training and other measures in the form of comprehensive service packages offered to young workers.

Source: ILO and OECD, Giving youth a better start. A policy note for the G20 meeting of labour and employment Ministers, Paris, ILO and OECD, 2011.

As subsidies generally carry heavy deadweight costs (i.e. the use of resources for the placement of persons who would be recruited anyway), they should be used sparingly and be well-targeted at those most at risk in the labour market. To limit deadweight, most developed countries use tight targeting approaches and envisage that the obligation for employers to retain the subsidized worker is at least twice the duration of the subsidy (for example, 12 month's employment for a subsidy lasting six months). In addition, the widespread use of employment subsidies may send wrong signals to employers and lead to overstaffing that is quickly reversed once the obligations to retain subsidized workers ceases. This may well be the case for the subsidy targeting the hotel, food and tourism industry, given the seasonal character of employment in these sectors.

Box 3.9 Distortionary effects of active labour market programmes

Deadweight loss occurs when the outcomes of a programme are no different from what would have happened in its absence. This is the case, for example, of wage subsidies that place a worker in an enterprise that would have hired the worker without the subsidy. When deadweight losses are high, the impact of the programme may be low or even negative.

Substitution effect: A worker hired in a subsidized job substitutes an unsubsidized worker who would otherwise have been hired. The net employment effect in this case is nil.

Displacement effect: This usually refers to displacement in the product market. A firm with subsidized workers increases output, but displaces/reduces output among firms who do not have subsidized workers. This can also occur in entrepreneurship development programmes.

Creaming (or cream-skimming) describes a situation where programme administrators/managers select from a larger pool of eligible participants only those who have the best chance of succeeding (thus nullifying the purpose of the programme).

Source: International Labour Office (ILO), Monitoring and evaluation of youth employment programmes: A learning package, Geneva, ILO, 2013.

d) Entrepreneurship promotion

Entrepreneurship can unleash the economic potential of young people. It is also associated with more flexible working hours, greater independence, higher income potential and job satisfaction. However, young people tend to be less active in entrepreneurship than adults, and teenagers less than young adults. Young people have less capital, in the form of skills, knowledge and experience; savings and credit; business networks and sources of information. Banks and financial institutions regard them as a high-risk group because of their lack of collateral and business experience.

The *schemes for the enhancement of women and youth entrepreneurship*, managed by the Ministry of Commerce, Industry and Tourism provides financial support to young people (20 to 39 years old) and women (18-55 years old) planning to set up a business in the manufacturing, trade, service and tourism industries. The scheme requires participants to contribute their own resources up to at least 75 per cent of the total capital required. Since 2010, this programme has invested €2.4 million for the creation of 114 youth-led ventures and €2.3 million for 135 businesses managed by women. The total funding envelope for the period 2007-2013 is €18 million. Available estimates show that, upon completion of all approved ventures, the programme will have generated 900 new job positions.

The capital requirements established by the youth entrepreneurship programme appear to be rather high. Given the lesser access of young people to commercial loans and limited savings, it is unlikely that the current features of the programme will lead to real opportunities for youth. Relaxing this criterion – for example by providing access to loans at lower interest rates, with longer grace and re-payment periods – and the offering of mentoring services, may make this programme more effective in addressing the constraints faced by youth in opening up their businesses (see Box 3.10).

Box 3.10 Promoting entrepreneurship among young people

The review of successful youth entrepreneurship programmes reveals that the effectiveness of initiatives can be attributed to a number of key features.

- *Clarity of objectives and commercial orientation:* successful programmes have few and well-designed objectives and do not attempt to combine social and economic purposes. Programmes often fail due to the multiplicity of aims that result in the dispersion of resources. A commercial orientation, in addition, allows providers to develop the technical competence that is critical for the provision of quality services.
- *Range of services provided and adequate funding:* contrary to the minimalist approach common in many credit initiatives, programmes that have significant outcomes for young people combine advisory, training and grant/credit services, thus recognizing that young people embarking into self-employment have multiple needs. Successful programmes also rely on financial resources coming from various sources (private, public, governmental, non-governmental) to avoid the risk of resources drying up during implementation.
- *Well-trained support staff:* the technical and business competence of the support staff of an entrepreneurship development programme is of the essence to guarantee good results. The lack of impact in many countries can often be attributed to poor quality assistance and advice. A corollary of this is flexibility and adaptability of service delivery matched to the needs of young people.
- *Reliance on locally-based delivery mechanisms:* reliance on local delivery mechanisms (for instance local authorities, schools, universities, regional funding schemes) diversifies service provision and makes it more client- and market-oriented. In addition, leveraging on the knowledge and expertise of the local business community increases the probability of success and enable young participants to develop support networks.
- *Initiative-base:* thriving programmes do not impose enterprise choices on young people. Setting up young people as independent micro-enterprise owners in a line of business in which they have no prior experience or insufficient vocational skills may end up in failure.
- *Customer-centred loans:* although group lending is a common feature of many micro-credit schemes, particularly those targeting women, an individualized approach to lending allows the programme to treat young people as clients and to avoid the delivery of pre-packages services that may be ill-adapted to needs.

Box 3.10 Promoting entrepreneurship among young people (continued)

- *Proper targeting and selection:* young people are not a homogenous group and programmes should make an effort to identify differences amongst young women and men in skills, experience, status, aspirations and capacity to obtain resources – all of which influence their ability to establish and run a small business successfully.
- *Mentoring:* Successful programmes have strong and highly effective mentoring systems that are designed to provide young people with advice and guidance in the start-up period and beyond. This helps the youth entrepreneurs to overcome the constraints of limited business experience, contacts and skills.

Source: ILO, Youth Employment Programme note (mimeo)

3.3.5. Passive labour market policies

The social protection system in Cyprus consists of a number of programmes, which are summarized in Annex II. This paragraph will review the main measures that currently apply to young people.

The effect of the economic crisis on the labour market and household incomes is resulting in significant pressure on the social protection system. Spending on the unemployment benefit increased by over 38 per cent between 2009 and 2012 and is expected to continue rising over the coming years. The number of claimants for unemployment benefit increased by 35.5 per cent during the same period, while those who had exhausted their benefit period (set at a maximum of 6 months) more than doubled (from just over 6,000 to over 12,600 individuals). Replacement rates are within the EU average (60 per cent for a single individual earning the median wage and 80 per cent for an individual with three dependents). Maximum duration, however, is at the lower end of the EU scale.⁵⁸ Many young workers are ineligible for the unemployment benefit, given their short employment history. In the period 2008-2012 an average of 14 per cent of young workers had job tenure shorter than three months, well below the 26 weeks of employment required by the unemployment benefit criteria.

⁵⁸ Similar maximum duration is also the norm in Malta, Slovakia, Czech Republic, Lithuania and United Kingdom. See Stovicek K., Turrini A., *Benchmarking unemployment benefit systems*, European Economy Papers No 454, 2012.

Once unemployed individuals exhaust their unemployment benefit, they can become eligible for social assistance, provided the household has no movable assets or savings exceeding a certain threshold. However, the share of unemployed people shifting to social assistance after having exhausted the unemployment benefit appears to be small. This means that for the long-term unemployed there is no last-resort safety net available. Since the incidence of long-term unemployment (12 months and over) among young and adult workers in the last few years has increased sharply (from 9.6 per cent in 2009 to 25 per cent in 2012 for youth and from 10.6 per cent to 31.5 per cent for adults), this means that increasing numbers of unemployed are becoming at risk of poverty.

The “Guaranteed Minimum Income” programme is aimed at protecting families who have exhausted the unemployment benefit or do not qualify for unemployment benefits, as well as at the working poor. Beneficiaries have to participate to active labour market programmes or take up job offers proposed by the labour offices. A system of in-work incentives is included, whereby an individual beneficiary who takes up work receives 100 per cent of the public assistance benefit for the first four months, two-thirds for the next four months and one-third for the last four months. This system encourages short-term or temporary work, but does not provide incentives for continuous employment. For those unable to find higher paying jobs, the withdrawal of public assistance benefits after one year of work may make social benefits more attractive than work in the open labour market. The eligibility rules of the social assistance programme exclude the working poor. This may provide incentives for low-paid workers to increase their earnings by working in the informal economy.

The total government expenditure on social protection increased from 10.7 per cent of GDP in 2005 to 12 per cent in 2011, due to increased coverage and higher benefit levels (see Table 3.6). The social expenditure items that experienced the largest increases in the period 2007-2012 were old age and social exclusion outlays. The annual spending on educational grants – the only programme targeting young people specifically – amounted to approximately 0.4 per cent of GDP in 2012 (€73.7 million), which is well above the annual expenditure on ALMPs.

