



# **ESPN Thematic Report on integrated support for the long-term unemployed**

## **Cyprus**

**2015**

Panos Pashardes and Christos Koutsampelas  
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Contact: Valdis ZAGORSKIS

E-mail: [Valdis.ZAGORSKIS@ec.europa.eu](mailto:Valdis.ZAGORSKIS@ec.europa.eu)

European Commission  
B-1049 Brussels

**EUROPEAN SOCIAL POLICY NETWORK (ESPN)**

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## Summary

2008-2015 were tumultuous years for the economy of Cyprus. The economic recession generated increased political and social tension, alongside a substantial slowdown in economic activity. Unemployment (especially among the youth and the long-term unemployed) increased to unprecedented levels. More precisely, the unemployment rate more than quadrupled within a six-year period. Long-term unemployment, in particular, went from being traditionally a negligible issue of social concern (only 0.5% in 2008), to its repercussions being a central topic of discussion in the public dialogue (6.1% in 2013).

Initially, the dramatic changes mentioned above caught the social protection system off guard, since there were not adequate institutional arrangements and policies in place to face the consequences of a problem whose extent was impossible to prognosticate. Nevertheless, the state mechanisms were gradually set in motion mostly in the form of a number of employment programmes aimed at increasing the employability of unemployed persons.

A more important development in social policy affairs in Cyprus was the introduction of the Guaranteed Minimum Income scheme in late 2014. This scheme substituted the Public Assistance scheme. Providing income support to the long-term unemployed, as well as the working poor, was one of the driving forces of the reform. Indeed, despite being in acute risk of income deprivation, these two groups were usually not eligible for income support through the old Public Assistance scheme. Given that the maximum duration of unemployment benefit is 156 days for each spell of unemployment, and that the stock of long-term unemployed is steadily increasing, the Guaranteed Minimum Income benefit is likely to play an important role in providing income support to this highly susceptible to poverty group. Moreover, effort is made to integrate the Guaranteed Minimum Income beneficiaries into the labour market. In parallel, a number of other occasional short-term programmes target the unemployed, including the long-term ones. These programmes – which are typically of short-term duration and co-financed by the European Structural Funds – became more frequent during 2014-15.

The overall organisation of welfare state arrangements in Cyprus is showing signs of improvement. The design and implementation of several employment related schemes, as the ones mentioned above, helped to foster coordination among different public organisations and contributed positively to the diffusion of good practices (such as the ex-post evaluation of policies). Furthermore, the need for better targeting encourages a more thorough exchange of information between public entities. Overall, one can say that there has been substantial progress as regards social policies orientated towards supporting the long-term unemployed. Yet, there are also gaps that need to be bridged. This objective, however, appears to be hindered by the poor state of public finances, as well as by the fact that so far the government has not placed long-term unemployment very high in the social agenda; as it does, for example, in the case of youth unemployment.

In particular:

- despite the fact that the relevant public entities responsible for helping the long-term unemployed appear to cooperate more effectively than in the past, we have not identified a one-stop shop approach to provide a single, coordinated support to the long-term unemployed in the context of the existing social/employment policy arrangements; and
- there is no adequately personalised approach to directing/facilitating/integrating the long-term unemployed back to the labour market, a situation most likely generated by lack of adequate resources available to the pertinent government authorities; despite this the importance of adopting individualised integration approaches seems to be well understood by policymakers. Indeed, in the last years, demand for social services intensified, while the supply side uneasily strives to respond; thus, sometimes, temporary gaps might be created.

## 1 Benefits and services supporting the long-term unemployed

Since 2008 unemployment in Cyprus has been following an upward trend which became steeper in 2013 due to escalation of the economic crisis caused by the collapse of the banking sector. As in many other recession-stricken countries, the salient characteristics of this trajectory are the increase in long-term and youth unemployment. However, unlike other Mediterranean economies, until recently Cyprus was thought to be an 'economic miracle' for its economic dynamism, high growth; and, especially, for its low levels of unemployment.

