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Country fiches on skills governance in the Member States

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1 Imbalances in the labour market¹

Prior to the current crisis in Cyprus and because of the historical strength of the economy, many skilled individuals were employed in banking, finance, business and legal services, all areas whose size had grown substantially as a result of strong capital inflows. The public sector (including education and parts of health care) and semi-public organisations (telecommunications, electricity generation and distribution, transportation) also employed many skilled individuals as did parts of the private sector. Indeed, the share of the population aged 30-34 with tertiary education reached 51.1 % in 2014.² Construction, tourism, agriculture, and domestic activities employed the bulk of the low-skill workers, until the crisis many of them from the EU or third countries.

Because banking, the public service and utilities were 'monopolies' or highly concentrated, they commanded market and/or political power which allowed them to pay relatively high wages, to offer other attractive employment and pension features and to provide job security. As a result, most young people finishing tertiary studies sought employment in these sectors, often in starting positions which did not fully utilise their qualifications. In Cyprus, most commercial enterprises are small, often in a self-employed or in a family business mode. Degree-holding relatives may have opted to go into a family business and into jobs which did not fully utilise their qualifications.

It is not surprising, therefore, that a certain amount of skills mismatch is involved. The *EU Skills Panorama 2014*³ on Cyprus notes (Figure 1 and p. 3) that '... over-skilling is a major issue ...'. About 45 % of respondents to the *European Working Conditions Survey 2010* claimed over-skilling, 45 % described their skills as 'matched', and approximately 10 % suggested that they were under-skilled. While over-skilling may signal some unnecessary investment in the short run, it may entail long-term value in that the capacity of graduates to learn and adapt through the life cycle is higher than that of individuals with less education. This option value is, now, more obvious.

While the international crisis of 2008 reached Cyprus rather late, it did so with great intensity, building on pre-existing structural and banking weaknesses, the Mari explosion (July 11, 2011) which destroyed much of the country's electricity-generating capacity, inappropriate fiscal policies, and governmental inaction. The government was forced to request external official funding on June 25, 2012 but, in part because of the intervening Presidential election, the 'bail-in' and the Memorandum of Understanding (MoU) did not occur until March 2013. Real GDP growth fell from 5.1 % in 2007 to negative numbers in 2009, and 2012 to 2014 – it is expected to be somewhat higher than zero in 2015. Between 2007 and 2014, the LFS unemployment rate rose from 3.9 % to 16.1 % and the 20-64 employment rate fell from 76.8 % to 67.9 %.

This severe recession reduced the demand for labour for all levels of skill. The 'bail-in' resulted in what is likely to be a long-term, if not a permanent, decrease in the size of the banking sector, reducing the demand for labour in banking and finance; many bank employees have now retired. The construction bubble of 2007-8 has burst, leaving a large number of properties unsold, increasing the number of non-performing loans (NPLs) at banks, and reducing the demand for architects, engineers, skilled and unskilled construction and ancillary workers. The MoU-related austerity measures in the

¹ I am grateful to Y. Mourouzides and Y. Korelli (both at HRDA), E. Markadjis and S. Christofides (both at MOEC), D. Costa (CYSTAT), and M. Antoniou (OEB) for helpful comments, data, or material sent to me. They are not responsible for any of the views expressed here.

² See the *Cyprus National Reform Programme 2015*, p.10.

³ See the *EU Skills Panorama's Analytical Highlights* at (<http://euskillspanorama.cedefop.europa.eu/AnalyticalHighlights/>)

public sector meant that hiring has come to a halt and, indeed, many public servants have exercised their retirement option. MoU demands for privatising semi-public organisations have also created employment uncertainty. These developments amount to structural shifts which are not as yet complete or fully understood. A number of foreign unskilled workers have returned home, many young Cypriots studying abroad have postponed their return, and a number of previously employed Cypriots have emigrated.

It seems likely that when the economy begins to recover, the construction sector will not play its previous role and it will not employ the number of unskilled workers that it did prior to the crisis. Tourism, which employs a large number of low-skill workers, is in secular stagnation both in terms of arrivals and revenues. The banking sector, whose deposits had reached 9 times the size of GDP at its zenith, will remain considerably smaller, with deposits in the region of 3 to 4 times the size of GDP. The public and semi-public sectors will remain smaller and any privatised organisations are likely to be leaner.

