

**MUTUAL LEARNING PROGRAMME:**  
**PEER COUNTRY COMMENTS PAPER - CYPRUS**

The role of PES in the economic crisis and the development of the  
labour factor: the case of Cyprus

Peer Review on “Systematic Preventive Integration Approach (Support) for  
Jobseekers and Unemployed”

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## 1. LABOUR MARKET SITUATION IN THE PEER COUNTRY

*This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Cyprus' comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.*

The current world economic crisis reached Cyprus with some delay. The economy was adversely affected with a time lag of almost two years, when external demand for Cypriot products and services was significantly reduced. Thus, while in 2008 the economy was growing at a high rate of 3.7%, in 2009 the GDP displayed a negative rate of -1.7%. The adverse situation started in the second quarter of 2009 and has continued ever since. Recently some positive recovery signs appeared regarding the growth rate, but the situation is vulnerable depending on the behavior of external demand for a small and widely open economy, like the economy of Cyprus.

All sectors of the economy have been affected by the crisis. The most severe repercussions of the adverse economic developments manifested themselves in public finances and the unemployment situation. The balance of public finances turned into deficit in 2009 compared to a surplus situation in 2008, as a result of a significant reduction in public revenues, but also because of the Government's policy to contribute to boosting economic activity, through increased investment and demand, as well as to promote social cohesion. The public deficit in 2009 was of the order of 6.1% of GDP compared to a surplus of 0.9% in 2008, whereas public debt increased from 48.4% of GDP in 2008 to 56.2% in 2009. The Government, in cooperation with the Commission, is currently working on the adoption of new measures for the reduction of public finance deficit without adverse effects on the further revival of economic activity (Cyprus has recently entered the excessive deficit procedure of ECOFIN; The Cyprus Government has to bring the budget deficit below 3% of GDP by 2012).

One of the main concerns for the new policy measures was to avoid further deterioration of the unemployment situation, which has taken unprecedented levels for the Island during the economic crisis. After many years, when almost full employment prevailed, the economic developments adversely affected the level of employment. In 2009, for the first time after many years, employment declined by 0.75% compared with an average annual rate of growth of 2.5% displayed since 2000. As a result, the unemployment rate rose to an unusual level of around 5.3% in 2009. Increased unemployment was observed in the sectors of tourism and construction. The unemployment rate for people in the group age 15-24 ranged around 13.8% in 2009 compared to 8.8% in 2008, whereas rates for people in the group age of 15-64 stood at around 5.3% in 2009 vis-à-vis 3.7% in 2008. Unemployment continued its upward trend, rising to 6.7% during the first half of 2010, compared with 4.8% during the same period of 2009. During the latest months, unemployment stood at 7.3% in June and 7.1% in July 2010 (5.3% June and 5.5% July 2009).

To mitigate the effects on employment a package of measures was implemented, aiming at enhancing the employability of unemployed or those at risk of lay-off through training programmes, stimulating labour demand through subsidy schemes to the private sector and overcoming barriers to employment through combating illegal employment. Despite the adverse conditions in the labour market as a result of the crisis, still the majority (79%) of the registered unemployed continue to have an unemployment duration of less than six months. This, if combined with the fact that demand in the sectors affected by the crisis is still low, could be an indication of a dynamic labour market with job to job mobility. The PES played a key role both in an increased participation of unemployed in the various employment and training measures and in increased placements of registered unemployed.

During the period May 2009 to August 2010 a total of 130 training programmes were organized in cooperation with other public training institutions, whereas job placements increased by 58% in the period 2008-2010. As in Germany, men and young persons were the groups most affected by the crisis, though, traditionally, women and young persons were the groups to experience first the effects of a rise in unemployment.