Indeed, the employment performance of the Cypriot economy has historically been outstanding. The labour market functioned at almost full employment levels until 2009 (the unemployment rate was 3.7 per cent in 2008). The participation in the labour market was very high, particularly among males (peaked at 85.2% in 2008<sup>1</sup>); while the position of women in the labour market also improved considerably, a fact reflected in the narrowing of the gender wage gap<sup>2</sup>. Long-term unemployment was an 'unknown' concept in the island's labour market history. It stood at 0.5%-0.6% in 2008-2009, gradually increasing to 1.3%, 1.6%, 3.6%, 6.1% in 2010, 2011, 2012 and 2013, respectively<sup>3</sup>.

Against this backdrop, it is easy to understand why the political system and, in general, the institutions were initially unprepared to deal with the consequences of the economic crisis; and, in particular, with the high and rising unemployment. That said, however, after an initial policy lag the state responded to the challenge by upgrading the overall employment policy framework. The unemployed and, in particular, the long-term unemployed (LTUs) are nowadays offered better services in terms of both income and activation support.

The basic instrument for providing income support to the unemployed in Cyprus is the unemployment benefit<sup>4</sup>. The unemployment benefit scheme is administrated by the Ministry of Labour, Welfare and Social Insurance (MLWSI). The beneficiaries of the scheme are persons who are legally residing in Cyprus, have lost their job and satisfy the relevant eligibility criteria. The benefit is calculated on a weekly basis, is earnings-related and increases with the number of dependants. The period during which unemployment benefit is payable cannot exceed 156 days for each period of unemployment. After losing eligibility of the unemployment benefit, the unemployed can apply for the Guaranteed Minimum Income (GMI) benefit<sup>5</sup>. Those not eligible for the GMI might participate in other schemes (which mostly provide services). Finally, there is a proportion of LTUs who choose not to participate in any type of program.

Diagram 1 helps visualise the current framework, while the following sections discuss the recent changes, their policy outcomes as well as the strengths and weaknesses of the system.

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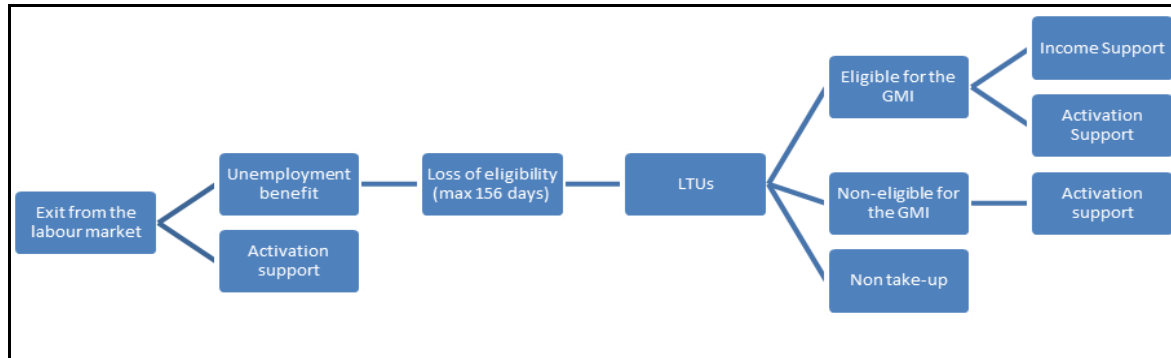
<sup>1</sup> Eurostat Online Database.

<sup>2</sup> Christofides L. N. and K. Vrachimis, (2007).

<sup>3</sup> Eurostat Online Database.

<sup>4</sup> In cases of a dismissal the employee may receive a redundancy payment. He or she should submit a claim to District Social Insurance Office along with a letter from the employer explaining the reasons for dismissal within three months from the day of dismissal.

<sup>5</sup> In principle, recipients of unemployment benefit can apply for the GMI benefit. However the unemployment benefit is not excluded from the family income and therefore the applicant is likely to fail satisfying the eligibility criteria.