Table 3.6 General government expenditures by function, 2002-2011

	2005	2006	2007	2008	2009	2010	2011
Total general government expenditures	43.1	42.6	41.3	42.1	46.2	46.2	46.1
Social protection	10.7	10.3	9.5	9.8	11.0	11.7	12.0
<i>Sickness and disability</i>	0.9	0.8	0.8	0.8	0.7	0.7	0.7
<i>Old age</i>	4.5	4.3	3.9	4.0	4.5	5.0	5.2
<i>Survivors</i>	1.1	1.1	1.0	1.0	1.1	1.2	1.2
<i>Family and children</i>	1.9	1.9	1.7	1.7	1.9	1.9	1.8
<i>Unemployment</i>	0.6	0.6	0.5	0.5	0.6	0.7	0.7
<i>Housing</i>	0.1	0.1	0.1	0.0	0.0	0.0	0.1
<i>Social exclusion</i>	1.4	1.4	1.4	1.6	2.1	2.2	2.2
<i>Others</i>	0.2	0.2	0.2	0.2	0.1	0.1	0.1

Source: EUROSTAT, *Annual government finance statistics*, various years.

The reform of social protection – to take place within the current budget allocation – is centred on improving the system’s effectiveness and decreasing leakages. This is to be achieved by: i) streamlining the existing benefits and improving their delivery by placing all social benefits under one administrative framework; ii) improving targeting in order to free resources to protect the most vulnerable population groups; iii) avoid welfare dependency traps, by balancing protection with incentives to remain or return to work.

Two additional measures may be considered to improve the effectiveness of the system in reducing the risk of social exclusion: i) an extension of the maximum duration of the unemployment benefit, and ii) the revision of the eligibility criteria of the general social assistance programme to include the working poor. The extension of the unemployment benefit duration could be a time-bound measure to be enacted until the labour market outlook improves. Part of the resources necessary to finance this extension could be raised by streamlining other programmes. An increased coverage of the working poor by the general assistance programme would imply the setting of eligibility criteria based on income, rather than on labour status. To complement these measures, work incentives should be re-designed to avoid welfare dependency traps. The recently introduced measure that withdraws assistance benefits when beneficiaries refuse a job offer twice represents a first step in this direction.

Linking youth participation in programmes to GMI eligibility would be a real change towards the introduction of an activation system for young jobseekers. The mix of active and passive measures, conditional on an active job search, could also help diversify the portfolio of labour market programmes. It could, for instance, allow for expanding work-experience programmes (e.g. introduction of a regulated quality internship-cum- GMI allowance) and, at the same time, reduce the costs of some of the current active labour market measures. Finally, the provision of funds for young people to undertake their university studies abroad could be re-considered. A possible solution – not to completely delete the benefit – would be to link it to skills that are needed in the labour market and that the country is currently unable to provide.

3.3.6. Social dialogue

In Cyprus, the industrial relations system is based on the principles of voluntarism and tripartite cooperation. Collective bargaining has traditionally played a leading role in regulating industrial relations and it is mostly decentralised, with the largest number of agreements concluded at enterprise level.

Terms and conditions of employment are, to a large extent, determined freely through collective bargaining between employers and workers and the signing of collective agreements. These are not legally binding documents and disputes arising from their violation are settled through the procedures of the *Code of Industrial Relations* signed in 1977. This Code, still in effect today, stipulates the rights and obligations of the social partners with respect to collective bargaining and establishes the procedures for the settlement of disputes, mediation, arbitration, public inquiry and grievances arising from the interpretation and implementation of collective agreements. Despite not being binding, the Code has been traditionally accepted and respected by all parties involved.

Cyprus has a long tradition of social dialogue. The implementation of almost all policies regarding industrial relations is the result of social dialogue between the government, the employers and the trade unions.

There are a number of tripartite social dialogue bodies functioning under the auspices of the Ministry of Labour and Social Insurance. The most important is the Labour Advisory Board that is responsible for industrial relations, social dialogue and general labour and employment issues.

The social partners participate in most policy-making organisations (for instance the Human Resources Development Authority). This allows employers and workers to intervene in decision relating to labour and social policy issues. However, the expansion of social dialogue to new areas such as economic and fiscal issues, has been limited.

The main national trade unions in Cyprus are the Democratic Labour Federation of Cyprus (DEOK), the Pancyprian Federation of Labour (PEO) and the Cyprus Employees Confederation (SEK). Although the rate of trade union density remains relatively high in Cyprus compared to the European average, there has been a gradual decline in the last two decades (from 76.2 per cent in 1990 to below 50 per cent in the last few years).⁵⁹ This decline is largely due to a decrease in employment in economic sectors with the longest tradition of trade union membership, as well as the lack of organization in certain sectors (wholesale and retail trade) and among specific categories of workers (such as new labour market entrants).

The largest employers' organisation in Cyprus is the Employers' and Industrialists' Federation (OEB). From a purely advisory body up to the 1970s, the federation became the third recognised social partner with a role equal of that of the trade unions in the shaping of the industrial, social and economic policy in Cyprus. It works as an umbrella organisation representing the enterprises in all sectors of economic activity. The majority of its members are small and medium sized enterprises accounting for over 60 per cent of Cyprus private sector employees.

Until the establishment of the Employers' Federation in 1960, the Cyprus Chamber of Commerce and Industry (CCCI) represented the interests of employers in collective bargaining and in the shaping of industrial relations. Due to its nature as the Cyprus Chamber of Commerce and Industry many individual enterprises that belong to CCCI are also members of OEB. Both organisations today have equal representation in the various national tripartite bodies.

⁵⁹ These figures are reported by to the Trade Union Registrar. See Eurofound, *Cyprus, Industrial relations profile*, at: <http://www.eurofound.europa.eu/eiro/country/cyprus.pdf>

The Youth Board of Cyprus was established in 1994 under the aegis of the Ministry of Education and Culture. The seven-member Governing Board includes one representative from the youth organisations of the political parties in the House of Representatives and three members appointed by the Council of Ministers. Through the Ministry of Education and Culture, the Board submits proposals to the Council of Ministers on youth-related issues. The Youth Board's fields of action include participation, volunteerism, evaluation of youth policy, youth information, positive lifestyle, prevention (addictive substances), and campaigns. These areas are managed by the Board through four service sections, namely prevention and counselling; the European Programme "Youth in Action"; youth infrastructure projects; and special programmes and campaigns.

4

NATIONAL YOUTH GUARANTEE PROGRAMME

4.1. Youth guarantees: An overview

Youth guarantees consist of a comprehensive package of labour market measures for young people. The concept of a youth guarantee implies entitlement to a job, training or education opportunity for young people seeking employment and an obligation for the public employment service (PES) – or another public authority – to provide the services and/or implement the programmes within a given period of time. Several European countries have had positive experiences in using youth guarantees to prevent long-term unemployment and labour market detachment (see Box 4.1).

Box 4.1 Youth guarantees: A response to the youth employment crisis?

Youth guarantees provide young people who fulfil pre-established criteria with an entitlement to certain labour market support measures. The first countries to implement youth guarantees in the 1980s and 1990s were Denmark, Finland, Norway and Sweden. More recently, other countries have embarked on similar programmes. These include Austria, Germany, the Netherlands and Poland.

The primary objectives of the guarantee are to promote labour market integration and prevent long-term unemployment and discouragement among young people. These objectives are broadly similar across countries, although differences exist with respect to the design of national guarantee programmes. These include the types of measures included, eligibility criteria, duration of the intervention and compensation levels.

Box 4.1 Youth guarantees: A response to the youth employment crisis? (continued)

According to an evaluation of the Swedish youth guarantee conducted in 2011, unemployed young people aged 24 who participated in the programme in 2008 were able to find a job faster than a control group of participants in other PES measures.

Although further research is needed, an ILO review of available data on youth guarantees suggests that these can play a significant role in reducing the “scars” of long-term unemployment and discouragement among young women and men. The same review distilled lessons on the prerequisites for well-functioning youth guarantees and analysed the costs related to the implementation of these programmes. The implementation of timely interventions, targeted at specific groups of disadvantaged youth; a well-established administrative capacity and budget flexibility; and a strong education and training system, are key factors for the success of youth guarantees.

The cost estimates prepared by the ILO suggest that youth guarantees can be implemented at an annual cost averaging from 0.5 to 1.5 per cent of GDP. These costs vary depending on the availability of the administrative infrastructure for the implementation of guarantees on a larger scale and the size of the eligible youth population.

The possible transfer of guarantees to countries that have a less-developed infrastructure and less experience, as well as their extension to a larger eligible group, should take into account the additional resource requirements associated with country-specific characteristics.

Source: ILO, *Youth guarantees: A response to the youth employment crisis?* Geneva, ILO Employment Policy Brief, 2013, accessible at http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_209468.pdf

In April 2013, the European Union issued a Recommendation for member States to provide young people with an offer of quality employment, continued education, an apprenticeship or a traineeship within four months of leaving school or becoming unemployed. To implement the guarantee, EU member States can make full use of the European Social Fund and other structural funds, as well as the additional €6 billion that was allocated for the period 2014–2020 to regions where the youth unemployment rate exceeds 25 per cent.

