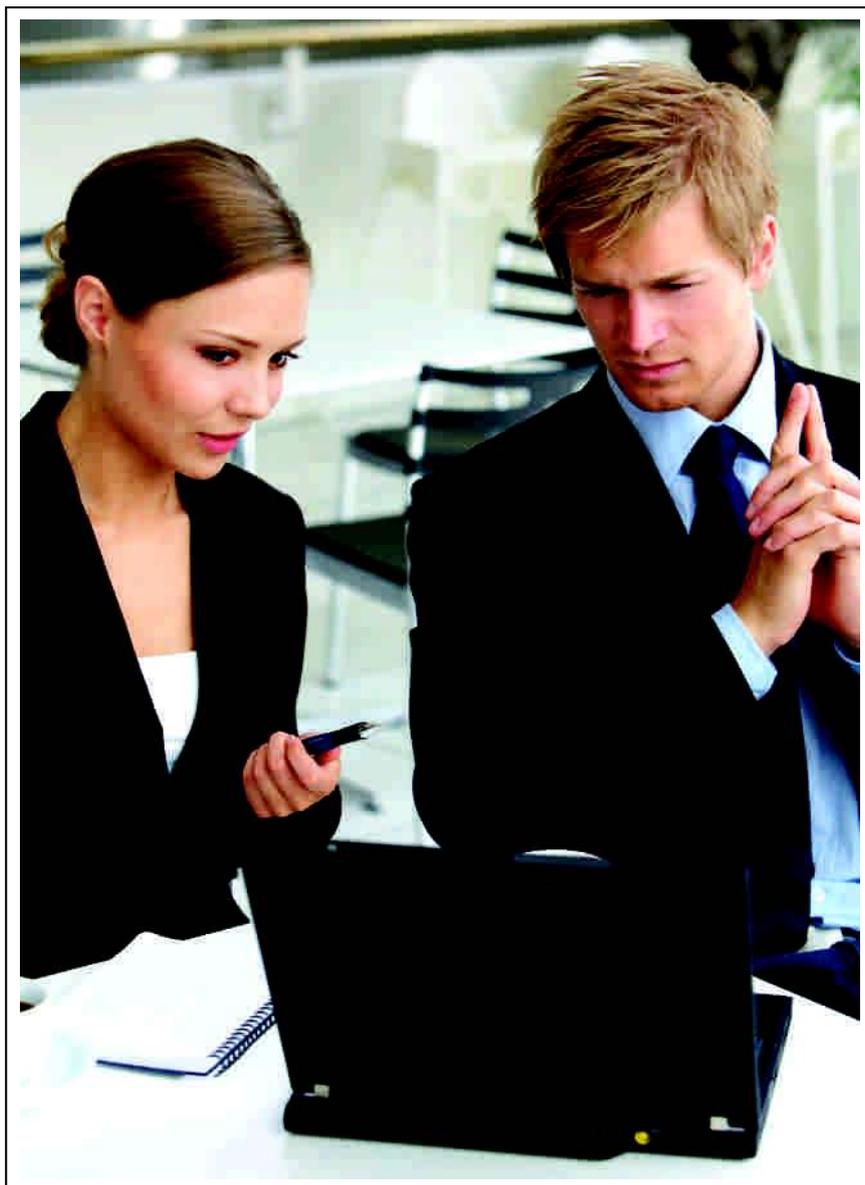


ATTRACTING MORE PEOPLE INTO EMPLOYMENT  
AND IMPROVING THE ADAPTABILITY  
OF WORKERS AND ENTERPRISES



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## **I. Introduction**

The international business environment is ever changing and is becoming one. Various restrictions between countries in the global level are being abolished revealing a new globalised market.

Technological innovation is the most important driver of competitive success. Firms in a vast array of industries rely on products developed within the past five years for more than one third of their sales and profits.

Globalisation of markets is the main reason for the increasing importance of innovation. Firms have to continuously innovate in order to produce differentiated products and services brought about by strong foreign competition.

This global change has to be carefully monitored and measures must be designed and implemented. Workers need to be more flexible and adaptable to cope with constant technological change, rapidly eroding skills and increasing global competition.

This paper will be looking at the overall employment policy framework followed by the Republic of Cyprus and specifically at the National Lisbon Action Plan giving recommendations, criticizing and applauding efforts.

## **II. The Lisbon Strategy**

The Lisbon Strategy has as its objective to make the European economy one of the most prominent, competitive and well balanced in the world. The economic growth of Asia, i.e. China, South Korea, Japan, Taiwan and India, as well as the economic comeback of Russia and the eminent economic status of the United States, have forced the European Union to engage in such a grand scale venture as the Lisbon Strategy is in order to obtain a sustainable and healthy economy throughout its territory<sup>1</sup>. EU competition policies have made the EU market a competitive one, allowing undertakings to carry out business in a favourable

environment. However, this is not enough. The objective and reason behind the economic growth of the EU, is to make its market an accessible, healthy and profitable market for non-EU investors to trade and invest and to enrich, help and contribute to further economic growth and development.

In order to sustain a great economy, the Union and its Member States are called to ensure that through National and Community policies the human resources of the EU community, the greatest investment for a better economic future, will be best accommodated. The European Community has incorporated in its core principles some integral fundamental freedoms that facilitate the function of the Single Market. Specifically, the Single Market ensures the free movement of services, capital, workers and their right of establishment in any Member State, allowing its persons to work, live and trade freely.

Economic stability is vital for the success of the EU's aspirations and this is encountered via macroeconomic and microeconomic stability and further economic development. A most integral element of such development is the European Employment Strategy and the importance the Union gives to this, its primary legal basis being the relevant chapter in the Treaty Establishing the European Community.

The employment rate of a Member State either enhances the economic performance of the Member State or reverses it. The Lisbon Strategy aims to protect the EU's citizens through modernising the social protection systems and attracting more people into employment via labour market reforms, setting a target of 70% of employment rate and an average annual growth rate of 1.5% until the year 2010. Moreover, it seeks to reduce youth unemployment rate and suggests better vocational training, counselling and subsidized employment.

The Lisbon Strategy also targets at resolving further issues, such as improving and gradually resolving the problem of gender employment gaps by encouraging more women into employment and narrowing the gender pay gaps on an average 16% in the EU market. The Union seeks to solve this issue through proposals and projects such as the EQUAL programme, which tries to tackle issues such as equal opportunities between different races and gender equality problems within the EU market.