**Diagram 1: LTUs and social/employment policies in Cyprus**

### 1.1 LTUs eligible for GMI benefit

A major reform that has affected the LTUs was the recent introduction of the Guaranteed Minimum Income (GMI) scheme. In particular, during the period 2009-2014, the number of recipients and total spending on unemployment benefits was constantly increasing due to the deteriorating conditions in the labour market. Meanwhile, the welfare system was characterised by a peculiar gap: the LTUs who lost eligibility for the unemployment benefit<sup>6</sup> faced the risk of income deprivation as they were not eligible for other forms of income support. In particular, they were (in most cases) excluded from the Public Assistance, the only welfare programme functioning as safety net of last resort. This welfare gap was one of the main driving forces of the GMI reform, which took place in 2014; namely, to expand coverage to the long-term unemployed (and the working poor).

The income support provided by the GMI scheme is defined on the basis of a minimum consumption basket (estimated using reference budget methods). Aside from income support, in the context of the GMI the LTUs may receive a range of services including provision of elderly and child care, vocational training and psychological support on an individualised basis after a case-by-case evaluation. Eligible recipients should satisfy job-seeking/acceptance conditionalities and income/asset criteria, as well as:

- a) register in the Public Employment Services (PES),
- b) not refuse to participate in vocational/educational seminars,
- c) not refuse participation in community service approved by the pertinent Minister,
- d) not refuse personal tutoring from vocational counsellors of the PES,
- e) not refuse to participate in seminars of personal/social development, and
- f) not refuse in-house visits from pertinent officers aimed at helping them develop individualised plans of activation/integration.

The scheme is not free of weaknesses. Its administrative burden seems to be formidable, largely due to the arduous effort undertaken in order to improve targeting and eliminate take up by the undeserving that marred the previous Public Assistance scheme. This weakness of the scheme is exacerbated by the currently limited capacity of the public sector to respond to such challenges by channelling more human resources to understaffed departments<sup>7</sup>. A further weakness of the GMI scheme are the practical difficulties of implementing effective measures that motivate/facilitate employment participation among beneficiaries.

<sup>6</sup> The period during which unemployment benefit is payable cannot exceed 156 days for each period of unemployment.

<sup>7</sup> According to various reports in the media, several administrative departments appear to be understaffed; see for example <http://cyprus-mail.com/2014/12/09/touch-and-go-for-gmi-by-christmas/>.



## 1.2 LTUs not eligible and cases of non-take up

The eligibility for the GMI benefit is confined to persons satisfying a set of relatively strict income and asset criteria. Thus, a number of the LTUs may not be eligible. Also some may not apply for the benefit due to the social stigma attached to minimum income benefits demanding fulfilment criteria that expose impoverishment. No official information is available about these issues. However, after informal talks with government officials, it appears that currently only about 2,000-3,000 the LTUs are entitled to the GMI benefit (with this number possibly increasing in the near future). Yet, the most recent data show that the total number of registered LTUs was 20,244 in February 2015. Possibly, applications for eligibility by a large number of the LTUs are still in the process of being evaluated. It is difficult to arrive at a concrete conclusion, but it appears that the number of LTUs who either are not eligible for the GMI benefit or have not submitted an application is likely to be large.

The LTUs not eligible for the GMI benefit can still take advantage of several other schemes that are usually managed by the Human Resource Development Authority (HRDA)<sup>8</sup> and/or the Ministry of Labour, Welfare and Social Insurance (MLWSI). Although these schemes mostly take the form of vocational/educational training of unemployed persons (in some cases priority or exclusivity is given to the LTUs<sup>9</sup>) they may also provide financial incentives to participants<sup>10</sup>. These schemes are usually short-term and co-funded by the European Social Fund (ESF).

## 1.3 Non-take up

As of the time of writing this report we are not able to arrive at an estimation of the percentage of LTUs who do not receive income or any other support. Unfortunately, there is no official information on this subject and our efforts to obtain unofficial information from government officers have not been successful.

