



**European Employment Observatory**

**EEO Review: Self-employment, 2010**

**Cyprus**

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July 2010

*This article is the sole responsibility of the author(s)*

## 1. Introduction

Attitudes towards self-employment in the Republic of Cyprus are conditioned by a variety of forces:

- (i) The absence of a national health care system means that the self-employed have the choice of self-insuring, purchasing medical insurance through some private or company-based scheme, or relying on the government-supported public hospital system if their income is low enough. By contrast, the public and semi-public sectors and some large employers offer additional coverage which is sought after, creating a preference for paid employment.
- (ii) Traditionally, Small to Medium Enterprises (SMEs), which are often family-based, have been the main form of business organisation in Cyprus, with the result that a number of second generation (and beyond) family members 'inherit' jobs and varying degrees of net worth which strengthen the propensity to become self-employed.
- (iii) Many public and semi-public sector employers work on schedules (usually 7.30 am to 2.30 pm) which allow the, frequently undeclared, creation of side businesses. These sometimes employ other family members who may have a special role to play from 7.30 am to 2.30 pm.
- (iv) Education is often a deciding factor. Entry into large organisations is based on qualifications and examinations, though nepotism (through the political parties) is claimed to be at work; the level of education is higher in the public and semi-public sectors than in the private sector where self-employment is more likely.
- (v) Attitudes to risk and personal drive are also relevant as initial employment and advancement in larger organisations may depend on formal qualifications and examination performance, rather than drive, initiative, and the willingness to work long hours; some individuals prefer the challenge of self-employment.
- (vi) Individuals whose income is less than EUR 19 500 do not have to submit an income tax form, with the result that self-employment and tax evasion are sometimes linked. A number of schemes which help individuals to set up businesses are run by government and by semi-governmental organisations.

### *The self-employment landscape*

Self-employment in Cyprus is more prevalent than in the EU27. The patterns of self-employment are analysed in detail below.

There has been a significant decline in the percentage of self-employment in Cyprus which complicates the assessment of the impact of the crisis on this sector. Detailed data from the Cyprus Household Expenditure and Income Surveys (CHEIS) of 1985, 1991, 1996 and 2003, in Table 1, top panel, show that the percentage of the self-employed declined from 19.3 % in the 1985 CHEIS to 18.5 % in 1991, 18.3 % in 1996 and 14.5 % in 2003. The percentage of the self-employed is higher at later stages in life, rising (in the 2003 CHEIS) from 4.1 % for those aged 15-24 to 42.7 % for those aged 65 and over. This pattern is the same in all surveys and reflects a number of factors, including lower liquidity constraints later in life, pensions from previous paid employment which provide a safety net and greater availability of capital, experience needed for success in the labour market, and other factors – see Christofides and

Pashardes (2002). Self-employment is also higher among men than women. In the second panel of Table 1 and for 2003, the percentage of self-employment is 8.3 % for women and 19.5 % for men. Again, this holds for all survey years and reflects, in conjunction with the factors mentioned above, the lower labour force participation of women. In the third panel of Table 1, the role of education is examined. The clear and consistent pattern is that higher levels of education are associated with lower rates of self-employment. For instance, in 2003, 33.3 % of illiterates but only 11 % of those with higher education were self-employed. This may suggest that self-employment is an alternative exercised by those unable to enter the more competitive public, semi-public and large-firm (mostly in the banking and financial area) private sector. It is noteworthy that, because of how and whether certain questions are answered, the rightmost columns in the breakdowns by age, gender and education are not identical. Data from more recent administrations of the CHEIS are not available.

<b>Table 1. Self-employment Statistics by Age, Gender and Education</b>							
<b>Number of self-employed and Paid Employees by AGE (based on what they state) in Percentages</b>							
	age15-24	age25-34	age35-44	age45-54	age55-64	age65	Total
1985							
Paid Employees	94.7	83.1	79.0	75.3	75.0	47.6	80.7
Self-employed	5.3	16.9	21.0	24.7	25.0	52.4	19.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991							
Paid Employees	94.2	83.6	78.2	81.0	76.6	49.5	81.5
Self-employed	5.8	16.4	21.8	19.0	23.4	50.5	18.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1996							
Paid Employees	93.1	84.7	82.8	79.9	72.9	50.0	81.7
Self-employed	6.9	15.3	17.2	20.1	27.1	50.0	18.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2003							
Paid Employees	95.9	90.7	87.0	81.6	75.0	57.3	85.5
Self-employed	4.1	9.3	13.0	18.4	25.0	42.7	14.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Number of Self-employed and Paid Employees by GENDER (based on what they state) in Percentages</b>							
	Female	Male	Total				
1985							
Paid Employees	88.2	77.1	80.8				
Self-employed	11.8	22.9	19.2				
Total	100.0	100.0	100.0				
1991							
Paid Employees	87.2	78.1	81.6				
Self-employed	12.8	21.9	18.4				
Total	100.0	100.0	100.0				
1996							
Paid Employees	88.6	77.4	81.7				
Self-employed	11.4	22.6	18.3				
Total	100.0	100.0	100.0				
2003							
Paid Employees	91.7	80.5	85.5				
Self-employed	8.3	19.5	14.5				
Total	100.0	100.0	100.0				
<b>Number of Self-employed and Paid Employees by EDUCATION (based on what they state) in Percentages*</b>							
	Illiterate	Primary	Secondary	Higher	Total		