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1. Wanlin, A., Lisbon Scorecard VI, Will Europe's Economy Rise again?, Centre for European Reform (2006)

### **III. The Impact of Youth Unemployment**

In 1996, Denmark initiated a reform directed towards unemployed, poorly educated youth: the Youth Unemployment Programme (YUP). A paper by Fildges and Larsen<sup>2</sup> examined the impact of YUPs on unemployment, wages, distribution and welfare. The objective of YUPs is to boost the number of young people acquiring skills and therefore reduce unemployment. The objective of the Danish reform was to increase and improve the employment possibilities for unemployed, poorly educated youth by motivating them to undertake additional education. The motivation was the fact that the unemployment rate of skilled workers was (and still is) lower than the unemployment rate of unskilled workers in Denmark, and this trend has been present for more than 20 years<sup>3</sup>.

Fildges' and Larsen's research revealed that skilled workers search for jobs in both the skilled and unskilled sector. The YUP does benefit the workers who participated in the program, due to the fact that the welfare of skilled workers is higher than the welfare of unskilled workers. Nevertheless, it was revealed that a YUP could harm workers who have already acquired skills, in addition to the remaining unskilled workers, because unemployment rates increase and the wages decrease.

It was also discovered that the unemployment rates of both skilled and unskilled workers increase as a result of more workers obtaining skills. This was the result of their higher separation rate were skilled workers are less attractive employees for the firm than unskilled workers. As a result fewer vacancies are supplied when the comparative number of skilled workers increases, therefore decreasing the transition rate for all workers applying for jobs in the unskilled sector of the economy.

These findings prove that, although examined within a different national context, there is a severe need for the creation of proper, well-thought and analyzed youth policies in Cyprus relating to youth unemployment. Direct and indirect effects of a youth unemployment programme, as illustrated in the aforementioned research, are more complex than one might think and in many cases may have the opposite than expected effects. This paper calls upon the governmental institutions responsible to look at all the journal literature that exists and cooperate with other

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2. Fildges, T. and Larsen, B., The Impact of Youth Unemployment Policy: A Shift of Workers into the Skilled Labour Force, (2004) Journal for Labour.

3. Ibid.

EU countries so as to gain their expertise in the field. This may seem something obvious to many, but it is not happening.

A report by the International Labour office in Geneva<sup>4</sup> shows that young individuals in most countries are twice as likely as older persons to suffer from unemployment. It also points out that the participation rate of youngsters in the labour force is decreasing in most countries, regardless of efforts to improve access of young workers to the job market.

The report quotes that “solutions to youth unemployment are driven by what happens to overall employment”<sup>5</sup>. It is often said that wage flexibility would help to increase employment for younger persons. However, the report does not see this method as an effective tool. It states that “there has been a decline in the wages of the young relative to adults over the last decade in many countries and youth unemployment has not improved”<sup>6</sup>.

In January 2000, the Worklife Report<sup>7</sup> stated that the consequences of unemployment are severe for young individuals. Many are encouraged to stay in school and continue their education because of the lack of job opportunities. Although this may lead to higher earnings, in the future it may turn out to be an expensive way of deferring entry in the world of work.

The longer the unemployment period for a young person the more difficult it is to find work because of the loss of skills, morale and psychological damage. Early unemployment may everlastingly damage her future productive capacity while obstacles to employment can block young people in the passage from adolescence to adulthood, which involves setting up a household and forming a family<sup>8</sup>.

High levels of youth unemployment may lead to alienation from society and democratic political processes, giving rise to social unrest. This last phenomenon is starting to be visible in Cyprus during the last few years, as it can be considered that it is one of the many reasons leading to the creation of anarchist groups and increasing anti-social behaviour from young individuals. General unemployment levels increased from 5.9% to 6.3% in 2006<sup>9</sup>.

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4. International Labour Office, *Employing Youth: Promoting employment-intensive growth* (2000).

5. International Labour Office, *Employing Youth: Promoting employment-intensive growth* (2000), p.2.

6. Ibid.

7. *Youth unemployment: a universal problem*, The Worklife Report (2000)

8. Ibid.

9. Source: Eurostat (<http://ec.europa.eu/eurostat/>)

#### **IV. Cyprus National Action Plan for Employment**

The Cyprus National Action Plan for Employment for the period 2004-2006 is a good step forward. It was produced on the basis of Article 128(3) of the Treaty Establishing the European Community, within the framework of the Employment Guidelines adopted by the European Council and the Broad Economic Policy Guidelines (BEPGs). It would be desirable that reports of this nature, supplementary reports, or even deep analysis and progress reports be produced by the institutions responsible at regular time periods without the need to be instructed to do so by the EU.

Cyprus has established a National Committee for Employment which has the responsibility of overseeing the implementation of a national employment strategy. Furthermore, the Human Resource Development Authority (HRDA) announced a number of very good measures which are likely to have an impact on the employment of young people. Their success is yet to be seen but it is evident that many more measures are needed towards this direction.

Four programmes introduced by the HRDA focus on training and employability of the unemployed, the training and employability of secondary education graduates, the provision of counselling services, guidance and training to small businesses employing up to four people and the training and the employability of the inactive women force.

#### **Active and preventive measures for the unemployed and inactive**

As a response to the EU guidelines and recommendations for active measures, (for the unemployed and inactive), the Cyprus National Action Plan for Employment has as a main objective the enhancement and modernisation of the Public Employment Services (PES). It states that it “operates at central level and from five District Labour Offices and two local offices”<sup>10</sup>. The Plan does not suggest any change in its organic structure which is ineffective, and old fashioned. It continues by stating: “the aim is to enrich and upgrade PES services so that they can respond effectively to the increased demands and challenges in the labour market of the present but mainly of the future”<sup>11</sup>. It remains to be answered why no practical solution is introduced or specific steps that will upgrade the PES. The Plan

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10. Ministry of Labour and Social Insurance, Republic of Cyprus, National Action Plan for Employment for 2004-2006, (2004), p. 12

11. Ibid.

gives one practical solution: "...introduction of self-service facilities in properly equipped areas in the local labour offices..."<sup>12</sup>. This shows the lack of expertise, effort or even political will to bring about radical changes which are required.

When looking at the German Federal Employment agency we see that it gives practical solutions by introducing the Structure of a Customer Service Centre of the future which will form the core of the new employment agencies where people seeking guidance and jobs will have several ways at their disposal for contacting the employment agencies.