These structural shifts suggest that difficulties lie ahead in re-employing the currently unemployed. Recovery from what has been called the Great Recession in the UK and the US⁴ has involved a good deal of long-term unemployment. Cyprus is no different. Tables 1 and 2 show that registered unemployment has peaked, *declining* by 9.4 % between May 2014 and May 2015. A decline occurred for all educational categories (Table 1) and for 7 of the 8 sectors shown in Table 2. The exception was registered unemployment in tourism (NACE 2=I, in Table 2), which increased over the last year. A significant new trend is the emergence of substantial long-term unemployment. Table 1 (12 months or more) shows that it *increased* by 9.1 % over this period, despite the overall reduction in unemployment. This development calls for individualised counselling and possibly re-training to help the individuals affected.

The structural shifts noted above and the emerging problem of long-term unemployment highlight the significance of the issues surveyed in this article. As the economy recovers, what are the prospects for individuals of various skills and in which sectors? It is in this context of a highly volatile and uncertain world that existing methods of generating skills intelligence and assessing its usefulness are now examined.

Table 1. Registered unemployed by educational level and duration (May)

	2013	2014	2015	Yr to yr change ^a
<i>a) By Educational Level</i>				
No Schooling	131	158	133	-15.8
Primary	9,822	9,097	8,259	-9.2
Secondary General	17,294	17,181	15,497	-9.8
Secondary Technical	4,987	4,865	4,288	-11.9
Higher	12,190	12,467	11,495	-7.8

⁴ See, respectively, the articles by B. Petrongolo (27 April 2014) and by L. F. Katz, K. Kroft, F. Lange, M. Notowidigdo (3 December 2014) in VOX, the CEPR's Policy Portal at <http://www.voxeu.org>.

<i>b) By Duration</i>				
Less than 15 days	4,647	2,491	2,559	2.7
15 days – 3 months	14,207	10,494	9,374	-10.7
3 months – 6 months	10,140	8,508	6,863	-19.3
6 – 12 months	9,186	10,903	8,464	-22.4
12 months and over	6,244	11,372	12,412	9.1
Total	44,424	43,768	39,672	-9.4

Source: Cystat, Registered Unemployed, not seasonally adjusted, May.

^aColumn 4: Percentage change May, 2014 – May, 2015.

Table 2. Registered unemployed by economic activity (May)

NACE 2 category	2013	2014	2015	Yr to yr change^a
C: Manufacturing	4,868	4,480	3,724	-16.9
F: Construction	7,615	6,691	5,467	-18.3
G: Wholesale/Ret. Trade, Repair Motor Veh/cycles	9,487	8,169	7,447	-8.8
I: Accom., Food service activities	4,060	4,246	4,650	9.5
K: Financial and Ins. activities	886	2,118	1,284	-39.4
O Pub. Adm. Defence, Comp. Soc. Sec.	4,164	4,721	4,395	-6.9
Newcomers	4,594	4,804	4,267	-11.2
All other	8,750	8,539	8,438	-11.3
Total	44,424	43,768	39,672	-9.4

Source: Cystat, Registered Unemployed, not seasonally adjusted, May.

^aColumn 4: Percentage change May, 2014 – May, 2015

2 Production of labour market and skills intelligence

2.1 Forecasting capabilities

The Human Resources Development Authority (HRDA) is responsible for forecasting labour market needs, a task complementary to its other roles as (i) the National Coordinator of the Cyprus ReferNet Consortium, a European network established by Cedefop to improve the collection and dissemination of information about vocational education and training, and as (ii) the provider of many of the initial and further training

programmes offered in Cyprus.⁵ Other ministries and organisations also engage in some forecasting but there is nothing analogous to the HRDA's labour market forecasting efforts. The main HRDA forecasting instruments are the *annual* and the *ten-year* forecasts.

The *annual* forecasts are based on market research and are used to identify skill needs and the number of persons required for specific occupations by district. Questionnaires sent to employers, trade unions, Public Employment Services (PES) through the District Labour Offices, the Cyprus Tourism Organisation, and others provide information on future needs.