The identification and targeting of youth who are disadvantaged in the labour market are crucial for the effective design and implementation of the guarantee. There are many examples of approaches that establish “profiles” for young people and develop individualized interventions that match participants’ needs with labour market opportunities. These approaches also have the advantage of allocating resources more efficiently as they allow the provision of intensive employment assistance to disadvantaged youth, while other young people are assisted with “standard” support measures such as job-search assistance and employment planning. Although the youth guarantees are relatively new to European policymakers, there are several countries that have implemented similar comprehensive programmes. The United Kingdom New Deal (see Box 4.2) is perhaps one of these programmes that most resembles the guarantee.

Box 4.2 The New Deal for young people (United Kingdom)

In 1998, the British Government launched the *New Deal for Young People* targeting youth under 25 years old. The programme comprised several measures, with different options offered to different groups of unemployed youth. The New Deal was compulsory for all youth (18-24 years old) who had been receiving the jobseekers allowance (JSA) for more than six months. Initially, individuals entered a “Gateway” period, where they were assigned a personal adviser who gave them extensive assistance with job search. If the participants were still on jobseeker’s allowance at the end of the Gateway period (4 months), they were offered one of the following four options:

1. Entry into full-time education or training for up to 12 months for young beneficiaries without basic qualifications (without the loss of benefits);
2. A job for six months with a voluntary sector employer (with a wage or allowance at least equal to social assistance plus £400 spread over six months);
3. A job in the Environmental Task Force (with a wage or allowance at least equal to social assistance plus £400 spread over six months);
4. A subsidy to a prospective employer for six months, with training for at least one day a week (£60 per week plus an additional £750 training subsidy spread over six months).

In case of refusal, the claimant was liable to benefit sanctions (withdrawal of the allowance for a period). Individuals returning to

Box 4.2 The New Deal for young people (United Kingdom) (continued)

unemployment within 13 weeks after leaving any of the above options proceeded to a follow-through programme of job assistance.

Impact evaluations of the New Deal show that the programmes have been effective, with young unemployed men about 20 per cent more likely to gain jobs as a result of their participation in the programme. Part of this effect is due to subsidized jobs and one fifth due to the “Gateway” element (enhanced job search period).

The New Deal stands as one of the most cost-effective intervention targeting youth in OECD countries. The cost per beneficiary ranged from £454 to £790 (at constant 1999 prices). In addition, the cost per job created was under £4,000 given an average placement rate of 17,250 participants per year. However, the initial programme was less successful with some ethnic groups, young women and jobseekers with low qualifications. Also, sustainable employment outcomes proved difficult to achieve. In 2007, one in five young people who had found work through the programme held a job for less than 13 weeks. As a result, the most difficult to place beneficiaries alternated short employment spells with benefit dependency.

Following these results, in October 2009, the Flexible New Deal was launched with some additional services being added particularly for disadvantaged young people. The main policy shift was the introduction of mandatory participation for benefit recipients. Refusal to accept an offer led to disqualification from or reduction of benefits. Whilst this approach undoubtedly has the effect of reducing social security claimants, the evidence suggests that it is of limited usefulness in getting young people into productive employment.

Source: O'Higgins, N., The impact of the economic and financial crisis on youth employment: Measures for labour market recovery in the European Union, Canada and the United States, Geneva, ILO, 2012.

The guarantee – as stated by the EU Recommendation – targets three broad groups of young people: i) youth leaving the formal education system (e.g. dropouts and graduates at each level of the education system); ii) young unemployed, and iii) young people who are inactive (and not in education or training), but are willing to work. The latter group would mostly consist of discouraged young workers.⁶⁰

⁶⁰ The definition of discouraged workers refers to individuals who, owing to lack of (perceived) success, have stopped seeking work, although they are willing and able to engage in productive activities. See Rosas, G. and Rossignotti, G., *Starting the millennium right: Decent work for young people*, in *International Labour Review*, Vol. 144, 2005.

4.2. Potential beneficiaries

The first step in planning the delivery of the guarantee is to get an approximation of the total number of young people that are in each of the above mentioned categories.

a) Young school leavers

To estimate the potential number of young school leavers that could benefit from the guarantee (e.g. youth leaving education) it is necessary to calculate: i) The number of young people (15-24 years old) dropping out of primary and secondary education; ii) The number of upper secondary education graduates, not enrolling in tertiary education; and iii) The annual number of tertiary education graduates (not progressing to post-graduate studies).

The sum of these three categories of young people represents the total number of school leavers. Not all school leavers, however, will need to be included in the guarantee, as not all will become unemployed or inactive.⁶¹

There are two methods to estimate the number of school leavers who will become eligible for the youth guarantee. The first method uses the flow statistics generated by the rotation design in the national Labour Force Survey. The figures are organized in a matrix by labour market status (employed; unemployed; inactive in-school; and inactive not-in-school) over the overlapping periods of the rotation design. This allows the determination of the number of young people who were in school over a certain period and transited to unemployment or inactivity in the following one.⁶²

The second method (less accurate) applies the unemployment ratio by educational attainment level to each category of schools leavers as determined through administrative data. In Cyprus, the number of young people dropping out of primary and secondary education in 2011 was 1,022 individuals (194 from primary education and 828 from secondary

⁶¹ Young people who are inactive but willing to work are added at the end, as figures disaggregated by educational attainment are not published on the EUROSTAT database.

⁶² Practical examples of these two methods are offered in ILO, *Youth guarantees: Estimating the implementation costs of national youth employment guarantees*, Geneva, ILO, forthcoming.

education).⁶³ Based on the inactivity and unemployment ratios of youth (15-24) with these levels of education, the approximate number of young people that will have to be included in the guarantee is 23 individuals. In the same year the number of young people leaving secondary education, but not enrolling in tertiary studies, was 13,623 persons. Of these, 1,513 youth are likely to end up unemployed. In 2011, the number of tertiary education graduates was 5,053 youth, with roughly 1,227 of them likely to become unemployed.

To summarize, of the 19,698 young people who left formal education in 2011, approximately 2,763 were likely to become unemployed. If a decision is made to focus the youth guarantee on unemployed youth as a priority group for treatment, the figure of 2,763 would be the estimated number of school leavers becoming eligible for the youth guarantee.

b) Young unemployed

The figures on youth unemployment by duration allow the determination of the largest potential target group of the guarantee. Based on the 2012 figures of the Labour Force Survey, the average (mean) duration of unemployment for youth 15-24 years old was approximately 8.7 months.⁶⁴ This means that all young people who become unemployed would comply with the four month criterion of the guarantee. It has to be noted that, if Labour Force Survey data are used, the overall number of young unemployed already includes the number young school leavers becoming unemployed.

However, the risk of remaining unemployed for longer periods is determined, to a large extent, by individual factors. The identification of those characteristics more likely to influence the probability of remaining unemployed for longer than four months is typically done by using econometric techniques (probit) on the micro-data of the Labour Force Survey or on the longitudinal data of the Public Employment Service register. Alternatively, a comparison across the individual characteristics of youth who have been unemployed for less than four months against those of young individuals who have been unemployed for longer periods

⁶³ The figures in this paragraph are based on education data of the academic year 2020/2011. See Statistical Service of the Republic of Cyprus, *Statistics on education 2010/2011*. As mentioned, the more precise method of calculating school leavers requires the panel data of the Labour Force Survey of the Labour Force Survey.

⁶⁴ This figure is in line with the average duration of job search detected by the ad hoc school-to-work-transition module attached to the LFS in 2009, e.g. 8.1 month. If the data of the PES register are used, the expected duration of unemployment is longer (8 month for youth 15-19 years old and 12 months for youth 20-24 years old).

can help identify risk factors, albeit with no statistical precision. In many countries, the factors that most influence the probability of remaining unemployed for longer periods are: educational attainment, national origin, prior work experience, sex and geographical location. The rationale for this exercise is to provide employment service caseworkers with indications about young individuals who should receive priority in the delivery of the youth guarantee (as not all will remain unemployed for over four months).

The second calculation is an estimation of the potential pool of youth to be included in the guarantee (i.e. all newly unemployed youth within four months of the start of the unemployment spell, with no additional targeting mechanism).⁶⁵ This can be done by examining the quarterly data of the Labour Force Survey on unemployed youth by duration, or by using the monthly data of the PES register.⁶⁶

The quarterly LFS data show the possible inflow of young unemployed into the guarantee. The following paragraphs simulate the number of potential beneficiaries on the basis of the flows into unemployment of young people in 2012.

Supposing that the guarantee starts in Q1, the number of youth to be treated starts with 1,100 individuals (as the expected duration of unemployment is over eight months, all young unemployed need to be included in the count). In the second quarter, the inflow is of another 1,000 youth and so on till the last quarter (second row of Table 4.1). By the fourth quarter, 3,700 young individuals (inflows into unemployment) will have been progressively introduced to the basic service package that is part of the guarantee. The cumulative number of young unemployed likely to be participating to the active labour market programmes that are part of the youth guarantee by the end of the year would consist of 4,200 individuals (bottom row of Table 4.1).⁶⁷ These young people are those that become unemployed in the first three quarters of the year (inflows) and that remained unemployed till the fourth quarter (i.e. the stock of young people with unemployment spell 1-2 months in the second and third quarter, or 4,800 youth, minus those who exited unemployment).