The HRDA mentioned earlier, is a semi-governmental organization which plays a crucial role in policy formulation and training activities. It is administrated by a 13-member Board of Directors with a tripartite character where representatives of the Government, the Employers, and the Trade Unions participate. It is our opinion that this structure is problematic. This body should be comprised by a group of professional individuals who should have a past experience in various industries and academics from a range of fields. They should be employed on a full time basis for their role is crucial and continuous. These are the people that will be suggesting various schemes to the Government and be responsible for their implementation. Stakeholders like the Government, Employers and Trade Unions can be called upon for advice that should be heavily taken into consideration, but which must not have a decisively active role for these bodies are simply not qualified to do so.

The HRDA proposes three new schemes. A new Scheme for the Promotion of Training and Employability of the Unemployed, a scheme for the Promotion of Training and Employability of the Inactive Female Force and a new Scheme for the Promotion of Training and Employability of Young Secondary Education Graduates. Once again, no specific measures are proposed. Vague statements are not acceptable, because even if the HRDA has something planned it has the obligation to make it public, so it can be discussed by all interested parties, something that could lead to their proposals' enrichment. Most of the youth in Cyprus have no idea that these schemes exist for they are ineffectively publicized.

The present paper believes that the British model of 'New Deal for Skills'<sup>13</sup> should be looked at closely. It is aimed at improving the flow of people from welfare to workforce development thus increasing their prospects of sustainable,

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12. Ministry of Labour and Social Insurance, Republic of Cyprus, National Action Plan for Employment for 2004-2006, (2004), p.12

13. See HM Treasury, DWP, DfES, Supporting young people to achieve: towards a new deal for skills (2004), United Kingdom.

productive employment and helps more people move from lower to higher skilled work.

'New Deal' is said to improve the support towards the low skilled by intensive skills guidance, developing skills passports and improving mechanisms of financial support for those whom training provides a route back to work. Furthermore, it investigates how to build on Employer Training Pilots in a way which extends the benefits of those looking for entry to sustainable employment. The present paper suggests that the HRDA has contacts with the appropriate people in the UK so as to gain valuable knowledge. If the European Union wants to be the most competitive and dynamic knowledge-based economy in the world it must start sharing and transferring its knowledge between its Member States.

#### **V. Youth Unemployment: a Pragmatic Approach**

In 2000, the rate of youth unemployment within the European Union was around 16%, more than twice the rate experienced by adults<sup>14</sup>. In spite of the fact that the youth unemployment rate has fallen slightly in some Western European countries in recent years, from the 10 EU Member States that were examined by Hammer in a research of 2003, youth unemployment rates are still high, the worst being in Italy and Spain<sup>15</sup>.

In the case of Cyprus, according to the research presented in 2005 by Meletiou-Mavrotheris and Maouri<sup>16</sup>, youth unemployment rate stands at 10%. However, this does not imply that the residual 90% immediately find work in their desired field. Some of the graduates either work in a different field or continue their education further. Nonetheless, we need to bear in mind that people working in a different field compared to what they have studied, are still facing the same consequences with those who are unemployed, even though they are not.

Unemployed youths in Italy and Spain are unable to leave their parental home<sup>17</sup>. This is due to low salary payments, unemployment or low public support system. The same situation occurs in Cyprus. Based on Meletiou-Mavrotheris and

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14. Hammer, T., Youth Unemployment and Social Exclusion in Europe (2003), p.1

15. Ibid.

16. Meletiou-Mavrotheris and Maouri, The connection between higher education and the marketplace: The case of Cyprus (2005) presented in the 13<sup>th</sup> Workshop of the European Research Network on Transitions in Youth

17. Hammer, T., Youth Unemployment and Social Exclusion in Europe (2003)

Maouri's work<sup>18</sup> it is clear that 70% of Cypriots, once graduated, still live with their parents for their salary is not adequate to rent a home themselves - amongst other factors. However, this does not happen in the case of Central and Northern EU, especially in Denmark. In Denmark, which has a generous insurance system, young people are able to leave their parental home even when unemployed<sup>19</sup>.

Nevertheless, apart from the financial and psychological consequences a youth might face, society as a whole also suffers from the above situations. Dissatisfied youths will end up being marginalized from the social and political system and in some cases will even ignore or avoid exercising the political and social activities that are expected from them because of their dissatisfaction and marginalisation. Furthermore, unemployed youths might be forced to immigrate in order to find a better future somewhere else in the world. This is reflected in the European Union which is losing substantial Human Capital throughout time, something that Cyprus is also experiencing well before its accession to the EU.

#### **Further recommendations on youth unemployment**

Proper guidance and counselling at schools is essential, at a stage when students are yet to elect their desired field of studies. If the State was methodically informing students about the needs of the labour market then it is expected that they would attempt to adjust their desires to what the market wants. There are some EU Member States, like the Nordic countries, which have an excellent support system in schools. However, in the case of Cyprus, even though there is a system in place in high schools it needs to be improved, since unemployment rates indicate this system is not effective. Furthermore, the system is late in interacting with students: its consultative process must commence earlier in their lives.

Additionally, the State has to try and create new and alternative job opportunities for new graduates in order to keep them in the country or at least in the EU. There are numerous examples of people that have immigrated to the United States seeking a better future.

Member States should try to stop undeclared work. Apart from the fact that it costs money to their governments because of losing tax payments, having a workforce that has more than one job is detrimental to young people's employment

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18. Meletiou-Mavrotheris and Maouri, The connection between higher education and the marketplace: The case of Cyprus (2005).

19. Hammer, T., Youth Unemployment and Social Exclusion in Europe (2003).

prospects. A most illustrative example in Cyprus is that of illegal afternoon work on behalf of public school teachers. This phenomenon has yet to be resolved, despite the costs involved for both the State and the society as a whole, due to indecisiveness on behalf of successive governments and the above-normal influence that teachers' unions have obtained.

Another suggestion is that private and public entities should create training schemes for certain jobs so that graduates could enter these schemes once they have finished their academic studies. Such a scheme could be regarded as a continuation of academic studying but with an emphasis on practical and professional skills. This will help young graduates become equipped with the necessary skills and knowledge needed for the job they are intending to engage into. Such training schemes, could take the simplest forms of corporate training or internships.

Moreover, it is suggested that *Temporary Work Agencies (TWA)* should be created, by and for the private sector, with the support of the Government. Such agencies which would offer vacancies information for unemployed people could facilitate a decrease in the difficulty of searching for work, a factor that is most discouraging for unemployed people. What is more, this could operate as providing young people with opportunities to experience different professions which are relevant to their preferences and subsequently make more informed decisions. We firmly believe that a privately managed TWA in Cyprus will create more opportunities for young graduates and provide them with a quicker entrance to the labour market.