## 2 Coordination of services for a one-stop shop approach

The main authorities/organisations which are responsible for the provision of support to the unemployed are the relevant departments of the MLWSI, the HRDA and the Public Employment Services (PES). There is also a limited role for NGOs and municipalities. These organisations fulfil different roles and the overlap is limited.

- The MLWSI is responsible for the overall coordination and management of the social protection system, including the administration of the GMI scheme.
- The role of the PES is to provide services to job seekers and employers. Here it should be noted that GMI recipients are obliged to register as jobseekers with the PES.
- The HRDA organises training and vocational programmes which are targeted at various groups, including the long-term unemployed.
- Municipalities and NGOs may participate in the organisation of various initiatives.

The extent of coordination between the different entities has been improved over the last few years and, overall, can be assessed as satisfactory. In that respect, it should

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<sup>8</sup> The HRDA is a semi-governmental organisation operating under the supervision of the MLWSI since 1979 and governed by a tripartite board consisting of government, employer and trade union representatives. The HRDA aims to create the necessary prerequisites for the planned and systematic training and development of Cyprus human resources at all levels. It is financed by a levy collected from employers.

<sup>9</sup> One recent programme (2014 National Reform Programme of Cyprus) facilitates the training and subsequent employment in the Hotel Industry of 1,500 long-term unemployed without experience in the specific sector.

<sup>10</sup> For example, the programme for the 'Improvement of the employability of unemployed' and the programme for the 'Improvement of the employability of economically inactive women' (both managed by the HRDA) offer a small grant to those successfully completing the training seminars.

be noted that effective coordination of the various organisations is facilitated by the low level of spatial inequalities (e.g. no particularly large differences in unemployment rates between areas), which enables a relatively smooth allocation of resources across regions<sup>11</sup>.

In recent years the authorities of Cyprus have attempted to enhance the coordination between employment services, social assistance and other public authorities with the aim of building a more integrated and efficient social protection system. In this spirit, the MLWSI completed an IT system which is connected with other services (cadastre, tax authorities) for the purpose of reducing the cases of inefficient targeting which marred several income benefits in the past<sup>12</sup>. This initiative was undertaken in the framework of the introduction of the new GMI scheme. The flow of information/support is provided by the existing arrangements. The long-term unemployed who face a risk of serious income deprivation can apply for the GMI benefit and, if eligible, can expect to receive coordinated support from the authorities which manage the scheme.

Unemployed persons, including the LTUs, can use the District or Local Labour Offices as a point of contact to be informed of the various programmes, as well as to use the online system<sup>13</sup> of the PES to access information about job vacancies published in the corresponding website (which comply with certain chosen criteria) and place their CV in the website's CV bank. Furthermore, through this system, they can visit the European Employment Services (EURES) network webpage and get information about employment opportunities in other EU countries.

Finally, the HRDA and the Department of Labour organise several schemes targeting, among other groups, the LTUs. Several of these programmes may require the involvement of the PES and other agencies. The Department of Labour of the MLWSI cooperates with the HRDA in identifying registered LTUs to offer them participation in relevant programmes.

Despite identifiable progress in the field of coordination, there is still room for improvements. A potentially important gap of the social protection system is the lack of a one-stop-shop approach to provide a single, coordinated support in the context of social/health/employment policy in the spirit of the successful Citizen Service Centres<sup>14</sup>. Furthermore, certain standards of quality provision are set, but there is a lack of clear and uniform goal settings. There is also uncertainty about the actual capacity of government services to deliver what is demanded of them mainly due to understaffing.

### 3 Individualised approaches

The existing policy framework can be characterised as lacking a comprehensive and effective plan for the provision of individualised support to the LTUs. In the GMI scheme, there is no clear rule regarding the provision of individualised activation plans for the LTUs. According to the principles of the scheme, efforts should be differentiated to allow for the varying needs of the beneficiaries. Thus, in principle, the implementation of these plans could follow a gradual or a preventative approach, depending on the circumstances of the individual. Yet, in practice, it is doubtful that the authorities have the capacity to effectively implement these intentions given the limitations arising from the lack of adequate human and financial resources.