The annual forecast has not been carried out over the last few years, given the crisis. However, plans are currently unfolding to conduct a new version of the annual forecast which, in addition to collecting intelligence on occupational needs, will seek information on skills that will be considered desirable. For instance, it may be useful for a construction worker to possess some skills involving the installation/use of modern insulating materials.

Ten-year forecasts are made periodically, most recently for 2014-2024⁶ and were issued in February 2015. The methodology used involves forecasting linked variables in several stages, using historical data and in different ways for alternative purposes from the period 1995-2013. The basic information used comes from the IMF and the EU (real GDP, labour productivity) and the Cyprus Statistical Service (National Accounts, the 2011 Census and the 2012, 2013, and 2014Q1 Labour Force Surveys (LFS)). This information is used, following the estimation of annual time series models and necessary manipulations, to predict the out-of-sample *new* labour market needs, by sector and occupation, at various levels of disaggregation.

The steps used in the long term forecasts are as follows. First, total value-added (real GDP in 2005 terms) is obtained for the period 1995-2013. Using time series methods, this information is projected forward to 2024. Then annual labour productivity data (that is total value added divided by the National Accounts full-time equivalent employment or FTEE) for the period 1995-2013 is used to forecast to 2024. The ratio of these two forecasts (i.e. GDP/(GDP/FTEE) provides the full-time equivalent employment forecasts to 2024. Full-time equivalent employment is converted to LFS employment using the ratio of LFS employment to FTE employment, which is itself forecast using time series methods. Sectoral and occupational gross employment needs are obtained by forecasting the appropriate shares. HRDA also forecasts 'withdrawals' for reasons such as disability, retirement, etc. The addition of the predicted change in employment (forecast minus current employment) and withdrawals produces the additional total, sectoral, and occupational employment needs. The exercise is repeated every 2 to 3 years, resulting in overlapping Ten-Year forecasts.

The sectoral disaggregation provided by HRDA involves initially three broad areas (primary, secondary and tertiary), and then 17 main sectors (ranging from commerce and repairs, construction, and property management, to public administration and defence, and education) and 32 second-level sectors. From all these, a total of 43 finer sectors are covered.

The occupational categories involve three broad areas (lower, middle and higher occupations) and finer information on 10 main categories (ranging from unskilled

⁵ The HRDA is supervised by a tripartite board and is funded through payroll contributions by employers.

⁶ For a summary (in English) and a detailed report (in Greek) see http://www.hrdaauth.org.cy/easyconsole.cfm/page/project/p_id/221.

workers, clerks and tradesmen to managers) and 25 occupations at a second level of disaggregation. Further disaggregation is also provided to level three (85 occupations) and level four (147 occupations).

The ten-year forecasts take on board significant signals from the economic and policy-formation environment. For instance, the plan to set up a casino resort should increase the forecast of employment in the construction and tourism sectors, while the MoU expectation of a smaller public and banking sector would imply a contraction of employment in these sectors (see pp. 3-4 of the Greek report for a list of all the qualitative assumptions made).

There is no plan to change the methodology of the annual or ten-year forecasts. An obstacle to change is the limited availability of data. Nevertheless, some refinements to the methodology might be considered. The time series forecasts rely on the 18 (1995-2013) annual observations of relevant variables. Using this procedure to project dynamically 10 years into the future probably leads to errors which might have been smaller had the forecast horizon been shorter (say 5 years). Another suggestion for possible change is modifying the annual forecast to provide information two years into the future. In turn, this information might be included, along with the policy environment assumptions noted above, to modify the time series forecasts. Another aspect of the current long-term forecast methodology is that it takes a very indirect route, arriving at LFS employment forecasts via real GDP, labour productivity, and the ratio of full-time equivalent to LFS employment forecasts. Each of these steps is of interest in its own right (for instance, productivity growth explains the economy-wide growth) but it involves the possibility of error which may compound. More direct forecasting of LFS employment, which leaves the attribution of employment growth to productivity growth aside, may be considered. Finally, a continuous, ex post, evaluation of the accuracy of the forecasts should be conducted, allowing the possibility of error correction.

Complicating any forecast exercise is labour mobility, not only from the EU but also from third countries. Efforts to link up the national forecasts and to build up an EU wide labour market picture are important.

The ESF has co-sponsored a number of programmes to improve the balance between labour market demand and supply and to overcome specific frictions in the labour market. However, it has no direct involvement in the HRDA forecasts. This may reflect the fact that the HRDA efforts are well received.