## 2. ASSESSMENT OF THE POLICY MEASURE

During the recent reorganization and modernization of the PES in Cyprus additional resources were provided and a good number of new practices have been introduced to make them more effective. The first phase of the planned project “Enhancement and Modernization of PES” was completed by 2008 and included the geographical extension of the local offices network to a total of ten, the recruitment of new staff with relevant academic qualifications, extensive training of PES staff, new methodological tools (e.g. individual action plans for unemployed and employers), modernization and standardization of buildings, signs and equipment, introduction of an on-line system for CVs and job vacancies. The efforts to enhance further the Cyprus PES are continuing under the new Programming period 2007 – 2013 in the fields of development, accreditation and implementation of a quality system regarding the services provided by the PES, design of a proper code of practices regarding the operation of the private employment agencies and the training of the people involved, strengthening and reinforcement of the Employment Observatory of the PES, creation of additional local offices, etc.

Many changes have been implemented as part of the project for the modernization of PES. Regarding the contact of job seekers with the PES staff, a case worker approach (individualized counseling) is followed for ‘the hard to place job seekers’ and for those falling within certain categories considered as vulnerable groups (e.g. disable, single parents, long term unemployed). The employment counselor approach instigated the introduction of new methodological tools, e.g. the construction of an Individual Action Plan (IAP), a vocational guidance tool, a scoring tool and the setting of specific targets for activation in the case of certain categories of unemployed like those on public assistance, young secondary education graduates, etc. Action plans contain a detailed profile of the job seeker, based on a synthesis and evaluation of job seeker’s personal data, job experience, skill deficiencies and other characteristics. There is an agreed programme as to which actions will better lead the job seeker into the labour market.

Intervention in the form of IAP’s can start either from the very first day of registration or any time within a six month period depending on the personal characteristics/situation of the client. The employment counselor is responsible for carrying out the IAP agreed between him/her and the jobseeker, whereas the latter is committed to follow it, having identified and established clear targets and steps that they must follow in order to lead to employment. The frequency of meetings between counselors and job seekers is on average twice a month. Profiling is inherent in the individualized approach given that part of the process is to assess the exact needs and potentials of the job seeker as well as to prescribe all possible actions and tools to facilitate access and integration in employment for the job seeker (counseling: preparing for a job interview, improving self-esteem, empowerment etc, vocational guidance: use of a specific vocational counseling tool, and delivering/explaining results etc, assisting the job seeker in deciding the nature of the job, as well as the specific training programme, referring the job seeker to job opening or to self employment schemes, etc). If a job seeker does not keep to the terms of the IAP, the counselor can terminate the cooperation. This sanction is only effective for those who receive public assistance benefit or subsidized coaching. Benefits may be withdrawn but this does not fall within the sphere of competence of PES except in the case of recent programmes that co-finance the recruitment of unemployed individuals. It is worth looking into how the employment

counselor could be empowered with the imposition of such sanctions. The placement budget device introduced in Germany could be a starting point.

The activation programmes offered vary depending on the identification of individual needs that lead to the design of individual activation pathways. Activation measures are usually targeted to those groups that seem to suffer more from unemployment (e.g. long term unemployed, people with disabilities, young high school graduates with practically no working experience, women who have stayed out of job market for a long time). Depending on the problems jobseekers have to cope with, these programmes include individual coaching techniques, development of special educational and vocational skills through participation in training sessions, tailor-made job search assistance, involvement in short duration job experience programmes and career guidance counseling with special tools. The most frequently used programmes for activation are participation in job experience programmes, skills development training sessions and job search assistance techniques. Job search support, including coaching in job search techniques and placement services, are the responsibility of PES whereas training and work experience programmes are the responsibility of other agencies, especially the Human Resource Development Authority (HRDA), the Cyprus Productivity Center (CPC), and the Higher Hotel Institute (HHI). Their activities are coordinated by the Department of Labour and otherwise.

Further refinements in the operation of the PES were forestalled as all their resources were diverted towards facing increased unemployment. In addition to the general measures to arrest further slowdown and induce economic recovery, a good number of specific schemes were developed and introduced by the appropriate Ministry of Labour and Social Insurance to combat rising unemployment itself. The re-organized PES was put into a crash test together with other organizations and services. A vivid indicator is the dramatically increased number of job seekers per case worker (minimum 400), which is double compared to that in 2008.