Finally, in addition to a TWA, there is a need for independent *Advisory Centres* providing counselling services to young people and information for specific careers and job opportunities. Such centres should also offer training on skills like Curriculum Vitae writing and interview techniques which are crucial for employment.

### **The Issue of Lone Parents**

In 2001 more than 40%<sup>20</sup> of lone parents in Cyprus were considered low income earners. Nevertheless, no new policy has been introduced that would bring to a halt the exclusive reliance of this group on various benefits which are provided

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20. Source: Eurostat (<http://ec.europa.eu/eurostat/>)

by the State. It is suggested that a coherent policy is produced that would aim at facilitating work occupation for lone parents easily accessed and carried out. Once more, it is necessary to applaud the 'New Deal For Lone Parents' within the 'New Deal' initiative in the UK, which managed to help 485,000 parents out of which 261,000 found jobs, saving the UK net exchequer 41.5 million GBP.

Upon further examination of the circumstances lone parents face within Cyprus' society, it can be argued that the Government should introduce various incentives of a financial nature. Specifically, it is suggested that a special scheme be created to allow lone parents to work for specific hours per week with analogous payment policies in distinct, suitable occupations within the private and public sectors. Additionally, the Government could setup a fund which will be used in case a lone parent faces an emergency and may be forced to stop working.

Finally, taking into account that more than 90% of lone parents in Cyprus are women, efficient child care centres should be used efficiently and effectively in conjunction with the proposed work scheme. Such centres should cover a wide geographical area, something that can be relatively easily achieved considering the short distances in Cyprus. This paper recognises that the Ministry of Finance has proposed the expansion of childcare facilities in the National Lisbon Program for Cyprus<sup>21</sup>, but not much has been done to implement this objective up to date.

## **VI. Job Creation and Entrepreneurship**

The business environment of a country is a very important aspect to both materializing the Lisbon Strategy and maintaining a proper National Youth Policy. Entrepreneurship, a pivotal element of a healthy business environment, is a concept over which the majority of young people in Cyprus are not really familiar with due to limited enlightenment over the subject.

### **The Scheme for the Enhancement of Youth Entrepreneurship**

The Ministry of Trade, Industry and Tourism has in the last years introduced a programme for supporting youth entrepreneurship. It is necessary to acknowledge that the programme is a positive step. Its main aim is to “develop, support, and

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21. Ministry of Finance, Republic of Cyprus, National Lisbon Programme (October 2005).

promote entrepreneurship among young men and women, through funding and training seminars, for the development of new and viable small and medium sized enterprises<sup>22</sup>. However, this initiative to subsidize young persons' proposed new businesses, as developed in the 2005 and 2006 programmes, contains a lot of mandatory requirements that are discouraging for potential applicants.

All interested individuals must send their application to a specialised board of individuals consisting of civil servants from three ministries and a permanent staff member of the Youth Board of Cyprus. At this point the first problem can be straightforwardly observed: that of a structural nature. Experienced individuals with a business background who have lived or are living the realities of the business world and would surely contribute more effectively to such an evaluation process are absent from this board. What is more, the presence of a Youth Board employee, a semi-governmental body that has a political-party comprised Board by law, could give rise to a possible conflict of interests and emergence of political influence during the evaluation procedures.

The evaluation procedure over proposals within this programme must be carried out by independent individuals that should come from both a wider range of bodies. There needs to be a restructuring of this board to include unbiased individuals that originate from the business world - such as successful entrepreneurs - so as to properly examine the viability of each received proposal without any possible interference, political or otherwise.

Upon further examination of the scheme, it can be seen that the applicant has to comply with a number of obligatory requirements. It is accepted that most are rightly placed and balanced. However, some other requirements need a synoptical analysis so as to extract their exact purpose and validity.

*Age requirement:* Applicants have to be between twenty and thirty-nine years of age. The present paper urgently proposes that the minimal age should be lowered to eighteen for this is the school leaving age. Whereas young women can utilize an alternative scheme of the Ministry that encourages women entrepreneurship from the age of eighteen, young males are not as fortunate. Eighteen-year old males, the large majority of which attend their compulsory army service for twenty five months upon graduating from high school, should be allowed to submit applications that if successful could be given a special status.

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22. Ministry of Trade, Industry and Tourism, Republic of Cyprus, Scheme for the Enhancement of Youth Entrepreneurship (2006).

Arrangements could be made between the Ministry responsible and the armed forces so that successful applicants can attend the obligatory seminars this scheme includes.

*Should be unemployed, on a wage, or self employed:* A core element of entrepreneurship is that there should be no restrictions to any individual wanting to start her own business. Although it is obvious that the programme wishes to address candidates that are in a least favourable position compared to young persons already having started or owning a business, it is strongly argued that this requirement is not required and should be amended so as to avoid discrimination.

*Should not have been involved in any business activity of at least one year prior to the date of the forms submission:* A person who is entrepreneurial in nature tries new ideas constantly, failure being one of the possible outcomes. Past experience in the entrepreneurial world is a good thing for applicants, leading to more valid and feasible proposals. It is strongly recommend, following a similar rationale as in the above requirement, that all young individuals regardless of their prior background should be allowed to join the program.

### **Providing sufficient Information on Entrepreneurship**

As mentioned earlier, young Cypriots are generally not well informed on the concept of entrepreneurship from either a theoretical or practical point of view. It is therefore suggested that a specialised Internet site should be created which would provide free advice on all business-related issues. A structure for such a website is suggested below, including all main areas of interest to our subject-matter. The following website structure is indicative and should not be considered as exhaustive.

1. *'Starting up' section:* Before you start; Forming and naming your business; Your workplace; Managing your business.
2. *'Finance and Grants' section:* Raising finance; Managing finance; Help with financial matters
3. *'Taxes, returns and payroll' section:* Taxes; Legal structures, records and returns; Online services; Selling or closing a business.
4. *'Employing people' section:* Taking on staff; Pay and pensions; Managing your staff; Improving staff performance; Problems and incidents.
5. *'Health, safety and premises' section:* Health, safety and environment;

Premises and insurance; Support and finance.

6. *'How to exploit your ideas' section:* Succeed through innovation

7. *'IT and e-commerce' section:* Get the most out of your IT; Doing business online; Data protection and managing risk; Communications, software and data storage; IT security, staffing and legal issues

8. *'Sales and Marketing' section:* Marketing your business; Maximising your sales

9. *'International Trade' section:* Getting started; Finance, paperwork and logistics; Global trading

10. *'Growing your business' section:* Buy or sell a business; Acquiring a business; Selling your business; Problem solving.