There is an implicit integration contract between the LTUs eligible for the GMI benefit and the pertinent authorities. 'Implicit' because the responsibilities of the beneficiary

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<sup>11</sup> Additionally, we note that welfare benefits are administrated, regulated and managed at the central level.

<sup>12</sup> This IT system is not in the public domain and we could not obtain information on who has access to it.

<sup>13</sup> <http://www.pescps.dl.mlsi.gov.cy/CPSWeb/f001w.jsp>

<sup>14</sup> Citizen Service Centres have been in effect since 2005 and have delivered very good results in reducing citizens' bureaucratic burdens.

are inscribed in the relevant legislation. Simply stated, there is no individualised contract but rather an obligation for the beneficiaries to comply with various requirements of the legislation (see points (a)-(f) in section 1.1). The agency implementing it is the MLWSI.

In this context, activation support includes, in principle, participation in training and vocational programmes, counselling and psychological support. However, several of these initiatives are at an initial stage of implementation; and, therefore, we do not have evidence of their effectiveness. It could be said that the relative lack of an individualised approach may result in suboptimal activation paths. For example, there is a lack of activation programmes especially designed for older workers, despite the fact that this group may face formidable obstacles to re-entering the labour market. Furthermore, it appears that the goal of increasing the targeting efficiency of the GMI scheme came at the cost of reduced administrative flexibility. For instance, according to a media report<sup>15</sup>, an unemployed mother of five children was considered to be non-eligible because she owned immovable property worth over €100,000. According to Minister of the MLWSI, Mrs. Emilianidou, the relevant authorities should be equipped with more discretion to handle special cases of applicants<sup>16</sup>.

Programmes organised by the HRDA, or other authorities, are usually of short duration, co-financed by the ESF and targeting wide groups of the unemployed. Even though sometimes priority of access may be given to the LTUs, the scope of these programmes is universal and not designed to provide individualised support. For example, the recently implemented programmes of 'Improvement of the Employability of Unemployed Persons' and 'Improvement of the Employability of Economically Inactive Women' offer subsidised seminars on computer training, English language and secretarial skills. However, there are exceptions, with programs specifically designed for the LTUs, such as the 'Emergency Scheme Supporting Employment and In-company Individualised Training of the Long-term Unemployed'.

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<sup>15</sup> <http://cyprus-mail.com/2015/03/30/minister-seeks-power-to-deal-with-low-income-special-cases/>

<sup>16</sup> Indeed, in 2015 the 3(I)/2015 Law was introduced giving the Minister of the MLWSI the discrete power to grant eligibility to special cases of applicants who may fail to satisfy the full eligibility criteria as defined by the 109(I)2014 GMI Law.

#### 4 Overview table

		Please put an X in the column that best represents the situation in your country			Please summarise in a few words and in order of priority the 3 key gaps that need to be addressed to improve effectiveness (if only one gap just complete one column)		
		Very good	Medium	Weak	Gap 1	Gap 2	Gap 3
<b>Effectiveness of benefits &amp; services supporting the long-term unemployed</b>	<b>Income benefits</b>	x					
	<b>Social services</b>		x		Understaffing of relevant authorities		
	<b>Activation services</b>		x		Understaffing of relevant authorities		
<b>Effectiveness of coordination between employment, social assistance and social services</b>			x		Lack of a single one-stop-shop approach		
<b>Extent of individualised support</b>				x	Lack of a comprehensive plan for providing individualised support to LTUs.	Understaffing of relevant authorities	

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[Ministry of Labour, Welfare and Social Insurance](#)

[Public Employment Service](#)

[Department of Labour \(MLWSI\)](#)

[Cyprus Legislation](#)