### **3. ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY**

Despite the present economic crisis temporarily arresting or at best slowing down further refinements in the functioning of the Cyprus PES, the experience so far, the lessons from the current economic turmoil, as well as the experience of Germany, are of paramount interest for the future placement services. In particular, the requirement for early registration for jobholders at risk to facilitate a job-to-job placement is worth looking into, especially since there is already the seasonality problem in certain sectors in Cyprus. Further refinements to the PES' core placement strategy are still required and the Four-Phases Model tried in Germany, though untested up to now, provides numerous ideas, which should be further studied by Cyprus PES Authorities. This includes the software Verbis used in Germany. A continuously upgraded sophisticated software system would not only make the work of the counselor more effective, but also help draw the right conclusions about the functioning of the labour market itself. A first analysis of the functioning of the Model is that it could become a catalyst in the labour market from many respects. Not only could it help the basic scope of placement of unemployed, but it could be an instrument of upgrading of employment, upgrading of the quality of workers, directing jobseekers to more final decisions about their careers and their suitable methods of work. Through the effective functioning of PES, as it is currently tried in Germany, a great deal can be achieved with regard to the European Employment Strategy and the Eu2020 strategy. The role of PES should be viewed as that of a workshop in which the way is paved to effect or facilitate desired changes not only in enhancement of human capital and social cohesion but in promoting economic growth through better utilization of the human factor of production.

As can be seen from the above, a great deal of effort has been made to modernize, refine and strengthen the functioning of PES in Cyprus. With a few differences (in Cyprus there is one centralized PES system with district and regional branches and PES do not administer unemployment benefits or reintegration costs) the changes effected were similar to the original 'Hartz' reforms in Germany. As already stated, the current economic crisis has to a certain extent shelved developments in this sphere for the time being. While facing an emergency situation one becomes wiser as to the better course of action. Which are the lessons we learn? First, we realize once more the fact that employment policy cannot be separated from overall macroeconomic policy and especially the policy for the improvement of overall economic activity. It is also very well known that any improvement in the rate of growth of the economy will positively affect, inter alia, employment. So the employment policies and the handling of unemployed by the competent authorities should be viewed only as supplementary to the overall economic policy and it is in this context that their effectiveness should be judged. By making this observation one should not underestimate their importance and the need for continuous improvement of the schemes introduced by a Ministry of Labour and the practices followed by PES in handling the unemployed. Going quickly through some of the schemes applied now in Cyprus, one can draw the conclusion that they can stand on their own irrespective of the economic situation. They aim to alleviate the unemployment problem through qualitative and structural improvements regarding both the labour factor itself and the functioning of the labour market. The majority of these schemes aim at upgrading the skills of labour and effecting structural changes in the competitiveness of enterprises or the rationalization of the labour market through introducing more flexible practices of work and combating illegal practices. The work of PES should be directed towards rendering these schemes more effective and the PES should be strengthened accordingly. There is not as yet an evaluation of the effectiveness of the various schemes.

Prevention is always preferable to a cure. This dictum could not have had a better application than in the case in hand. The Department of Labour (in cooperation with the other competent organizations and institutions of the Ministry of Labour) and the social partners should continuously analyze the labour market with a view to preparing the labour force for more productive and full utilization of the labour factor. The labour force should acquire the skills that will be in demand in the future, including continuous upgrading.. The working arrangements should be made more flexible to take into consideration demographic and social conditions, whereas major impacts on labour force either because of seasonal reasons or otherwise, should be analyzed and used to face them. The seasonal character of employment in hotels and the tourist industry in general, is not a new problem that was created by the economic crisis. The effects of demographic and social changes on the working habits of many people, need also to be analyzed and proceeded with discussion with the social partners and adoption of flexible working arrangements, which could prove to be suitable for the individual, the employer, the economy and society in general. But even on a more practical basis, the Department of Labour (and PES) could follow up major projects and programmes to be undertaken both by Government and the Private Sector, analyze their labour requirements by skill level, and induce unemployed and others to undergo the necessary training to be ready for employment when the project starts.