Such a website should be designed, delivered and marketed through professionals on behalf of the Government. It is suggested that the Government should also fund complementary measures to enhance this venture, such as a professionally staffed service with offices in all towns of Cyprus. This would constitute a major step in combating the low entrepreneurial levels for most people are afraid of the unknown, even if they have very good business ideas. The 'entrepreneurial spirit' should be cultivated in individuals from a young age and initiatives such as this website could very easily be employed to achieve such cultivation, considering the youth's relationship with the Internet.

Corporate Social Responsibility (CSR) is a very important concept on a global level. It cannot be said that Cyprus is anywhere near addressing such matters officially or coherently. It is essential that any proper enlightenment procedure or campaign on entrepreneurship contains a chapter on CSR. Existing businesses should be encouraged to engage in social, environmental and economic development. This can also be used as a powerful tool so as to gain a valuable competitive advantage through improving their environmental and social impacts. All benefits that emanate from CSR for both businesses and their surroundings must be put forward to the public, particularly to the attention of young entrepreneurs and the youth in general.

### **Incorporation of a company in Cyprus**

The process of registering a company in Cyprus is as follows: "An application has to be made to the Registrar of Companies for the approval of the name. For this service, the payable fees with normal procedure, is £2 and with urgent procedure is

£7. After the approval of the name, a Cyprus lawyer has to file with the Registrar the necessary documents and fees<sup>23</sup>. The whole process needs serious reform. Individuals should be able to register a company without imposing a complete reliance to the usually expensive services of a lawyer and have the opportunity to complete the whole process online. A lawyer's role could be minimised to merely signing a witness form to accompany the online application of the interested part. Such an approach is successfully carried out in other EU Member States, most notably the United Kingdom.

Nevertheless, this paper recognises and congratulates the brave steps made by the Ministry of Finance which have as an aim to strengthen the institutional framework by setting up an Agency for the promotion of Cyprus as an entrepreneurial base and the attraction of Foreign Direct Investment.

This Agency should consider getting listed in widely used websites which analyse the ease of doing business in each country. As an illustrative example, this paper would like to mention doingbusiness.org, a well-known Internet site which provides objective measures for business regulations in various countries. This site does not include Cyprus. When the authors contacted the site's administrators and asked for the reason that Cyprus was not included we were told that they only deal with countries that have a population of over 1.5 million. They were prepared to include Cyprus if the necessary sponsors could be found so as to conduct the necessary research. The Ministry of Finance should be aware of all this activity in cyberspace and try and ensure Cyprus is represented in these pools of information, for an investor will do a great amount of his research on-line and will take decisions on the basis of what his investment research produces.

### **Taxation**

Concrete steps have also been taken in the field of double taxation were there was an extension of the network of treaties so as to avoid this phenomenon. On the other hand there has been an increase in the tax-to-GDP<sup>24</sup> ratio from 26.9% in 1996

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23. Department of Registrar of Companies and Official Receiver, Republic of Cyprus ([http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/index\\_en/index\\_en?opendocument](http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/index_en/index_en?opendocument))

24. The tax-to-GDP ratio measures the overall tax burden as the total amount of taxes and compulsory actual social security contributions as a percentage of GDP. This indicator is widely used to measure the overall tax burden but includes the taxes that are raised on social transfers. Because social transfer recipients often receive a net pay directly, they do not feel the burden of paying taxes.

to 34.1% in 2004. The EU-25 stands at 39.3% of GDP<sup>25</sup>. Taxes on production and imports in 2005 were about 17%, quite higher than many other EU Member States. For example, Germany and the United Kingdom have a tax rate of 12% and 13% respectively on production and imports for 2005.

On the other hand, Cyprus has one of the lowest taxation levels income, wealth etc. at 9%. The United Kingdom, Sweden and Belgium have 16%, 19% and 17% respectively. This very positive sign is in line with the aim of the Ministry of Finance to maintain the taxation burden at low levels. As of January 2005 there have been a number of measures implemented by the tax administration services which are designed to facilitate the collection of taxes and discourage tax evasion. The present paper supports these measures but would urge the Government to propose new legislation which will make the whole taxation process smoother and simpler.

### **Small and Medium Sized Enterprises**

Small and medium sized enterprises (SMEs) are a central element of the business world of the EU. This is particularly true in the case of Cyprus, the economy of which is dominated by small enterprises. "Almost all enterprises (99,9%) employ less than 250 persons whereas the overwhelming majority (95%) employs less than 10 persons. The total number of SMEs in Cyprus is 61.041"<sup>26</sup>.

The Cypriot Government is giving particular attention to small and medium sized enterprises. The Ministry of Commerce, Industry and Tourism has engaged into an in-depth study of SMEs and is looking into various ways to support them through designing and implementing specific programmes that will contribute to their development. It has a policy which is fully harmonised with the European Charter of Small Businesses.

There are five main objectives which the Government outlined for the support and development of SMEs and entrepreneurship. These objectives talk - amongst others - of a simplified legal, procedural and regulatory framework but sadly very little improvement has been conducted in this field<sup>27</sup>. Nevertheless, the Ministry of

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25. Source: Eurostat (<http://ec.europa.eu/eurostat/>)

26. Ministry of Trade, Industry and Tourism, Republic of Cyprus ([http://www.mcit.gov.cy/mcit/mcit.nsf/dmlsme\\_en/dmlsme\\_en?OpenDocument](http://www.mcit.gov.cy/mcit/mcit.nsf/dmlsme_en/dmlsme_en?OpenDocument))

27. Ibid.

Finance proposes some very promising policy initiatives such as business incubators and the 'Loan Guarantee Granting Facility' which will gradually be introduced in 2007.

At this point it is necessary to mention the work carried out by the Cyprus Development Bank, a public company<sup>28</sup> that has been running an active Centre for SMEs since 1985. The services offered by the Centre to SMEs, which are generally of a financial nature, such as loans and financing, can be considered as being highly important towards substantially supporting SMEs.

While the work carried out by the Bank in this field is significant, the present paper suggests that the role of the Centre and the Bank itself is expanded to embrace further issues. This can only be achieved if the Centre is also used as a forum for exchanging good practices, organising local or regional conferences and providing detailed support for European or other funding to SMEs. It is suggested that within such an advancement of the Centre's role, emphasis should be given to young people wishing to start up their own business, perhaps by creating distinct services for such a purpose and audience.