2.2 Transmission and use of information

The main users of the HRDA forecasts are future graduates and their families, secondary school vocational and employment counsellors, employers and their organisations, trade unions, HRDA itself (which offers various initial and continuing training programmes and sets the Standards of Vocational Qualifications), the Ministry of Education and Culture or MOEC (which designs and implements general, technical, and vocational education and helps shape life-long learning), and the Ministry of Labour and Social Insurance or MLSI and its agencies (which are involved in training programmes, labour relations, PES and, through them, the unemployed). The main transmission mechanism are the dissemination efforts of HRDA which are extensive both in term of presentations and through its website.

The information produced by the HRDA is of great interest to students making career choices. In addition, competent government units may adjust their programme offerings – see section 3. In a small country, there are no major local or regional issues involved. Of course, the events that followed the 'bail-in' and the MoU were generally unanticipated. In consequence, students continued to choose banking and finance in

inappropriately large numbers even during the academic year 2012/13. Thus, structural problems such as an excess supply of trained personnel in this area will persist, despite the HRDA efforts.

In general, institutional adaptation is slow and the individuals who are adversely affected become involved through unions and the political system to delay or stop change. It is an advantage of the system that extensive consultations occur but a weakness that the ultimate goal of serving the needs of society at large is frequently overshadowed by the interests of those already employed in the pertinent areas.

3 Steering the education and training provision

The structure of the education and training system is first reviewed in order to identify the points at which adaptation may occur, following new HRDA forecasts and updated expectations about the broader economic environment.

3.1 Policies and programmes

The education system in Cyprus consists of free public and fee-paying private schools. About 20 % of current age cohorts are enrolled in private schools. At the tertiary level, public and private institutions also exist. Initial and further training is offered by HRDA, the Cyprus Productivity Centre (CPC), the Higher Hotel Institute of Cyprus (HHIC) and some other units.

Public schools and training centres are funded by the state from general revenues, in some cases with co-funding by the ESF. The public system provides compulsory education through the primary school (to age 12) and the gymnasium (to age 15). Beyond compulsory education, the public Lyceum (to age 18) offers general education in a variety of subjects, but students can, instead, enrol in the public Technical Schools where they can follow a 'theoretical' or 'practical' direction, and still obtain the same graduation certificate (the Apoliterion). Afternoon and evening Technical schools offer a second chance to obtain the Apoliterion. Students may then enrol in one of three public universities, or be admitted through a variety of other paths into other tertiary education institutions. One, relatively new, such institution is the Post-Lyceum Institute of Vocational Education and Training (PLIVET), which offers specialised vocational education and training to secondary school graduates. PLIVETs operate in all five Districts of Cyprus. Education at public institutions is generally free up to the graduate level, at which point fees must be paid. The HRDA, CPC, HHIC and other units involved in training are clearly mandated to respond to labour market needs.

The *private* school system generally follows the institutional lines of the public system as far as general education is concerned. Some private schools are geared towards university entrance in particular countries, e.g. the UK. Very few students enrol in private technical or vocational schools. A number of private universities are currently operating, generally in English, also attracting a number of overseas students.

The cohort of students in each year of the public and private system is approximately 10,000, producing a stock of enrolees in the Lyceum (lasting 3 and, in the case of some private Lyceums, 4 years) and at Technical Schools of over 30,000 pupils. During the academic year 2012/13, of the total of 32,128 pupils, 21,163 were in public Lyceums, 520 in public evening schools, 6063 in private Lyceums, 22 in private evening schools, 863 in the theoretical and 3,459 in the practical Technical School directions, while 38 pupils were enrolled in private programmes of a practical direction. Thus, of the 27,226 pupils in the Lyceum, 22.2 % $((6,063/27,226)*100)$ were in private schools. Of pupils in units other than the Lyceum, the vast majority was enrolled in the public system. The ratio of students in private schools to total enrolment is approximately 20 %

$((6063+22+38=6163)/32128)*100$ - data are from CYSTAT. Cyprus devoted 7.9 % of its 2010 GDP on education, a percentage second only to Denmark (8.8 %) in the EU. On an hourly basis, education professionals (public and private) are the most highly paid (NACE Category M) group in Cyprus.⁷

The margins along which societal preferences can manifest themselves, the possible responses to changes in these preferences, and the financial and other incentives that drive these forces are considered here and in the next sub-section. A major decision is the choice between public and private secondary schools. Since private schools are run on market principles, they can respond flexibly to changes in preferences and it can be assumed that forecasts such as those offered by HRDA have the required effect. For example, following the discovery of natural gas in Cyprus, a number of tertiary programmes involving natural resources emerged at private universities.