## 4. QUESTIONS

- To what extent and how the 'Hartz' reforms place emphasis on vocational guidance and orientation of registered unemployed?
- Has there been any consideration to unify the present dual system of employment service delivery (PES primarily for insured unemployed and Jobcentres for social assistance recipients)? What problems does this separation create?



- In the 'Hartz' reforms changes were effected in the rules for benefit recipients designed to activate the unemployed; how effective were these? Are these still valid in view of the practice of the new Placement Budget approach?
- For all Jobseekers (long-term unemployed and social assistance recipients) in Germany there is a framework for integrated provision of benefits and labour market services administered by PES. How does it work? Are there any adverse effects on employment?
- As the early registration for jobseekers at risk is an excellent device for early transition from one job to another, what is the experience so far? Is there any danger to augmenting registered unemployment?
- The 'Verbis' software appears to be very important in profiling and other aspects of the placement process. How could Peer Countries get to know more about it?
- The Placement Budget device is a very innovative action, which gives the PES agency or Jobcentre broad discretion; is the additional burden of its administration high?
- Has there been any consideration to bring under the Placement Related Services device of the PES, all schemes developed recently to combat unemployment because of the economic crisis?
- The innovations brought about in the employment services in Germany in 2009 coincided with the economic crisis and rising unemployment; Have these changes been associated and how (with the special programmes of the Government) are they being used to combat rising unemployment?
- The issue of which customer segment will be given priority in counselling, is always there; in view of the criticism of the German practice to focus attention to the 'middle customer segment' what is the practice followed now and what is the rationale?
- The German experiment is particularly interesting to Cyprus, where there is a centralized public employment service too. It is, however, an expensive system; what parts of the system could be simplified?



## ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> <li>• The current world economic crisis reached Cyprus with a time lag of almost two years when external demand for Cypriot products and tourist services was significantly reduced.</li> <li>• Public finances were badly hit; budget deficit in 2009 rose to 6.1% compared to a surplus of 0.9% in 2008, whereas public debt to 56.2% from 46.4% of GDP respectively.</li> <li>• Unemployment rate rose to an unusual level for Cyprus around 5.3% in 2009 compared to 3.7% in 2008. In July 2010 unemployment stood at 7.1% (5.5% July 2009).</li> <li>• Despite the crisis the majority of registered unemployed (79%) have an unemployment duration of less than six months, which, together with other indications indicates a dynamic labour market with job to job mobility.</li> <li>• Transitions from PES register are high both into employment (placements increased by 58% between 2008 and 2010) and into training programmes.</li> </ul>
Assessment of the policy measure
<ul style="list-style-type: none"> <li>• The basic objective of the recent project 'Enhancement and Modernisation of PES' was the transformation of PES into a flexible and decentralised system providing high quality services. The efforts are continuing under the Programming period 2007-2013, though at a slower pace, because of the economic crisis.</li> <li>• The project envisaged modernization and geographical expansion of PES office network, development, training and additional staffing of PES personnel, upgrading of the existing computerised system, introduction of new, quality services and the development of methodological tools.</li> <li>• Many changes have been effected in the actual operation of PES. A case worker approach (individualised counseling) is followed for the 'hard to place job seekers' and other vulnerable groups, based on new methodological tools, e.g. the construction of an Individual Action Plan, a vocational guidance tool, a scoring tool and the setting of specific targets of activation in the case of certain categories of unemployed (e.g. those on public assistance, young secondary education graduates).</li> </ul>
Assessment of success factors and transferability
<ul style="list-style-type: none"> <li>• The changes effected to the functioning of PES in Cyprus were similar to the original 'Hartz' reforms in Germany. Therefore, the further reforms introduced in the Host Country are of great importance to Cyprus.</li> <li>• Though the new reforms in Germany have not been tested as yet, it appears that they are successful so far. It is also known that employment policy cannot be separated from overall macroeconomic policy. Germany has been one of the first E.E. Countries to get out of the crisis. How could one measure the successful implementation of new PES reforms in this respect?</li> <li>• In Cyprus the PES were burdened recently with the task of implementation of special schemes for the enhancement of employment. It seems that this is not the case with the German PES.</li> </ul>