1991							
Paid Employees	76.5	73.9	85.8	87.9	82.3		
Self-employed	23.5	26.1	14.2	12.1	17.7		
Total	100.0	100.0	100.0	100.0	100.0		
1996							
Paid Employees	67.6	72.2	85.9	88.1	81.7		
Self-employed	32.4	27.8	14.1	11.9	18.3		
Total	100.0	100.0	100.0	100.0	100.0		
2003							
Paid Employees	66.7	74.5	88.0	89.0	85.5		
Self-employed	33.3	25.5	12.0	11.0	14.5		
Total	100.0	100.0	100.0	100.0	100.0		

Source: The Cyprus Household Expenditure and Income Surveys and author's calculations for 1985, 1991, 1996 and 2003. Excludes unpaid family members and the non-employed.

\*Not available for 1985.

Longitudinal data from Eurostat's Labour Force Survey (LFS) in Table 2, confirm the significant decline in self-employment. This stood at 23.2 % of the total employed in 1999 and declined to 17.2 % by 2009. Consistent with data in the CHEIS, the percentage for men was higher than that for women (21.2 % for men relative to 12.2 % for women in 2009). Note that the numbers for self-employment in the LFS are higher than those in the CHEIS; the sample in the latter has been processed to exclude unpaid family members (who are likely to declare themselves as self-employed in the LFS) and individuals who are not working. The percentage of the self-employed from Eurostat sources (not included in the tables) in the EU27 was 15.2 %, lower than in Cyprus.

Turning to quarterly data from the LFS, which describe the evolution of self-employment during the recent period of the international crisis, Table 3 shows that it continued its downward path: It was 17 % in 2008Q1 but only 16 % by 2010Q1. The decline in self-employment is probably related to the internationalisation, professionalization, and increasing size of businesses in the private sector. It is also related to the increasingly strong presence and role of the public and semi-public sectors where self-employment is either exceptional or not possible. It is noted that self-employment is highest in the Construction and in the Wholesale, retail and motor vehicle repair NACE REV 2 sectors (10.9 % and 11.4 % respectively in 2008Q1).

While it is difficult to ascertain the impact of the economic crisis on self-employment in a study of this nature, the crisis will most likely have led to reduced hours of employment and lower incomes rather than greater unemployment. The self-employed do not qualify for unemployment benefits because of the moral hazard problem. On the other hand, self-employment entails a much larger degree of wage flexibility and hence lower unemployment than is the case with paid employment. Thus, self-employment helps labour markets work in a more classical manner, leading to wage adjustments and averting unemployment.

Among paid employees, the crisis has had effects which differ between the public and private sector. In the public sector, where employment is effectively guaranteed for life, the crisis has had no unemployment effects - naturally, the crisis has manifested itself in the form of fiscal problems and attempts are now being made to freeze hiring and reduce the growth of nominal wages. In the private sector, unemployment has increased substantially; there is no separate unemployment rate information by public/private sector but it is very likely that all the

increase in unemployment occurred in the private sector. The Harmonised Unemployment rate was 3.5 % (3 % for men and 4.2 % for women) at the onset of the international financial crisis in September 2008 and 6.8 % (6.9 % for men and 6.8 % for women) in April 2010. The duration of unemployment has also been increasing during the course of the crisis: long-term unemployment (above 12 months) increased for the first time in May 2010, reflecting the time lag in the crisis reaching Cyprus.

In summary, it is likely that the self-employed have avoided unemployment albeit at the expense of reduced hours of work and earnings. Those on paid work in the public sector have been largely unaffected while paid workers in the private sector are facing a higher probability of unemployment; for the first time in recent periods, this probability of unemployment is higher for men than women.