⁶⁵ The youth guarantee deals with the inflow of young people into the labour market. Therefore, all those young people that are in the stock of unemployed at the start of the guarantee (in the example above 9,900 young people) are excluded from the guarantee and will have to be treated with the standard provision of services and programmes.

⁶⁶ If the youth guarantee is managed by the PES, the figures of the unemployment register should be used (monthly stock figures disaggregated by age group and duration of unemployment in the period preceding the guarantee).

⁶⁷ The total of 4,200 young people is given by the total stock of young unemployed that have unemployment spell of 3-5 months in the last quarter of the year, i.e. the sum of the stock of unemployed youth in the third quarter with spells of 1-2 months and 3-5 months (fourth column, row b and c, equal to 4,800 young unemployed) minus those that exited unemployment (600 individuals).

Table 4.1 Unemployment by duration, Cyprus (Q1-Q4, 2012, thousands)

Unemployment duration	Q1	Q2	Q3	Q4	
Total youth unemployed	11.0	10.5	11.1	13.7	
a) Less than 1 month	1.1	1.0	1.0	0.6	← Inflow into basic services
b) 1-2 months	Not eligible	1.9	2.9	2.4	
c) 3-5 months	Not eligible	Not eligible	1.9	4.2	← Still in treatment in Q4

Source: EUROSTAT, *Labour Force Survey*, detailed quarterly data

These estimates are based on detected, open unemployment for young people. However, since not all young people choose to register with the employment service, for the actual implementation of the guarantee – and until PES outreach strategies towards young people who are detached start to have an impact – the estimates will have to be done on the monthly or quarterly figures of the unemployment register.⁶⁸ A rough approximation on available figures for 2013 show that young people registered as unemployed are approximately 32 per cent of those recorded by the Labour Force Survey. Presuming that the inflow into the register is similar to the one of the labour force survey, the annual number of young people that will have to be treated by the PES under the guarantee will amount to 1,600-2,000 unemployed youth on an annual basis.

c) Youth detached from the labour market

According to the latest available data, young Cypriots who were inactive, but willing to work amounted to 4,000 individuals. This group, however, includes youth that are inactive for a variety of reasons (e.g. illness or disability, care responsibilities, discouragement and others). If the guarantee targets only young discouraged workers, in 2012 in Cyprus their overall number was roughly 600 individuals.

The overall number of young people that would have to be targeted by the youth guarantee package of services is shown in Table 4.2. This table indicates the number of potential beneficiaries depending on whether the guarantee is universal (28,498 beneficiaries) or targeted only to unemployed youth.

⁶⁸ To be an effective prevention approach, the guarantee needs to target the largest possible pool of young unemployed. When registration with the PES is low, as in the case of Cyprus, outreach strategies need to be devised to attract more young people toward the services offered by the PES (see paragraph 3.3.).

Table 4.2 Annual estimated levels of the youth guarantee in Cyprus (annual basis)

	Universal guarantee	Targeted guarantee
School leavers	19 698	...
Unemployed	4 800	4 800
Inactive, but willing to work	4 000	...
Total	28 498	4 800

Given the current human and financial resource constraints faced by the PES of Cyprus – and pending the deployment of outreach strategies to attract youth towards the employment service – it is suggested to focus the guarantee services and programmes on the young unemployed at first, to then expand it to other eligible groups when the sequence of services and programmes is more mature.

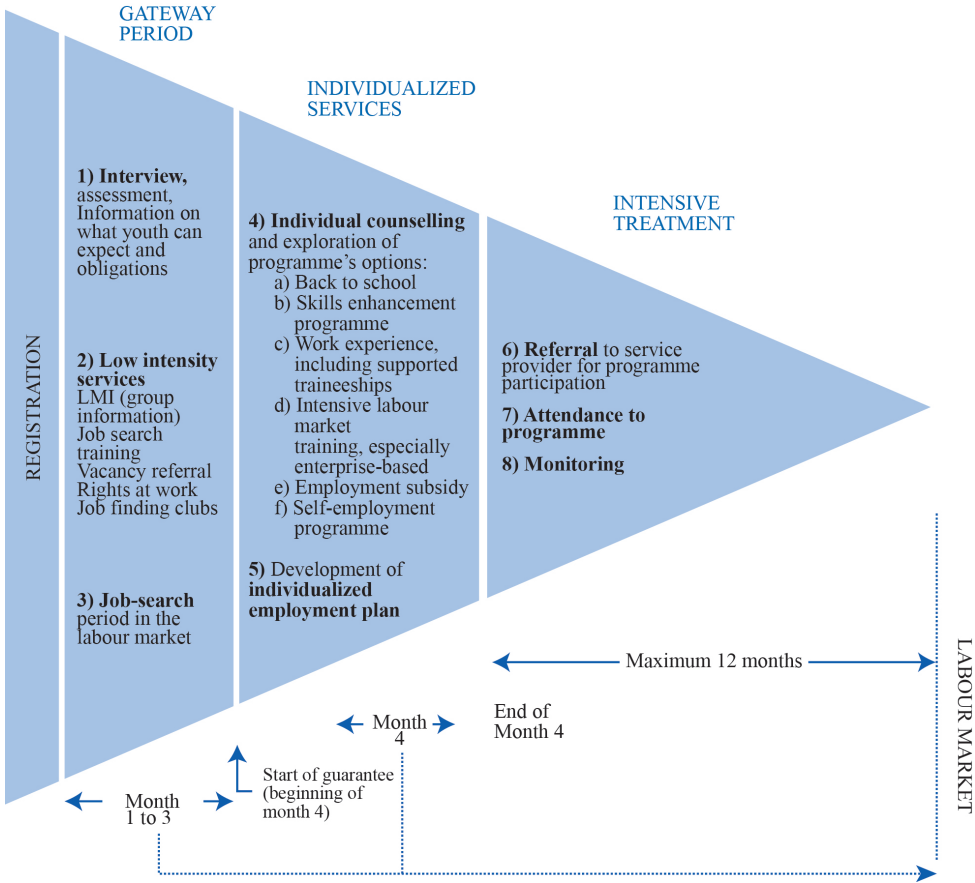
A guarantee focused on unemployed youth can deploy additional targeting mechanisms to prioritize assistance. Such mechanisms build on those individual characteristics that are known to affect labour market outcomes. For instance, this report has shown that: (i) young people with low (ISCED 0-2) and high (ISCED 5-6) skills levels have higher unemployment rates than those with secondary educational attainment; and (ii) job losses were concentrated among low-skilled youth, new labour market entrants with no experience and young workers in the manufacturing and construction sectors. This would suggest that the guarantee prioritizes young unemployed with low skills levels, those with no (or limited) work experience and those previously employed in economic sectors and/or in occupations most affected by the economic crisis. Additional criteria may relate to sex (with young women facing more difficulties than young men in the labour market), geographical location (rural/urban), family status (with/without dependants), national origin and social assistance beneficiary status.

4.3. Sequence of service and programme delivery

Figure 4.1 summarizes the sequence of services and programmes that may be considered for the establishment of a youth guarantee targeting unemployed youth.

The flow of services and programmes is divided into four tiers: a) Registration, b) Gateway, c) Individualized services, and d) Intensive treatment.

Figure 4.1 Sequencing of measures of youth guarantee



a) Registration

The first step is the registration in one of the local employment offices. All young people that register are informed about the services available, what they may expect from the guarantee and the specific requirements that apply. If the young person is interested, she/he is directed to a brief interview with a counsellor – whom the young person will report to on job search results throughout the gateway period – for an initial profile. The gateway period (lasting a maximum of three months) does not entail any legal obligations for participants (except for benefit recipients), besides engaging in an active job search through the range of services provided by the PES. If the young individual belongs to a household benefitting from the minimum guarantee income, or is eligible for the unemployment benefit, she/he needs to be informed that participation to the services and programmes included in the youth guarantee is a condition for benefit receipt. In addition to the services described below, these groups of young people should also be directed towards core employability skills training and other support services (communicating with others, working in a team, problem-solving, self-assertiveness coaching).

Box 4.3 Activation strategies

In many European countries, at the core of activation strategies there is the principle of conditionality, that is the access to social protection benefits is conditional to job search activities, acceptance of available job offers or participation in active labour market programmes. The rationale of these strategies is that, whereas benefits compensate for income losses due to unemployment and alleviate poverty, they may also weaken work incentives for persons whose earnings potential is limited and suffer from a lack of skills or a depreciation of qualifications due to long-term unemployment or inactivity. Passive labour market policies associated with a certain level of benefits, long benefit duration and weak job search monitoring, therefore, may result in extended periods of benefit dependency that, in turn, make labour market entry even more difficult.

To counter this, activating strategies combine “demanding” and “enabling” features to reconcile individual expectations with the options available in the labour market. “Demanding” features relate to the duration and level of benefits; stricter definitions of what constitutes a suitable job offer accompanied by sanctioning clauses for non-compliance; and job search requirements (strict monitoring of job search activity and mandatory participation to active labour market programmes).