- The German reforms, as well as the Cypriot ones, aim not only at upgrading the placement services provided by the PES but also at rendering them more efficient in the development and better utilisation of the labour factor of production.
- The German reformed PES are in a better position to embark on tasks like early analysis of the labour market and take action towards forestalling unemployment, moving workers towards higher and more suitable skills, changing working arrangements to suit demographic and social conditions.
- A very interesting feature of the new German reforms is the adoption of the Placement Budget device, a very useful and powerful tool in the hands of PES. In Cyprus the PES do not handle directly any benefits to registered jobseekers to facilitate their task.
- Another potentially very effective tool could be the requirement for early registration of jobholders at risk to facilitate a job-to-job placement.
- The Four Phases Model tried in Germany, though untested up to now, provides a lot of ideas that should be further studied by the Cyprus PES. This includes the software Verbis used, as a continuously upgraded sophisticated software system would not only make the work of the counselor more effective, but help draw the right conclusions on the functioning of the labour market and suggest the right measures.

#### Questions

- Has there been any consideration to unify the present dual system of employment service delivery (PES primarily for insured unemployed and Jobcentres for social assistance recipients)?
- In the 'Hartz' reforms changes were effected in the rules for benefit recipients designed to activate the unemployed; how effective were these?
- For all Jobseekers (long-term unemployed and social assistance recipients) in Germany there is a framework for integrated provision of benefits and labour market services administered by the PES. How does it work? Are there any adverse effects on employment?
- What is the experience so far of early registration for jobseekers at risk for early transition from one job to another? Is there any danger to augment registered unemployment?
- How could Peer Countries get to know more about the 'Verbis' software?
- Is the additional administration cost for the Placement Budget device too high?
- Has there been any consideration to bring under the Placement Related Services device of the PES all schemes developed recently to combat unemployment because of the economic crisis?
- To what extent the innovations brought about in the employment services in Germany in 2009 have been associated and how with the special programmes of the Government to combat rising unemployment?
- After the criticism of the German practice to focus attention to the 'middle customer segment' in counselling, what is the practice followed now and what is the rationale?
- The German experiment is particularly interesting to Cyprus, where there is also a centralized public employment service. It is, however, an expensive system; which parts of the system could be simplified?

## ANNEX 2

**Table 1: Cyprus: Labour Market Indicators, 2005 – 2009**

	2005	2006	2007	2008	2009
<b>GDP (% change)</b>	3.9	4.1	4.4	3.7	-1.7
<b>Employment (000s)</b>	348	357	378	383	381
<b>Unemployment (registered)</b>	19,492	17,004	15,428	14,523	21,325
<b>Unemployment (% from LFS)</b>	5.3	4.5	3.9	3.7	5.3
<b>Long-term (&gt;12 mon. as % of LF)</b>	1.2	0.9	0.7	0.5	0.5
<b>Female (%)</b>	6.5	5.4	4.6	4.2	5.5
<b>Male (%)</b>	4.4	3.9	3.4	3.2	5.1
<b>Youth (15-24) (%)</b>	13.9	10.0	10.2	9.0	13.8
<b>Vacancies Statistics:</b>	9,591	11,942	12,175	14,342	6,319
<b>Stock (monthly average)</b>	21,585	20,829	18,683	17,370	16,162

*Source: Labour Force Survey (Yearly Averages) and Public Employment Services*