By contrast, public schools are generally thought to be inflexible and anachronistic, particularly when it comes to (i) hiring practices (teachers are placed on an appointment list in the order in which they have graduated and they are appointed when they reach the top of the waiting list without further assessment; in areas where excess supply exists this may take many years and occur after alternative careers have been established), (ii) the virtual absence of teacher evaluations, and (iii) the low significance attached to external international evaluations such as PISA. Changes in preferences regarding courses of study are likely to be internalised and acted upon slowly.

This is not to say that no change occurs. In the area of general education and within the confines of the current institutional boundaries, extensive curricular reform was undertaken a few years ago. In 2006, the idea of the specialised Lyceum, stressing Music and Athletics, was introduced. More such schools will be available in the coming academic year 2015/16 and a summer school will be introduced in 2015. There is, currently, momentum for changing the method of appointing teachers, modifying the number of hours assigned to different subjects, and restructuring the Lyceum to produce directions such as science or classical studies. At the tertiary level, the government intervened strongly to contain the number of students admitted into education programmes when forecasts indicated that more graduates would not be needed.

The fact that private schools are virtually not involved in the technical area reflects a strong societal preference for general education. This is partly based on philosophical views regarding the relative value of general versus technical education. But it has also reflected the strength of the labour market in areas related to banking and business services as well as in specialisations that might facilitate entry into the public and semi-public sectors. Many Country Specific Recommendations (CSRs) have been issued about strengthening technical and vocational education, the apprenticeship system, the life-long learning (LLL) system, and the system of professional qualifications.

A certain amount of thinking in response to the CSRs and with the aid of the European Social Fund (ESF) had been done and a number of initiatives taken, even prior to the Cyprus crisis. An LLL strategy has been produced, integrating and stressing the availability of various opportunities. Very substantial progress has been made by HRDA in mapping out the requirements for professional qualifications in scores of professions; testing opportunities have been provided and they have been availed of. A New Apprenticeship System is being refined. But a most important link, namely the transition from the Gymnasium to technical areas, rather than general education, had been

⁷ Christofides, L.N and M. Michael (2013) 'Exploring the public-private sector wage gap in European countries' *IZA Journal of European Labor Studies*, 2.15. , pp. 1-53, See Table 4, p. 27. The data used are the EU-SILC.

ignored. The HRDA is now forecasting (p. 119 of the Greek version) fewer job openings in the areas of traditional strength and more positions in technical and professional areas. Indeed, during the 2014/2015 academic year, Technical Schools actually ran out of available spaces, failing to accommodate demand. The HRDA Greek report makes extensive suggestions (pp. 118-126) for changes in technical and vocational education, and training. A test of the adaptability of the public system will be whether it can make more spaces available in Technical Schools and improve the quality and recognition of the education provided.

3.2 Financial incentives

In general, the response of the education and training system to labour market needs and forecasts is not automatic and is not governed by pre-determined incentive systems. One manifestation of such methods is in the funding of public universities, where student numbers in existing programmes are scrutinised, new programmes must be justified on the basis of student demand, and faculty and staff positions approved during the annual budget process. Nevertheless, no rigid formulas exist and universities have been allowed to maintain the size of departments even when student demand is so low that student admission standards had to be lowered. In the HRDA itself but also in other units involved in training (e.g. the CPC and the HHIC) programme offerings are, indeed, determined by forecasts and need. In the public school system, adaptation is slow to occur particularly when it comes to marginal changes; the private system is much more nimble though here, too, MOEC regulation of fees and other matters can reduce adaptability.

Substantial, discrete, change does occur as a result of changes in government policy. As noted, the PLIVET began operating in 2012, following co-funding offered by the ESF. Ten programmes are currently running and over 300 students are enrolled in two-year programmes. An excess demand for the training offered there exists and, apparently, the employability of graduates is very high. Further expansion of this institution and some important steps in building up technical and vocational education are planned.