“Enabling” elements are the provision of employment services and programmes (job search assistance; counselling; job-related training; start-up grants; subsidised employment and mobility grants); fiscal incentives to “make work pay” (in-work benefits for the taking up of low-paid jobs), and individualized services (case management, individualized counselling, psychological and social assistance, childcare support). These elements are combined in enforceable agreements where benefit recipients are obliged to accept job options and participate to employment services and programmes in order to receive the benefits, while the Public Employment Service has the obligation to enhance the employability of benefit claimants (“mutual obligation”).

In recent years, there has been a broad tendency to expand the range of target groups subject to activation and mutual obligation practices. Young welfare claimants were the first group to be targeted (Denmark and Sweden in the late 1970s and United Kingdom in the mid-1980s). Since 1990s, insured and uninsured unemployed, adult social assistance beneficiaries and recipients of disability benefits have been the main groups targeted by activation strategies.

A research conducted on social assistance recipients in Cyprus to assess employment (dis)incentives shows that poor health, low educational attainment and limited work experience are the most frequent obstacles to labour market integration. Low self-esteem and the presence of dependants are associated with low job search activity, while low pay, inflexible working hours and distance from home are the main obstacles in accepting job offers. The enabling elements of activation strategies targeting these groups, therefore, would focus on job training, work experience schemes, child care support, mobility grants, flexible forms of employment and in-work benefits.

Source: Eichhorst, W., Konle-Seidl R., Contingent convergence: A comparative analysis of activation policies, IZA Working paper No 3905, 2008; Pashardes, P., Polycarpou A., Poverty and labour market participation of public assistance recipients in Cyprus, Economic Policy Research Paper No 4, 2011

b) Gateway period

Based on the initial profile of the young individual drawn during the first interview, the counsellor directs the beneficiary towards the services available (labour market information, job search training, rights at work). The counsellor guides the beneficiary towards available resources in economic sectors and enterprises that are creating jobs, information on current vacancies, assistance in writing a curriculum vitae and in preparing for job interviews. The *gateway* process is geared to help the young unemployed to become more effective in job-search and therefore

to focus more intensive services and assistance only on those individuals who will not be able to (re)enter the labour market without additional and more intense assistance.

During this *gateway* period the young unemployed person reports regularly to the counsellor on job search results, e.g. number of job applications made, job interviews attended, number and types of enterprises approached. During these sessions, the PES counsellor verifies whether the jobseeker has found a job, whether she/he received any job offer and whether the advice provided for job search was useful. These sessions are used to enrich the information on the young clients and, specifically, to pinpoint the specific disadvantages that the individual is facing in getting a job. During the gateway period the unemployed will also undergo a skills training needs assessment to verify his/her level of vocational and non-vocational skills. This will become useful later, if the young individual is unable to find a job by her/himself. If by the end of the gateway period the young person has no concrete job prospects, she/he moves to more intense assistance, which envisages rights and obligations for all parties involved and a financial commitment (individual employment plan with mutual obligation).

c) Individualized services

The more intense stage of assistance requires the counsellor to identify, with the client who was unable to find a job during the gateway period, the specific problem faced in entering the labour market. A precise identification of labour market difficulties will help select the best mix of services and programmes, which will be included in the Individual Employment Plan (IEP). Individual employment planning will fine-tune the young person's employment objective and align it to his/her strengths/difficulties/capabilities and provide a frame to monitor progress. The IEP contains:

1. A summary of labour market difficulties faced by the individual and his/her occupation(s) of choice;
2. Employment goal(s);
3. The specific sequence of services/programmes to be provided (description), the beginning date of each and their anticipated duration;

4. The identification of partner enterprises, training or other service providers (the result of the matching process);
5. Criteria/indicators to be used to determine progress toward achieving the employment goal(s);
6. The terms and conditions under which services and programmes will be provided and the individual rights and responsibilities during programme participation.

The selection of one or more specific programmes is carried out through the matching process, i.e. the characteristics of the beneficiary and the disadvantages faced are matched to the features of the programmes included in the youth guarantee. The profile of the individual will indicate whether a programme for wage- or for self-employment, or for re-entering education, is more appropriate. If the individual decides to pursue self-employment, s/he will be provided further counselling and advice that will lead to available self-employment programmes. If the employment objective of the individual is wage-employment, s/he is guided through a programme matching (either training, work experience or employment subsidy). If the young beneficiary intends to re-enter the education system, s/he is directed towards the services provided by the Ministry of Education.

d) Intensive treatment

Once the actions that will lead the young beneficiary to a job in the open labour market have been agreed upon, the counsellor identifies the partner providers that offer the programme(s) most suitable to the needs of the individual. For example, if a training programme is considered to have the features that best match the difficulties faced by the young unemployed, the counsellor will select among the providers those offering suitable training programmes and will check their availability to take on the beneficiary (the providers can be offered to interview the young beneficiary).

The signature of the individual employment plan marks the beginning of the last stage of assistance, i.e. referral to programme providers and delivery of the agreed upon services.

Throughout the duration of programme participation, the counsellor should conduct a number of counselling sessions with the young beneficiary to discuss progress, problems, and level of satisfaction with the services. The results of these sessions are recorded in the IEP. It may be that after a while, the IEP is not really adequate anymore. If so, the counsellor can, in agreement with the beneficiary, modify its content to make it more realistic. Individual counselling sessions during programme participation should be organized away from the programme site, to give individuals the opportunity to discuss freely. In this way, the counsellor can detect any early potential problems that may cause participants to drop out of a programme, or to be dismissed early from the workplace. Counselling sessions during participation in programmes range from two, for short programmes, to four for longer programmes. The counsellor should also conduct monitoring visits to partner enterprises/training providers during the programme period at the start of the programme and towards its end. Such visits are instrumental to verify progress and check that the provider is meeting its employment/training obligations.

A performance monitoring system should to be set up to track the progression of beneficiaries towards the open labour market. Such a system would record into an electronic platform: i) data on participants (e.g. individual characteristics such as age, sex, education level, unemployment history, vocational skills and information on labour market barriers such as early school leaving, long-term unemployment or degree of disability); ii) information on the specific feature of the guarantee (type of service and programme attended, duration and compensation levels); iii) evidence on employment and earnings outcomes at follow-up, gathered either through existing administrative records or through follow-up surveys. If the PES manages the youth guarantee, performance monitoring can be done through a data warehousing system, where the information in the unemployment register is pooled with data on programme implementation and matched to the records of the social insurance system to measure employment of participants at the end of treatment.

Finally, the impact of the guarantee should be rigorously evaluated through experimental or quasi-experimental approaches.⁶⁹

⁶⁹ The evaluation approach to be used will depend on the features and intake procedures of the guarantee. If the guarantee is targeted and intake is based on inflows into the unemployment register, randomized phase-in (experimental approach) may work well. However, if the projected intake into the guarantee of young participants is around 2,000-3,000 participants annually, a quasi-experimental design may prove more cost-effective.

4.4. Programmes for the guarantee

Most of the programmes currently offered by various providers in Cyprus may be encompassed in the youth guarantee. The youth guarantee package will comprise a portfolio of three broad categories of programmes (skills development; work experience; and employment creation), the delivery of which is preceded by the provision of employment services (e.g. labour market information, counselling and guidance, job search skills and job placement as shown in Figure 4.1). Transport and childcare grants may also be included in the package of measures for those young people who face mobility barriers or have family responsibilities that limit their choices of jobs. Such grants may be provided in one single solution, or as an add-on to the weekly/monthly allowance envisaged by each programme. Beneficiaries of the unemployment benefit or the Minimum Guarantee Income will keep on receiving the benefit in lieu of the allowance envisaged under each programme.⁷⁰

The specific programmes that are part of each set are listed below, with some suggestions on how to match them to the characteristics of young clients.⁷¹ One of the key features of the youth guarantee is the possibility to combine the different programme options listed under each category into an integrated and sequenced package aimed at addressing all the disadvantages a young individual may face in (re)entering the labour market. The design of each programme should also be adaptable to the specific needs of beneficiaries and the characteristics of the occupation sought.

⁷⁰ If unemployment benefit recipients exhaust the benefit before the end of the programme they are attending, the allowance of the programme will apply until the programme's end.

⁷¹ Other programmes may be added under each strand as the guarantee matures.

4.4.1 Skills development ⁷²

The (New) Apprenticeship Programme. This programme, to be offered as part of the return-to-school package, may be particularly suitable for younger clients who have left school without qualifications. The duration and compensation levels currently used (apprenticeship wage covered by the HRDA, and co-financing of the Cyprus Productivity Centre and the European Social Fund for subsidizing trainers' costs) appear suitable. However, intake capacity should be increased and the range of occupations on offer expanded. These may be decided based on the findings of regular skills needs analysis. The uptake of evening courses available in technical schools may also be considered. The duration of courses and lack of allowances for participants, however, may pose a problem to the young unemployed who cannot afford not to work.

Accelerated Initial Training. This scheme appears suitable for low-skilled young unemployed (i.e. with primary and lower secondary education). The current design may be changed to provide more time for learning on-the-job and to expand the range of occupations on offer. In addition, it may be combined with an employment subsidy scheme (either for the enterprise that provides the training or another one) for those young unemployed that face additional barriers in getting a job. The subsidy should be relatively short (maximum six months) for an employment contract of at least 12 months.