## **2. Assessment of national labour market policies and recovery measures**

During colonial times, employment opportunities in the civil service were limited and the size of businesses was small in Cyprus. There existed a presumption for self-employment or participation in a family business. During the past fifty years, this has naturally been changing as the provision of government services grew, semi-public organisations which provide utilities (electricity, telephone, water, sewage, etc) have become important employers, the banking and financial sectors have grown considerably, and businesses have become more international and professional.

In this new context, some programmes to stimulate self-employment have appeared, such as the following:

- (i) In 2009, the Minister of Industry, Trade and Commerce announced incentive funding of up to EUR 40 000 each for small businesses (employing 1 to 10 people and annual turnover of up to EUR 2 million) operating prior to January 1, 2002, to relocate away from unlicensed and unsuitable premises to more professionally laid out areas. The scheme is co-funded by the EU Structural Funds.
- (ii) A scheme has been operating, since October 2008, for the enhancement of the competitiveness of enterprises employing 1-4 persons<sup>1</sup>.
- (iii) A scheme for the encouragement and re-enforcement of women's entrepreneurship operates during the programming period 2007-2013 and is co-financed by the European Social Fund (ESF)<sup>2</sup>.
- (iv) A scheme for the encouragement and re-enforcement of youth entrepreneurship has been operating annually since 2004 and aims to facilitate access to finance, foster a more entrepreneurial culture, and encourage young people to create their own business. It is co-financed by the ESF<sup>3</sup>.
- (v) The e-volve project is a training scheme for companies and organisations designed to help them improve the level of their information technology understanding, access to

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<sup>1</sup> This is described in detail in the National Reform Programme (NRP) 2009, p. 101

<sup>2</sup> see NRP, p. 47 and p. 106

<sup>3</sup> see NRP, p. 47 and p. 110

- e-Government and to e-Business. The scheme has been operating since September 2009<sup>4</sup>.
- (vi) Long-standing attempts to improve the Secondary Vocational Education and Training System have been taking place. This will help individuals who do not have an aptitude/interest in general education to acquire the skills that will help them become self-employed, as well as paid employees.
  - (vii) A scheme for the promotion of training and employability of young secondary school graduates has also been running. It has been implemented by the Human Resources Development Authority (HRDA) with co-funding by the ESF. The majority of those participating (68.4 %) are women. The HRDA has been running a number of other programmes aimed at ameliorating the adverse employment effects of the crisis but these are mostly directed at paid workers.
  - (viii) The One Stop Shop began to operate in April 2007 and aims to complete the approval of a business name and the registration of a company within 2-3 working days. In addition, help can be provided to a new employer to recruit unemployed workers<sup>5</sup>.
  - (ix) Consistent with the aims of the European Small Business Act, the European Investment Bank (EIB) announced in July 2009, a partnership with the three largest commercial banks in Cyprus (the Bank of Cyprus, Marfin-Laiki Bank, and Hellenic Bank) aimed at supporting the SME sector in Cyprus and Greece.

The government of Cyprus has, in collaboration with the EIB, also implemented the Joint European Resources for Micro to Medium Enterprises (JEREMIE). This initiative makes it possible to transfer Structural Funds and national resources to Holding Funds which can then invest, in new and flexible ways, in SMEs. Programmes have also been in effect to help tertiary education graduates and re-domiciled Cypriots to become self-employed but the current status of these initiatives is unclear.

While the HRDA has been running internal assessments of its own programmes, there are no known evaluations of the efficacy of self-employment and SME support programmes. Some of these programmes are directed at the young and at women and also aim to help micro businesses survive; here again, their effects have not been assessed. Immigration is a relatively recent phenomenon in Cyprus, and most immigrants are relatively young and tend to be employed. The phenomenon, prevalent in some countries, of poor assimilation and labour market entry difficulties among second-generation immigrants has not yet emerged in Cyprus.

### **3. Types of self-employment jobs**

As Table 3 suggests, self-employment is prevalent in all sectors. Many of these individuals are providing high value added services, working in the private sector as doctors, lawyers, architects, engineers, accountants, and other highly-paid professionals. These are jobs with good or excellent working conditions, though they may sometimes involve long hours and efforts to respond to unusual customer demands. In other cases but also in the private sector, individuals may be self-employed as carpenters, electricians, plumbers, metal workers, and

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<sup>4</sup> see NRP, p. 115

<sup>5</sup> see NRP, p. 42

other vocations where working conditions are sometimes less than ideal and rewards more uncertain. It is not always possible to judge what incomes in any of these areas are, given that the tax avoidance among the self-employed is probably high. There has been no careful study of these issues, or of how the crisis may have impacted on these areas.