Many modern firms have technology as their competitive advantage. The Action Plan for Employment has technological innovation as its utmost priority. This is a very positive move as businesses in Cyprus are far behind in comparison to the rest of the EU and are losing their competitiveness. The Ministry of Commerce, Industry and Tourism aims to support SMEs by offering grants in order to help them with their technological upgrading. There are also grants available for creating of high-technology business, a process which is extremely important and well-suited for Cyprus' economic structure. This paper's view is that all of the Government's initiatives concerning high technology in business are highly promising.

## **V. Address change and promote adaptability and mobility in the labour market**

During the last few years Cyprus' labour market is suffering from shortages and bottlenecks. By 2028, 23.1% of the population is estimated to be over sixty years of

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28. 88% of the Cyprus Development Bank is owned by the Republic of Cyprus while the residual 12% is owned by the European Investment Bank.

age, compared to 15.7% today. This will cause further strain to the economy on a macroeconomic level. This issue seems to be improving as the average exit age from the labour market increased slightly from 62.3 in 2001 to 62.7 in 2004.

Examining the retirement age in Cyprus, one can see an initiative of the Ministry of Finance to increase the retirement age in both the public and private sectors. Gradually, various departments of the public sector are increasing their retirement age at 63. A recent example, which occurred in October 2006, is the Cyprus Grain Commission where all its employees can now only retire at 63.

However, it is deeply worrying that respected political parties such as AKEL, the biggest political power in Cyprus - which is also the biggest partner in the coalition Government - and its trade union PEO are strongly against any reform on the age of retirement, stating as their main reason that this will lead to an increase in youth unemployment. The same stance is followed by political-parties' student groups and sector-specific trade unions, such as those in secondary education. ISCHYS has issued many press releases on this subject strongly supporting the increase in the retirement age and dismissing such views, basing its arguments on a detailed economic analysis.

The opposition to the rise of the retirement age is based on the weak argument that unemployment is to be increased for the young population. According to the Government, raising the retirement age will entail the channelling into the private sector of a larger number of new entrants, directly leading to a reduction in dependence on foreign workers. Unemployment will not increase, since the new entrants temporarily not employed in the public services will be absorbed into the private sector<sup>29</sup>. This paper agrees with this and other arguments put forward by the Government and dismisses any simplistic approaches to the matter. Cyprus must be aligned with other European countries in this respect, where the retirement age is usually between 65 and 70 years of age. Furthermore, the necessity of such a measure for the national economy is evident as it is expected to lead to an increase in the economically active population and, by extension, to the maintenance of high growth rates in the medium and long term.

Other measures to address the challenge of ageing population put forward by the Government include encouraging the employment of older people by

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29. Ministry of Finance, Republic of Cyprus, Proposal to raise retirement age, May 2005.

implementing various schemes and initiating social dialogue in order to find compromising solutions that secure long-term financial viability of the Social Insurance Fund.

On another positive note, it can be seen that the high level of older workers (55-64 years of age) participating in the labour force in Cyprus, of about 49% in 2002, is a superb performance which nearly meets the Lisbon target of 50%.

Finally, the employment of foreign workers from non-EU countries is another important issue concerning the labour market. This increasing problem, which also affects the young population's employment prospects, is constantly discussed at a ministerial level. In October 2006 it was decided to try and keep foreign workers under 6.3% of the active labour force. This would be done by implementing better control mechanisms in relation to the entry of foreign workers in Cyprus. For that to happen there should firstly be a structural re-organisation of the whole process. A proper study should be conducted to identify the exact problems in this area.

One problem which is clearly visible is the large number of governmental agencies involved that only complicate the whole process and prevent a unified, concrete implementation of any policy on foreign workers. The full responsibility for the whole process should be given to one agency, thus saving time and being more productive. A system of selective admission is the best way to ensure that there is scrutiny and control on the flow of migrants, allowing in those who can make a valuable contribution to the labour market and economy, whilst keeping out those who seek to abuse the system or work illegally.

### **Gender Equality**

The European Union has always had as a key objective to eliminate inequalities and promote gender equality throughout the Single Market in accordance with Articles 2 and 3 of the EC Treaty (gender mainstreaming) as well as Article 141 (equality between women and men in matters of employment and occupation) and Article 13 (sex discrimination within and outside the work place). Secondary Legislation has also played a very important role in the Union's efforts to combat gender inequality.

Despite this fact, the inequality in payment and employment opportunities across the EU community still exist. The EU has set an inescapable goal through the Lisbon Strategy, to reduce this gender pay gap in order to achieve equal treatment between the two genders, but also to protect and help towards the sustainability of the social security systems of the EU. Since the Union's population

continues to grow older, Europe's social protection systems are coming under threat. Closing the employment gap by promoting women's participation in the labour market can help to ensure the sustainability of these systems.

The gender pay gap is presumed to be caused mainly by discrimination by employers towards the female gender. Since studies have suggested that this is the case, the European Community, as well as the Member States, are obliged to find ways to fight wage discrimination. This is tackled through statutory measures, which have been in existence for a very long time both at Community level and in individual Member States. Through legislation and collective agreements at different levels, such measures have provided for the principle of equal pay for equal work or for work of equal value, and in addition through. The gender pay gap, discussed below, is also considered to be a decisive factor which forces women to exit the labour market since there is unequal treatment with their male colleagues.

In addition, a reason which women seek to exit the labour market, or hesitate to enter the labour market in general, is the fact that they traditionally carry the role of the caring mother and wife. Patriarchic societies are the source of such a problem. Only in recent decades have women been seeking to undertake a career life and pursue professional recognition and achievement. This issue has therefore been minimized, but is not extinct.

However, the fact remains that in most societies, a woman that cannot find an appropriate employment solution which accommodates the need to care for her children or if her salary is not sufficient or equal to her male colleagues, she will then be forced to reconsider entering the labour market. Briefly considering Cyprus at this point, the fact that it is one of the highest ranking countries in marriage rates<sup>30</sup>, it is evident that women's role in the labour market and the work-life balance must be constantly under examination.

This is also one of the reasons that women prefer part-time work, which is generally less well paid than full-time work and is far more prevalent among women than among men: 30.4% of women work part-time, compared to only 6.6% of men, which as a result increases the pay gender gap by 1-3%<sup>31</sup>.