Programme for training the unemployed. This programme may work well for those youth who need to acquire new or additional skills compared to the ones they already have. Training should be mainly on-the-job, for a period ranging from three to six months (according to the skills required by the occupation sought). It could yield better results if combined with a short-term employment subsidy for the recruitment of the young individual once s/he has been trained.

Employability enhancing programme. The part of this programme that offers training in core employability skills (language and computer courses) may be offered at the same time as vocational skills programmes (accelerated training and training for the unemployed).

⁷² All programmes encompassed into this category should be assigned to certified/accredited training providers that ensure that the competencies acquired by participants are aligned to endorsed vocational standards.

4.4.2 Work experience

Internship. This type of scheme is particularly suitable to all those young people (both secondary and tertiary graduates) who – although possessing the skills necessary to enter an occupation – lack the work experience required by employers. It may be used both for newly graduates, but also for young people who have left the education system early. The current duration of the scheme (four months) and allowance for trainees appears adequate. However, it will be necessary to expand the network of partner enterprises, so that more internship places can be made available.

Job placement for tertiary graduates. This programme could be made available to those graduates who have skills that are unmarketable in Cyprus. For all the others, the internship scheme should be of help in gaining a foothold onto the labour market. The grant available to enterprises could be reassessed. Alternatively, the period of unsubsidized employment could be extended.

4.4.3 Employment creation

Employment subsidies. These schemes should be used only for vulnerable groups of young people and preferably in combination with training programmes. The period covered by the subsidies should be relatively short (e.g. six to nine months), with the obligation of employers at least double the period of the contract.

Self-employment assistance. This package could comprise: i) training on business skills (and also vocational skills, if necessary); ii) an initial non-refundable grant for the purchasing of equipment (this may also take the form of a direct purchase of needed equipment directly), independent from the capital available to the young person; iii) access to micro-credit at favourable conditions, and iv) mentoring and business advice services for a minimum period of 12 months.

4.5. Estimating the costs of the youth guarantee

Once the number of young people likely to become eligible under the terms of the guarantee has been estimated and the sequence of services and programmes to be included has been decided, it is possible to approximate the annual cost of implementing the youth guarantee.

This requires to: i) calculate the median cost of all the options included under each strand of programmes that are part of the guarantee (i.e. skills development, work experience and employment creation); ii) estimate the cost of employment services (to be provided during the gateway period); and iii) compute administrative costs for the management of the youth guarantee.⁷³

The provision of employment services, namely labour market information, group and individual counselling and guidance, vocational assessment, individual employment planning and others is the one category of costs that is often overlooked. Such costs normally fall in the broader category of PES “administrative costs” and their cost per individual “treated” is not disaggregated. The cost of employment services and the costs involved in the implementation of the youth guarantee, however, can be estimated more precisely. This is done by multiplying the hourly cost of PES staff (gross payroll costs) by average number of treatment/hours required by one unemployed for each service. The average treatment/hours can be calculated by asking front-desk staff to keep tabs on how much time they spend on each of the tasks required in the treatment of one unemployed individual (e.g. registration, initial interview, group counselling, individual employment planning, referral to programmes, monitoring). If this kind of estimate cannot be done, it is sufficient to add 10 to 20 per cent to the overall costs of the programmes included in the guarantee.⁷⁴

The average cost per participant (i.e. the average of the median costs of programme strands, plus the average cost of employment services, plus the average implementation costs) is multiplied by the total estimated

⁷³ The median cost by strand is calculated on the basis of the cost per participant of the options included in the strand. For instance the skills development strand includes: the New Apprenticeship (cost unknown), accelerated training (€2,500), training for the unemployed (€607), and employability training (1,937€). The cost of each programme per participant is listed and the median used as an approximation of the cost per individual referred to the skills development strand (in this example €1,937 as the cost of apprenticeship per person is unknown). The average of all median costs will roughly approximate the cost per participant of the youth guarantee’s programmes.

⁷⁴ Examples of possible costing methods are available in ILO, *Youth guarantees: Estimating the implementation costs of national youth employment guarantees*, Geneva, ILO, forthcoming.

number of individuals likely to become eligible under the guarantee (on the basis of the targeting mechanisms selected).

This overall annual amount (expressed as a percentage of GDP at current prices) can be compared with the annual economic costs of young people who are not in employment, education or training (NEETs). The European Foundation for the Improvement of Living and Working Conditions estimated the economic losses for Cyprus to amount to €424.5 million in 2012 (2.39 per cent of GDP).⁷⁵

⁷⁵ This estimate was done for the 38 thousand NEETs aged 15 to 29 on the basis on direct costs only, that is public finance transfers and benefits from the welfare system plus the missing contribution to society (foregone earnings, unpaid taxes and unpaid social security contributions). It does not include indirect costs (for example the deterioration of human capital, increase in juvenile crime and health costs). See European Foundation for the Improvement of Living and Working Conditions (Eurofound), NEETs – *Young people not in employment, education or training: Characteristics, costs and policy responses in Europe*, Publications Office of the European Union, Luxembourg, 2012; European Union Commission, *Staff working document accompanying the Proposal for a Council Recommendation on Establishing a Youth Guarantee*, Brussels, European Commission.

5

POLICY IMPLICATIONS

5.1. Conclusions

Between 2008 and 2013 the Cyprus economy was affected by two different, albeit interlinked, crises. Similar to what occurred in other European Union countries, the first crisis affected the country mainly through the trade channel in 2009. The GDP contracted by 1.9 percentage points, due to a worsening trade balance and declining domestic consumption. The second crisis in 2012-2013 was caused by the over-exposure of the financial sector to foreign markets. The losses caused by rising non-performing loans and the investment in foreign sovereign debt resulted in a severe under-capitalization of the two largest banks in Cyprus, which had to be downsized and recapitalized. The fiscal consolidation measures introduced to adjust public finances contracted output by 2.4 per cent of GDP in 2012.

Although the impact of such crises was relatively mild in terms of output decline – with a cumulative decline of 2.5 per cent of GDP – it was very severe in terms of job losses, especially among young people. Between 2008 and 2012, the youth employment-to-population ratio declined by 9.3 percentage points and the youth unemployment rate increased five times. The size and composition of the fiscal adjustment effort, the restructuring of the banking sector, the restriction on capital flows and the still-high economic uncertainty are expected to further depress domestic demand and reduce enterprise activity. Employment losses are estimated to continue until 2015, with a modest recovery starting only in 2016.

The distribution of young workers in economic sectors and occupations most affected by the downturn, the “first to be fired, last to be hired” effect, and the incidence of flexible contractual arrangements

contributed to drastic job losses among young Cypriots. Such losses affected mostly young workers with low educational attainment, new labour market entrants, young women and young workers in the manufacturing, construction and service sectors.

Working conditions also deteriorated. Young workers in Cyprus face higher youth-to-adult wage gaps compared to their European peers and they are more exposed to low-paid work and to involuntary temporary and part-time work. In addition, the share of youth working unsocial hours has doubled since 2003.

Education and training pays a premium in the labour market and has a positive impact on the duration of the school-to-work transition, but does not protect against unemployment. Youth unemployment is concentrated at both ends of the educational scale with low- and high-educated young people more exposed to unemployment than those with middle-level skills. This situation reflects a misalignment of educational outcomes with the requirements of an economic system characterized by micro (often family-owned) and small enterprises that are unable to absorb increasing cohorts of highly educated youth. Tertiary educational attainment pays a wage premium (38 per cent) and shortens the period required to gain the first job (five months compared to the 16 months needed by a young person with at most lower secondary education). Such returns, however, are undermined by the high rates of over-qualification (21.4 per cent) and the prevalence of employment in economic sectors exposed to high job turnover, temporary work and low wages (e.g. elementary occupations and clerical, services and sales jobs).

Age, educational attainment and labour market status significantly increase the risk of poverty and social exclusion. This means that high and rising levels of youth unemployment may represent the single most important drag on future economic growth.

5.2. Policy implications

Develop and implement an integrated strategy on jobs and skills for youth

The unprecedented youth employment crisis calls for the development and implementation of a set of policy measures that address both labour demand and supply, as well as structural and cyclical labour market issues. This requires the development of an integrated policy framework that sets concrete and measurable targets and identifies human and financial resources for implementation. This kind of integrated framework can take the form of a time-bound national action plan aimed to:

1. Increase aggregate demand and create jobs, especially through sectoral policies;
2. Support the job creation potential of micro- and small enterprises;
3. Enhance the relevance of education and training to labour market requirements;
4. Provide effective assistance to young people in the labour market; and
5. Introduce a youth activation strategy through the implementation of a national youth employment guarantee.

As Cyprus faces enormous challenges in tackling the effects of the labour market crisis, it is of key importance that social dialogue institutions be involved in the formulation and monitoring of anti-crisis measures and structural reforms, including those relating to young workers. Together with the social partners, the involvement of Cypriot organizations representing young people that will be affected by the measures would help get them on board and make policy decisions socially acceptable.