**Table 2. Self-employment as a Percentage of Total Employment by Gender (LFS adjusted series)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total (%)	23.2	23.2	22.8	22.2	22.7	22.5	22.1	20.6	19.7	17.3	17.2
Males (%)		28.5	28.4	27.6	28.9	28.2	27.3	25.6	25.3	22.3	21.2
Females (%)		15.8	15.4	15.3	15.1	15.2	15.3	14.2	12.8	11.2	12.2

Source: Eurostat, LFS Main Indicators, Employment, LFS Adjusted Series, Employment Growth and Activity Branches, annual averages, updated April 23, 2010.

**Table 3. Self-employed by Economic Activity (1000s), Ages 15-64**

NACE REV 2	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1
Agriculture, forestry, fishing	6.6	6.3	6.7	6.7	6.1	5.5	5.1	5.0	4.5
Mining, quarrying	:	:	:	:	:	:	:	:	:
Manufacturing	5.6	5.7	5.8	5.0	4.5	5.4	5.6	5.6	5.5
Electricity, gas, air conditioning supply	:	:	:	:	:	:	:	:	:
Water, sewage, waste management	:	:	:	:	:	:	:	:	:
Construction	10.9	11.4	11.8	11.5	11.2	10.9	11.2	10.7	10.0
Wholesale, retail: motor vehicle repair	11.4	11.8	11.4	11.8	12.0	11.8	12.3	12.4	11.5
Transportation, storage	3.7	3.1	3.0	2.6	3.0	3.1	2.8	2.8	2.6
Accommodation, food services	3.8	3.6	4.2	4.4	3.9	3.9	3.4	3.8	3.3
Information and communication**	0.8	1.0	0.8	0.7	0.5	0.5	:	:	:
Financial and insurance**	1.1	0.9	1.0	1.0	1.3	1.3	1.2	1.4	1.1
Real estate**	0.8	0.8	0.9	0.9	0.8	1.1	0.8	0.6	0.7
Professional, scientific, technical	3.5	3.3	3.5	3.2	3.2	3.2	3.4	3.9	3.8
Administrative and support services	3.6	3.9	3.4	2.5	2.7	3.4	3.1	3.6	3.2
No reply	:	:	:	:	:	:	:	:	:
Public administration, defense	:	:	:	:	:	:	:	:	:
Education	2.0	1.8	2.1	2.6	2.8	2.3	2.2	2.0	2.3
Human health, social work	3.2	3.1	3.1	2.9	2.7	3.2	3.0	3.3	3.4
Arts, entertainment, recreation	1.2	1.6	1.8	1.4	1.4	1.7	1.9	1.8	2.0
Other service activity	4.1	4.5	4.5	4.4	4.5	4.8	4.4	4.2	4.0
Activities of households	:	:	:	:	:	:	:	:	:
TOTAL	62.5	63.0	64.1	61.6	61.1	62.3	61.0	61.1	58.7
TOTAL employment*	368.0	372.0	370.7	373.8	365.2	371.5	369.9	370.5	367.2
Self-employed ( % of total employment)***	17.0	16.9	17.3	16.5	16.7	16.8	16.5	16.5	16.0

Source: Eurostat, LFS Series, Detailed Quarterly Results, Self-employment by sex, age groups and economic activity (NACE rev.2) (1000), updated June 6, 2010.

\*Source: Eurostat, Detailed Quarterly Results, Employment by sex, age groups and economic activity (NACE rev.2) (1000), updated June 6, 2010.

\*\*Unreliable data.

\*\*\*Percentage of numbers in the previous two rows. Because the employment series is from a different source from data in Table 2 the numbers in Table 2 and Table 3 will not be fully comparable.

Self-employed individuals contribute to the social security fund and are entitled to the pattern of benefits available, except for unemployment insurance. Clearly, the latter is not an area where improvements can be easily achieved, given the moral hazard problem.

There is no reliable information on transitions in or out of self-employment or on income trends. In its country case study for Cyprus, the Commission (2008) notes the slow birth rate of new businesses, the limited access to finance, the low investment in R&D and Innovation, the low broadband penetration rate and low use of Information and Communication Technologies (ICT), and the limited access to life-long learning – all relative to the EU27 benchmarks used in the Lisbon Assessment Framework (LAF).

#### **4. Conclusions**

Self-employment is more prevalent in Cyprus than in the EU27, at least partly as a result of earlier periods, when the scale of enterprises was small. As modern business features become more prevalent, enterprises may become bigger, reducing the scope for self-employment. On the other hand, the prospects for self-employment should improve with greater access to and use of ICT. Paid employees in the public sector have, so far, not been affected by the crisis while those in the private sector have experienced much higher unemployment. The self-employed may have weathered the crisis more flexibly by hanging on to jobs, while experiencing lower incomes.

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