Work-life balance tensions combined with stereotypes and gender-biased remuneration and evaluation systems continue to affect women's careers and

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30. Cyprus ranks 3<sup>rd</sup> worldwide in marriage rates, having a rate of 12.9 per 1000 population (Source: The Economist, World in Figures, 2006 Edn).

31. Source: Eurostat (<http://ec.europa.eu/eurostat/>)

perpetuate the vertical segregation of the labour market. Within enterprises, women account for only 32% of managers. Only 10% of members of the boards and 3% of CEOs of the larger EU enterprises are women. In education and research, women outnumber men as graduates (59%), yet their presence decreases consistently as they progress further on the career ladder, from 43% of PhDs down to only 15% of active professors<sup>32</sup>.

Over the years, and especially after the feminism movement, the female percentage of workers across the EU has increased significantly and is still rising. This is evidenced by the EU's latest statistics following the 2004 enlargement.

The positive progress towards reaching the Lisbon target for employment of 70% by 2010 is owed greatly to the increase in the entry of women into the labour market over the past decade, while male employment rate has remained relatively stable over the same period. The female employment rate rose to 55.7% in the EU-25 in 2004, 0.7% up compared to 2003, which can be seen as a an accomplishment in relation to the mid-term target of 57% by 2005. As a result, the employment rate gap was further reduced to 15.2 points in 2004, down from 18.1 points in 1999.

A decrease in female unemployment combined with a similar increase in male unemployment also brought the unemployment gap down to 2.1 points, almost a full point lower than in 1999. Among older workers, progress in the employment rate was also stronger among women than men. The employment rate of women over 55 had increased by a full percentage point in 2004 to 31.7%, or 5.4 points above the level seen in 1999<sup>33</sup>.

Such data are indicative of the fact that the female unemployment rate in the European Union is reducing. It is also evidence that most Member States successfully promote gender equality through legislative instruments, social protection measures and EU funded programs to encourage, protect and promote the female participation in their labour markets. A central role is given to policies of reconciliation between work and family life for both women and men, especially through the provision of services for children and other dependants. Also important is the reintegration of women returning to the labour market after an absence.

In Cyprus, the reflection of the employment area shows an excellent performance in relation to other Member States. According to data by the Ministry of Labour and Social Insurance, it is concluded that Cyprus has already achieved a

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32. Source: Eurostat (<http://ec.europa.eu/eurostat/>)

33. Ibid.

number of important employment-related targets set by the Lisbon Strategy for 2010. These include the 70% employment rate of the population and a 60% of employment of economically active women, the last being a rate which is well above the Lisbon target of 57% in 2005 and in compliance with the target of 60% participation rate until 2010.

The statistics from the Ministry of Finance for the year 2002, show that in the age range of 25-54 the average employment rate was 84,5% (male 95,1% and female 74,8%) and an overall average percentage for the age range of 55-64 was 51% (male 68,7% and female 34%)<sup>34</sup>. Comparing the two age ranges examined, the statistics show that there is a significant rise of the percentage of female workers as generations progress. It is indicative that younger women want to enter and do succeed in entering the labour market.

Although there is a rising percentage of women entering the labour market, data from Eurostat, show that Cyprus, along with Estonia and Slovakia, has a very wide gender pay gap, contrary to the gender pay gap of Malta, France, Slovenia and other Member States. The gender pay gap in Cyprus reaches 25%, a very high percentage within the EU. Hence it might be concluded that there is either a failure on behalf of the Government to implement the legislation of gender pay equality, or there is discrimination on behalf of employers towards the female gender, or both.

Furthermore, a fact that is indicative of such problems in equal opportunities and equal pay in Cyprus is the percentage of female managers at just 14%. Compared to other Member States' rates, such as Latvia which has a percentage of 44%<sup>35</sup> of females in managerial positions, Cyprus' performance might indicate a trend which does not allow women to go up the professional ladder.

In March 2005, the Government has initiated project to seek alternative methods for women employment and combat gender-based discriminations in the labour market. The project is co-funded with the EQUAL Initiative<sup>36</sup> and has various

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34. Presentation from the Cyprus Ministry of Finance fro the National Lisbon Program Summary, January 2006

35. Source: Eurostat (<http://ec.europa.eu/eurostat/>)

36. The EQUAL Initiative is a laboratory for new ideas to the European Employment Strategy and the Social inclusion process. Its mission is to promote a more inclusive work life through fighting discrimination and exclusion based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. EQUAL is implemented in and between Member States and is funded through the European Social Fund. ([http://ec.europa.eu/employment\\_social/equal/index\\_en.cfm](http://ec.europa.eu/employment_social/equal/index_en.cfm))

partners involved, including the Cyprus Chamber of Commerce and Industry, the University of Cyprus, 'Phileleftheros' newspaper, the Mediterranean Management Centre and others<sup>37</sup>. Analytically, this project targets to promote a free access to the labour market to everyone through new tactics of discrimination and inequality, access of female working force into the labour market, and the return of women to the labour market. An additional goal is to create a standard for companies which will be keen on adopting alternative methods of employment which will act as a motive to the companies.

Initiatives such as the aforementioned project are what is required towards creating a better labour market environment. However, the Government should seek to review the legislation, and mainly find ways which will enable the maximum equality between women and men, equal payment and the elimination of gender discrimination within the labour market.

Overall, women play an important part in Cyprus' economy but still need encouragement to increase their participation in the labour force. There are many schemes in place trying to increase the female participation in the workforce but only one vague policy tries to bridge the pay gap which exists between male and female workers.

The Ministry of Finance talks about conducting a comprehensive study in 2006 with a view to identify problems and define possible ways, including best practices in other countries, in order to reduce the gender pay gap. Such a study should not only identify problems but also propose solutions to them, seeing that the circumstances in Cyprus allow such an approach.

The present paper suggests the following measures in relation to addressing the gender pay gap:

1. Re-evaluation of the way the legal framework of equal pay works in practice,
2. A combined effort by all stakeholders to promote voluntary pay reviews,
3. Funding and training a number of trade union equal pay representatives and professional experts in this field,
4. Reviewing the situation in the civil service so as to eliminate any gender pay inequalities within the public sector.

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37. Phileleftheros newspaper, 21<sup>st</sup> October 2006.

5. Raise the public's awareness for women-oriented schemes, particularly the Women's Entrepreneurship Scheme of the Ministry of Trade, Industry and Tourism.