Promote job creation, especially through sectoral policies

The current youth employment crisis was triggered by a slowdown of aggregate demand and the uncertain economic environment. Policies that support investment and sectoral development would sustain demand and have an impact on employment and youth employment.

The measures currently being implemented as part of the fiscal adjustment package to improve the efficiency of the revenue and

spending system (expansion of the tax base and streamlining of the social protection benefits) may allow some space to increase the level of investment. If accompanied by structural reforms (in the investment climate, competitiveness, human capital and sectoral development), higher investment levels may support aggregate demand and employment growth.

The exploitation of natural resources and the expansion of the tourism sector can have a high youth employment creation potential. The sectoral strategies that are part of the government's plans,, including in the above-mentioned two sectors, should be linked to specific and measurable employment-creation objectives and targets. This requires collaboration between the ministries in charge of the specific sector and the Ministry of Labour and Social Insurance.

Support the job creation potential of micro, small and medium-size enterprises

Micro- and small enterprises are the largest provider of jobs for young Cypriots. They generate nearly 70 per cent of youth employment, with the remaining 30 per cent accounted for by medium-sized firms. Together with the small size, there are a number of factors that make Cypriot enterprises less competitive than those of other European countries. These factors include the cost of energy, the insularity and distance from other countries of the single market. In addition, the competitiveness of these enterprises has been declining over the past few years due to a reduced capacity to innovate, absorb skilled human resources and adopt environmentally-friendly production processes. Access to finance and the costs of doing business remains a major obstacle for enterprise growth.

Measures to remove the barriers that still hamper private sector development could play a significant role in the creation of jobs for young people. This is particularly the case with respect to measures for reducing the cost of starting a business; easing the access to credit; accelerating the procedures for the enforcement of contracts; and increasing investment in research and development (R&D). Support to these enterprises in identifying skilled human resources and in providing enterprise-based training is also crucial to increase productivity of the workforce and boost competitiveness.

Reduce labour market segmentation between protected workers and less protected young people

Although real wages often exceeded labour productivity throughout the last decade, this was, in part, due to the appreciation of real exchange rates, the increase in commodity and energy prices and the indebtedness of the corporate sector. In the years leading to the 2008 crisis, labour productivity in Cyprus increased slightly faster than in the Eurozone.

The minimum wage and payroll taxes, including social security contributions, do not appear to represent a major obstacle to youth employment. The minimum wage is about 40 per cent of the average wage and is applicable to workers in occupations considered vulnerable and not generally covered by collective agreements. The tax wedge in 2007 was among the lowest recorded among EU countries (13.9 per cent and 43.7 per cent, respectively). The strictness of employment protection legislation (EPL) is also in line with the average found in other EU countries and does not appear to pose a barrier to youth employment.

The analysis included in this report points to a duality of the labour market, with young workers more exposed to temporary and other atypical forms of employment compared to adults. In addition, the low rate of transition from temporary to permanent employment (24 per cent on average in the period 2007-2011) indicate that most workers in Cyprus – and especially women – tend to be trapped in this form of work.⁷⁶ This second-tier market is the one that has taken the brunt of the recession. In this respect, measures to reduce the gap between workers that are fully covered by employment protection legislation and young workers, often less protected, would ensure a fairer labour market and enhance productivity of the latter group of workers.

Enhance the relevance of education and training to labour market requirements

Educational attainment in Cyprus is high and has improved across generations. The labour market returns of higher education for youth are mainly reflected in higher wage levels and shorter job-search periods, but not in lower propensity to unemployment. As already mentioned, demand-side measures are needed to increase innovation, business sophistication and technological readiness so that the talent of high-skilled youth can

be maximized by enterprises. This would allow the reduction of the gap between the level of skills delivered by the education system and the qualifications required by enterprises. On the supply side, the establishment of work-experience programmes as part of the curricula would help university students connect with prospective employers, which has proven to give a premium in the Cypriot labour market.

Labour market data point to higher rewards in terms of employment outcomes for young people who completed vocational education and training programmes. However, the share of students enrolling in vocational education has been declining over the years, reflecting the increasing preference of students and their families for programmes that can more easily lead to university enrolment. In order to ensure that young graduates have the skills to perform on the job and are able to respond to changing requirements, the curricula of technical and vocational education and training institutions need to envisage more enterprise-based learning opportunities in both the theoretical and practical streams. This will provide young graduates the work experience prized by employers in the recruitment process.

Provide effective assistance to young people in the labour market and assess the employment impact of labour market policies

The modernization process of the Public Employment Service (PES) of Cyprus, undertaken a few years ago, has decelerated due to the drastic increase in the number of unemployed individuals. The re-deployment of all available human resources to manage intake has reduced the provision of individualized counselling and guidance services. Medium- to long-term measures to address the current understaffing should be deployed as soon as possible to re-instate the provision of employment services beyond registration. Given the current freeze in the recruitment of civil servants, staffing needs could be met through a redeployment of employees assigned to other institutions and agencies of the public administration and the contracting out of certain functions (such as the delivery of orientation workshops, group counselling and job-search skills training). This would free up the more experienced employment officers of the PES and allow them to focus on specialized segments of employment service provision, such as individualized services to young jobseekers at risk of long-term unemployment and social exclusion.

The lack of young people's interest in the services of the PES is an initial sign of disengagement, worker discouragement and labour market detachment. The introduction of a comprehensive and integrated packages of labour market services and measures targeting youth, assigning dedicated staff to services for young people or running events such as job fairs – more popular among young jobseekers – can act as an incentive to register.

The design and funding of active labour market policies should be enhanced to address the current youth employment crisis, with more efforts deployed to reach out to low-skilled youth. Despite the recent increases, the funding allocation for active labour market programmes remains below the average recorded in European Union countries. The funding envelope needs to be increased to allow the introduction of a youth guarantee programme to prevent long-term unemployment and detachment, on the one hand, and the expansion of regular active labour market programmes to assist young people in gaining decent jobs, on the other.

It is equally important to shift the emphasis towards programmes that are well- targeted, respond to labour market requirements and involve the social partners in their design, monitoring and evaluation.

As young people are a heterogeneous group and face different types of labour market disadvantages, early identification of individual risk factors and of the determinants of labour market disadvantage is of crucial importance to provide appropriate and effective employment assistance. Multi-component interventions that combine labour market training with work-experience programmes and job-search assistance, as well as incentives for employers to hire young workers, have demonstrated to be more cost-effective than single measures.

The review of the active labour market programmes currently available highlight a number of design issues that would need to be addressed. First, training is characterized by a multiplicity of programmes organized by various providers and targeting different groups of individuals. This would require the design of competency-based national training programmes for the occupations most demanded in the labour market and with different strands available for targeting specific groups of young people. The delivery of training should be entrusted to accredited providers and include a mandatory period of work experience in a real-

work setting. Second, the use of employment subsidies, which increased noticeably in the last few years, can carry heavy deadweight costs and their effect may last only for the duration of the subsidy. For these reasons, wage and training subsidies should be used sparingly, be strictly targeted to those most at risk of labour market exclusion and include an obligation to retain young subsidized workers for a period at least double that of the subsidy. Third, the high capital requirement established by the youth entrepreneurship programme (75 per cent of own resource contribution) may be an insurmountable barrier for many young entrepreneurs. A relaxation of this criterion – for example by providing access to loans at lower interest rates, with longer grace and re-payment period – and the offering of mentoring services for the first years of operation, may make this programme more effective to address the constraints youth face in opening and running their own business. Finally, the introduction of a regular performance monitoring and impact evaluation system on all active labour market policies implemented in the country would allow identifying which programmes work, for which target group and under what circumstances. It would also identify the measures that are most cost-effective and should be scaled up and those that should be discontinued.

Introduce a youth guarantee to help youth gain a foothold in the labour market

The current reform of the social protection system in Cyprus offers an opportunity to introduce an activation system for young jobseekers in the form of a youth guarantee – i.e. a good-quality offer of employment, continued education, apprenticeship or traineeship within four months of becoming unemployed or leaving formal education. The youth guarantee is a single national youth employment programme that combines multiple service and programme delivery through early intervention, partnerships across a wide variety of actors and service providers, and the establishment of a sound system for monitoring and evaluation of youth employment measures.

The connection between programme participation and eligibility for the Guaranteed Minimum Income (GMI) would introduce a genuine activation strategy for young jobseekers. Conditional upon active job search and programme participation, the mix of active and passive measures could also help diversifying the portfolio of labour market interventions. It could, for instance, allow for expanding work-experience programmes (e.g. the introduction of regulated quality internships cum

GMI allowance) and, at the same time, reduce the costs of remedial active labour market measures.