The Council of Ministers approved further changes in the technical and vocational training environment in spring 2015. A concerted effort, led by the directorate of secondary technical education in the MOEC, will be made to: revise and improve the quality of Technical School programmes and teachers; inform the public of these changes with the view to improving acceptance; improve the range and quality of programmes offered at evening schools; prepare a plan for operating an improved version of the System of Apprenticeship which will give access to up-to-date methods and equipment in industry; improve the professional accreditation of the PLIVET; and complete the system of professional qualifications spearheaded by HRDA.

4 Career and vocational guidance

The main participants in guidance and counselling are MOEC, MLSI and HRDA. Other institutions involved are the Cyprus Youth Board, specializing in guidance for individuals under 30, and some officers within some trade unions and municipalities. The intent is to help individuals to make educational choices and career plans based on their interests and strengths, recent and forecast developments in the labour market, and LLL opportunities.

Counselling and Career Education Services in MOEC help students of public secondary general and technical schools to develop personal awareness and to make suitable educational and career decisions. Academic and vocational guidance is provided throughout upper secondary education by qualified guidance counsellors.

Counselling by MLSI is provided through PES. PES provides assistance to employers and job-seekers through registration, the provision of information on job vacancies, placement, and the referral to training programmes. Social partners are involved through tripartite advisory committees specific to each district. In 2006, a modernization drive for PES, co-funded by ESF, was started. Qualified employment counsellors were hired and trained by external consultants to provide guidance on employment prospects and opportunities and on training possibilities. Unfortunately, the crisis and the rising number of the unemployed have limited the implementation of these plans.

The Cyprus Youth Board, in cooperation with local youth organisations, runs information and counselling facilities, including private ones, in all major towns. The National Youth Organization also provides guidance and counselling through Youth Information Centres and offers free access to the internet.

As already noted, HRDA disseminates its forecasts through presentations and through its website. These forecasts constitute the main input to policy planners, counsellors, and those ultimate users who may be planning careers or contemplating training options. There are no national campaigns steering prospective or older labour market participants in particular directions. There is currently a consensus, reinforced by the HRDA forecasts, that employment prospects in vocational and technical areas are better than those in areas that were hard hit by the crisis, e.g. banking and finance. However, these feelings do not amount to a systematic campaign.

5 Stakeholders in steering education and training provisions

Substantial changes to the public education landscape typically occur through the political system, particularly if they require legislative changes. The sense of tripartite involvement is strong; the state as an employer and policy maker, other employers and their organisations, Members of the House of Representatives as legislators, various ministries and semi-governmental organisations as fountains of technocratic expertise but also as stake-holders, employees whose livelihoods may be at stake, trade unions as employee representatives, parents and their organisations, and students, all have a say in how educational change is shaped. With the competent Minister as a lightning rod, MOEC typically leads the way, as is currently the case with the planned changes in how teachers are appointed and evaluated and in how the Lyceum is structured. Where educational decisions are concerned, it is generally the case that future employability is not paramount. Instead, philosophical positions on the optimal nature of education, nationalism, religion, self-interest, and a good deal of inertia all contribute to create a public system that responds slowly.

The private system is more flexible but, even there, some decisions (e.g. increases in the fees that they charge) have to be approved by MOEC and considerable delays can occur.

Technical Schools have a poor image, owed not so much to the quality of the education that they are capable of providing as to the limited interest shown by society in technical and vocational options. MOEC is only just beginning, following pressure from the Lisbon process and responding to the incentives offered by the ESF, to promote major changes in this area.

In the case of training, passions are less easily excited and, indeed, employability can be a major force in deciding whether a programme is to be offered or whether major initiatives such as setting up and expanding the PLIVET, will go ahead. In this case, forecasts of labour market needs can be informative and useful.

The strength of the education and training process is its inclusiveness and openness to consultation. But these are also features that can perpetuate the status quo, protect established interests, and forestall changes that would improve the quality of education and training and enhance employability. The balance of this trade-off is closer to optimal in the case of training than where general education is concerned. It is perhaps no surprise that the private system has made great inroads into the provision of general education and virtually none in vocational education and training.

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