#### **VI. Promote the integration of disadvantaged people in the labour market and combat the discrimination against such groups**

A new perspective must be given, in promoting integration and combating discrimination over disadvantaged people in the labour market. Although there are various disadvantaged groups we consider disabled persons as being one of the most important ones. The Cyprus national policy for people with disabilities focuses on ensuring equal rights and opportunities and concentrates on the need for improving their skills. It is the view of this paper that this policy has not had any practical effect and a stronger one, with better implementation prospects, should be adopted.

The present paper questions how it can be expected from disabled persons to enter the labour force having in mind that even simple daily tasks are impossible in Cyprus due to a severe lack of infrastructure which should have been there to make their life easier. Very few pavements in Cyprus are in a state to accompany the needs of the disabled. Most retail shops, supermarkets and even governmental buildings do not meet the standards expected by an EU country.

Law No. 127(I)/2002 guarantees that persons with disabilities are equally treated with other employees by their employer as regards the procedure for application for employment, recruitment, promotion, dismissal, compensation, training and other terms and conditions of employment. A 2004 amendment of the law also provides for the prohibition of any direct and indirect discrimination<sup>38</sup>. However, beyond what the legislation in force says, the system in place for people with disabilities in Cyprus is characterized by the lack of an integrated approach and extremely limited training in place for them<sup>39</sup>. Only one training centre exists,

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38. Council of Europe website, Human Rights: European Social Charter, Cyprus ([http://www.coe.int/t/e/human\\_rights/esc/5\\_survey\\_by\\_country/Cyprus\\_Factsheet\\_2005.asp](http://www.coe.int/t/e/human_rights/esc/5_survey_by_country/Cyprus_Factsheet_2005.asp))

39. Aristidou, I., The use of new technology in the employment with people with disabilities, Peer Review programme on the European Employment Strategy (2003).

established in 1969, with a limited number of specializations and productive workshops and inadequate infrastructure for the training of adult disabled people.

Iacovos Aristidou in his paper on the "Use of new Technology in the Employment of People with Disabilities"<sup>40</sup> looks at the Spanish experiment with the use of new technology in the employment of disabled people and proposes that the model could be adapted in Cyprus, something that would help answer many of the problems. Aristidou states that new technology will set the standards for raising and integrating educational and training standards of disabled people. The present paper can only agree with the views expressed by Aristidou.

## **VII. Youth Board of Cyprus**

As a concluding section, it shall be seen to what extent the Youth Board of Cyprus (YBC), the semi-governmental body responsible for youth matters, has acted towards constructively facing the problematic areas examined in the present paper. Consequently, this concluding section will be looking at the role of the National Youth Policy of Cyprus, if such a Policy actually exists.

The YBC's review of the Cyprus National Youth Policy, which was published in 2005, discusses, amongst other things, various characteristics of the youth labour market in Cyprus. It states that the Cypriot youth prefer being employed in the public sector because of less pressure, better pension plans, more security and better working hours. It fails to support these claims with actual figures or give reasons of why the current situation is the way it is. Even though all these problems are evident and the Review gives substance to them, the YBC itself cannot be considered as being successful in tackling them.

Why is there such a contradiction in young minds over the conditions of employment in the public sector compared to the respective ones in the private sector? This question has not been addressed on a serious basis by anyone, unfortunately not even by youth organizations. Naturally, suggesting reform in the public sector would cause reaction by its current employees who in turn might show their dissatisfaction in a forthcoming election. This constrains political parties and their youth wings in expressing any views on such topics.

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40. Aristidou, I., The use of new technology in the employment with people with disabilities, Peer Review programme on the European Employment Strategy (2003).

ISCHYS insists that daring steps should be taken. Such steps should have as a result a decrease in the size of the public service (staff levels), an increase of the public sector's working hours (so as to include more afternoon hours), the introduction of the latest technology in all of its services, an increase of professionalism levels through better evaluation processes and a constant training for existing civil servants, preferably via the private sector's services. Most importantly, the 'permanence' factor, the most tempting privilege of the civil service to young people, must be restricted.

The YBC's Review talks about the "belief among young Cypriots that in appointing new employees, organizations and particularly the Government use unfair procedures, favouring candidates who have direct connection with political parties"<sup>41</sup>. Although this corresponds to reality over what the belief is in Cyprus, something that is of course unacceptable, it is ironic that the YBC's Board itself is comprised of individuals from political parties, by law. In fact, the international team of experts that has also reviewed Cyprus' Youth Policy, recommends that an amendment of the Board is to be considered so as to "include representation beyond the established youth wings of the dominant political parties"<sup>42</sup>.

This Report on the Youth Policy of Cyprus by the Joint Council on Youth of the Council of Europe (CoE), comments that "the essential point about a 'youth policy' discussion is to consider the coherence and purposefulness of state and NGO activity directed at young people both in relation to what is being done but also to what has to be done"<sup>43</sup>. In our opinion, the YBC demonstrates no sign of showing such consideration, due to the restraints imposed by its political-party based structure and function.

The international team of experts of the CoE wondered whether the YBC was the head of a movement or the arm of a State. It continued by stating the need for the YBC to consolidate and strengthen its relations both with youth research and with youth NGOs. Unfortunately, youth organisations such as ISCHYS, often face degrading treatment by the YBC. Indeed, the CoE's Report acknowledges that youth organisations other than the political-parties ones feel they have relatively

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41. Youth Board of Cyprus, Review of the Cyprus Youth Policy - Cyprus National Report (2005), p. 91.

42. Joint Council on Youth (CMJ), Youth Policy in Cyprus Report by the international team of experts (September 2005), Council of Europe, p. 25.

43. Ibid.

less influence<sup>44</sup>. Moreover, it is deplorable that non-political party youth organisations receive a much lower amount of funding than their political-party counterparts.

On the subject-matter of the present paper, the chapter regarding employment of the YBC's Review can be considered as being a document of inadequate standards. It mentions policies implemented by the Government and gives a number of recommendations. Recommendations which again fail to solve the many issues which exist in the complicated subject of youth and employment. The Joint Council on Youth report stresses the need for the YBC to be more active in challenging the Government, rather than primarily delivering initiatives once they have been approved by the Government.

One would expect that the youth of Cyprus would have revolutionary ideas to deal with multiple problems it faces, such as employment issues discussed in the present paper. However, any dialogue towards resolving issues discussed in this and the other papers of the present publication, must necessarily involve a wide range of representation by the organised young people of Cyprus. Any other approach will inevitably lead, and has led for so many years, to inapplicable, minority-based decisions.

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44. Joint Council on Youth (CMJ), Youth Policy in Cyprus Report by the international team of experts (September 2005), Council of Europe, p. 31.