This report proposes a framework for the introduction of a National Youth Guarantee, which would initially target young people registering as unemployed with the PES. The youth guarantee package comprises a portfolio of three broad sets of measures (i.e. skills development; work experience; and employment creation), which builds on the programmes that already exist. One key feature of this guarantee is the possibility of combining the different programmes into an integrated and sequenced package aimed at addressing the various disadvantages a young individual may face in the labour market. Based on the above-mentioned model, the three broad sets of measures would be delivered to young participants after a “gateway” period that includes:

1. An initial profiling of young beneficiaries and the provision of a range of basic, low-intensity services (e.g. labour market information, job-search training, referral to job vacancies, group counselling);
2. Individualized job search assistance (e.g. one-to-one counselling, development of individualized employment plan); and
3. Provision of the range of active labour market measures included in the individual employment plan and matched to the needs of the young beneficiary and labour market opportunities.

A solid performance monitoring and impact evaluation system would allow determining which service and programme sequence work best and refining the targeting approaches of the programmes included in the National Youth Guarantee.

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Annex I. Performance of measures of the Special Prevention Scheme – Action Plan (2009 – 12)

Activation measure	Number of participants	Sample size	Percentage of coverage	Statistical error	Key elements	Percentage participants in employment	Conclusions
Training and job placement programme of (unemployed) university graduates	1 530	133	8.7%	6.8%	The Scheme aims at strengthening the management capacity of enterprises by providing incentives to enterprises to offer employment, practical training and work experience for a period of six months to young tertiary education graduates.	81.9% ^a	The scheme will continue due to its success. Twice the European Commission has quoted it as a good practice.
Emergency Scheme for the Support of Employment through the Individualised Training of the Unemployed in Enterprises	1 449	130	9.0%	6.9%	The Scheme provides incentives to employers in the form of subsidy and guidance so as to encourage them to employ and provide individualized in-house training of three months duration for the long-term unemployed.	69.3% ^b	The scheme will continue due to its success.
Accelerated Training Programmes	404	110	27.2%	6.7%	The Scheme aims at giving theoretical and practical training in occupations, which are currently in demand, by providing training courses implemented by training institutions. Priority for participation is given, amongst others, to young persons under 25 years of age.	47.3% ^c	The scheme will continue due to its success.
Emergency Scheme for Training the Unemployed	2 874	135	4.7%	6.9%	The HRDA organizes upgrading training programmes for unemployed persons. These programmes cover important job-specific skills, in areas with job prospects including green skills and skills related to the inflation of oil and natural gas, which will help people to return to productive employment. This action was first implemented in March 2009.	37.0% ^{c2}	This scheme will continue. HRDA will examine how to offer the possibility of practical experience within the companies (it is believed that this will increase the employability prospects of the unemployed).
Improvement of the Employability of the Unemployed: • Training programme • Work experience programme	1 407 345	131 103	9.3% 29.9%	6.9% 6.8%	The Scheme aims at the improvement of the employability of the unemployed by providing opportunities for participation in training programmes (e.g. computer skills, English language, secretarial and administrative skills) as well as work experience programmes of 10 weeks duration in enterprises. Priority is given, amongst others, to young persons aged 15-24. The Scheme is co-funded by the ESF (85%) and the HRDA (15%).	25.7% ^{c2}	The action will continue but its structure and content will be re-examined in order to find ways for improvement in terms of efficiency.
Improvement of the Employability of Economically Inactive Women: • Training programme • Work experience programme	1 155 250	127 94	11.0% 37.6%	6.9% 6.7%	The Scheme aims at the improvement of the employability of the economically inactive women by providing opportunities for participation in training programmes (e.g. computer skills, English language, secretarial and administrative skills) as well as work experience programmes of 8 weeks duration in enterprises. The Scheme is co-funded by the ESF (85%) and the HRDA (15%).	17.0% ^{c2}	The action will continue but its structure and content will be re-examined in order to find ways for improvement in terms of efficiency.

Note: Total number of participants=9 414. Sample size=963. Percentage of coverage=10.2%. Statistical Error=2.5%. Overall, 44.6% of the participants remained into employment. In general, the participants reported to be satisfied with the scheme and 97.6% of them would recommend it. The majority of the participants were women (60.7%). 55.2% of the participants were between 25 and 39 years old. 49.0% of the participants had tertiary education. 47.5% of the participants were unemployed, 44.6% were employed and 7.9% were economically inactive. 78.8% of the employed participants were found in services, 20.9% in industry and only 0.3% in agriculture. 54.1% of the participants found employment after 6 months (on average). 51.1% of the participants found employment for 1 up to 6 months (after their participation).

a. 48.3% of the participants who abandoned the job they have been offered via the programme claimed to have found a better job.

b. 40.0% of the unemployed or economically inactive participants found employment for (on average) 11.7 months (after their participation).

c. 44.7% of the unemployed or economically inactive participants found employment for (on average) 11.7 months (after their participation).

d. 23.8% of the unemployed participants and 9.2% of the economically inactive participants found employment for (on average) 6.9 and 6 months, respectively (after their participation).

e. 70.5% of the unemployed and economically inactive participants did not find a job (after their participation).

Source: Information extracted from the report "Special Prevention – Action Plan – Human Resource Development Authority (HRDA), May 2013, Available (in Greek) at http://www.hridaath.org.cy/easyconsole.cfm?page=projectp_id/149.

Annex II

Main social protection schemes in the Republic of Cyprus

Scheme	Main features	Funding envelope and administration
Pension	The pension schemes include the General Social Insurance Scheme (GSIS), a compulsory earnings-related scheme covering all workers and the occupational pension plans (which provide supplementary benefits and include the Government Employees Pension Scheme for central government employees). Pensionable age is 65 years old for both men and women, with early retirement at 63 rather common. The minimum contributory period is currently set at 10 years (soon to be raise to 15 years).	Expenditures in 2010 amounted to 7.6 per cent of GDP.
Unemployment benefits (UB)	Unemployment benefits are available to registered unemployed for maximum 6 months, provided they have been previously employed for 26 weeks. The benefit has two components (fixed and variable amounts) linked to insurable earnings and household composition.	It is managed by the Labour Department of the Ministry of Labour and Social Insurance. Expenditures increased from €78 million in 2009 to € 125 million in 2012 and are projected to increase to €145 million in 2013.
Public assistance	This programme targets unemployed individuals who have exhausted the UB and their families. It provides three types of support; i) a basic mean-tested minimum income allowance; ii) supplementary allowances for specific income needs (rent, rebates of municipal taxes); iii) supplementary allowances for health and social care (including disability allowance, social care for children, special health requirements). Beneficiaries are required to register with the labour office and participate to rehabilitation and activation measures.	Over time there has been an expansion of the beneficiary base and supplementary benefits. The programme is administered by the Department of Social Welfare of the Ministry of Labour and Social Insurance.

Annex II

Main social protection schemes in the Republic of Cyprus (Continued)

Scheme	Main features	Funding envelope and administration
Family benefits	These include maternity benefits; child benefits (universal provision); and childcare services. In 2011-2012, the child benefit system introduced income criteria, while in 2013 the benefit was reduced by 9 per cent (across all income categories).	These benefits are administered by the Ministry of Finance
Education grants	These include three types of support: i) The financial student support, administered by the Ministry of Education, provides an annual benefit to cover expenses for undergraduates from low socio-economic background (income below €12,000 per year). ii) The Education grant, managed by the Ministry of Finance, is the largest programme (€ 56.6 million in 2012) and supports tertiary students both in Cyprus and abroad. iii) The scholarship programme is managed by the Cyprus State Scholarship Foundation and is granted on the basis of merit and income criteria.	These benefits are administered by a number of authorities (see description on the left). The total amount spent in 2012 was € 73.7 million.
Housing benefits	Housing benefits include three schemes: i) The housing scheme for displaced persons provides grants for purchasing and renting houses and for repairs. ii) The comprehensive housing schemes support the construction or renovation of housing for large families and persons with disabilities. iii) The housing for low and middle income households provides grants and subsidized loans for house purchasing.	Administered by the Ministry of Interior. In 2013, total spending was estimated at € 89 million, down from €116 million in 2012. Approximately 60 per cent goes to the scheme for displaced persons and another 15 per cent to the comprehensive housing scheme.

Annex II

Main social protection schemes in the Republic of Cyprus (Continued)

Scheme	Main features	Funding envelope and administration
Disability benefits	These include: i) disability benefits, ii) sickness benefit and invalidity pension; iii) allowances for severely disabled persons. The sickness and work-related disability benefits are contributory schemes, while the disability benefit is payable to households that have a child with disability (regardless of income), or an adult with disabilities (based on eligibility for public assistance). The severe disability benefit is provided regardless of income.	Total spending in 2012 was €111 million (54 per cent invalidity and disability); 19.8 per cent for the disability allowance and 26.1 per cent for the severe disability allowance.
Other cash benefits	These comprise two general revenue-funded programmes for pensioners (affected-persons pension benefit and low-income pensioner household grant). This latter is a cash income supplement available to household with one pension recipient and income below the € 10,600 per year.	Total spending in 2012 amounted to €121 million (over 84 per cent disbursed for the low-income pensioner programme)

Source: International Monetary Fund, 2013. *Enhancing Social Protection*, (Washington D.C., IMF); European Commission, 2012. *The Economic Adjustment Programme for Cyprus*, op. cit.



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