



INTEGRATED PROGRAMME OF THE EU SOCIAL DIALOGUE 2009-2011

**JOINT STUDY OF THE EUROPEAN SOCIAL PARTNERS  
“THE IMPLEMENTATION OF FLEXICURITY AND THE ROLE OF THE SOCIAL  
PARTNERS”**

**NATIONAL FICHE:**

**CYPRUS**

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## Preface

This national fiche is part of the EU Social Partners’ Study “The implementation of flexicurity and the role of social partners” carried out in the context of the EU Social Dialogue Work Programme 2009-2011, which includes “*Jointly monitoring the implementation of the common principles of Flexicurity, notably in order to evaluate the role and involvement of the social partners in the process and to draw joint lessons*”.

To implement this task in the best possible way and to involve national member organisations actively in the gathering of data and information, the study applies a methodology that consists of multiple levels of analysis using a variety of instruments to be implemented with the help of a team of experts:<sup>1</sup>

- The expert team, with the advice of European Social Partners, agreed on a *set of selected statistical indicators* in the field of employment and economic and social development with labour market relevance.
- National social partners were asked to participate in a *questionnaire-based survey* focussing on the relevance of the flexicurity concept within national labour markets, the role of the social partners in policy implementation and their views of the flexicurity concept. To complement the research, the expert team visited a number of countries and carried out interviews with national social partners.<sup>2</sup>
- Based on the two sources above and a review of available written materials and information, the expert team prepared 29 *national “fiches”* on the implementation of the flexicurity principles and the role of social partners in the respective national contexts.
- Results of the questionnaire survey and main findings of the national analyses were discussed at four “*country cluster seminars*” that were organised by the European Social Partners with the help of national sections in Warsaw (November 2010), Lisbon (December 2010), Paris (31<sup>st</sup> January-1<sup>st</sup> February 2011) and The Hague (8<sup>th</sup> February 2011).
- In the light of the overall study results and the comments received by national social partners in the contexts mentioned above, the expert team has prepared a *comparative synthesis report* on “Social Partners and Flexicurity in Contemporary Labour Markets” that was presented and discussed at a *EU-level synthesis seminar* on 31<sup>st</sup> March and 1<sup>st</sup> April 2011 in Brussels.

This national fiche aims to present a broad overview on the economic and social context and the state of play with regard to flexibility and security in the labour market and current social security arrangements (sections one and two). Secondly, the report describes the role of the social partners and social dialogue in the implementation of policies and practices that can be considered under the broad umbrella of “flexicurity” (section three), also summarising inputs provided by national social partners to the questionnaire, from interviews carried out and other contributions made in the context of the study. Section three also presents brief descriptions of cases of good practice as has been indicated by the national social partners.

The text was originally prepared as draft report in the autumn of 2010 in order to facilitate the discussion at the cluster seminar on 9<sup>th</sup> and 10<sup>th</sup> December 2010 in Lisbon. The original dossier has been reviewed and revised to take into account the comments and discussions that took place during the seminar or received afterwards.

However, it should be stressed that this report is presented as an “independent expert report”. It represents the views of the individuals involved in its preparation and does not purport to represent the views, either individually or collectively, of the social partners’ representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

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<sup>1</sup> Expert team: Eckhard Voss (co-ordinator), Alan Wild, Anna Kwiatkiewicz and Antonio Dornelas.

<sup>2</sup> The following countries were visited in the context of the project between May and July 2010: Denmark, France, Ireland, Italy, Czech Republic, Poland, Germany, Portugal and the Netherlands.

# 1 The economic and social context

## Economic crisis and recovery

Cyprus, which became a member of the European Union in 2004, had experienced strong and sustained economic expansion until 2008 when the Cypriot economy decelerated sharply due to the global financial and economic crisis. Though the economic slowdown started in the third quarter of 2008, the country still reported a GDP growth rate of 3.6% for that year.

An adverse external economic environment, high household indebtedness together with tight lending conditions, restructuring corporate balance sheets and deteriorating confidence weighed on growth. The crisis also highlighted the accumulation of a high external imbalance, a particularly oversized housing sector and competitiveness losses. These factors set the stage for a contraction of GDP in 2009 by -1.7% and 0.5% in 2010 according to the EU Commissions’ economic forecast. For Cyprus, the experience of negative growth was the first in 30 years of sustained growth. Against the background of the structural factors mentioned above it is expected that the Cypriot economy will experience structural adjustments going forward.

The economic outlook according to the EU Commissions’ spring 2010 forecast envisages a slow economic recovery in 2010 and 2011, with Cyprus lagging behind the EU average in both years. GDP is projected to stagnate in 2010, reflecting mainly sluggish world demand and depressed private consumption and investment due to high household debt burden and tight financial conditions.

The labour market also suffered, especially in labour-intensive sectors like tourism and construction which are extremely important to the national economy and its labour market. After annual employment growth between 1.8% and 4% between 2006 and 2008, Cyprus since 2009 has experienced negative employment growth and this is expected to continue in 2011. After nearly having full-employment in 2008 with only 3.6% unemployment, the rate rose to 5.3% in 2009 and is expected to rise up to historically high levels, reaching around 6.6% in 2011.

### CYPRUS - MAIN ECONOMIC INDICATORS AND OUTLOOK

	2007	2008	2009	2010	2011
<b>GDP</b>	5.1	3.6	-1.7	0.5	1.5
– annual percentage change					
<b>Employment</b>	3.2	2.8	-0.7	-0.9	0.2
– annual percentage change					
<b>Unemployment rate</b> (Eurostat definition)	4.0	3.6	5.3	6.8	6.6
<b>General government balance</b> (as percentage of GDP)	3.4	0.9	-6.0	-5.9	-5.7
<b>General government gross debt</b> (as percentage of GDP)	58.3	48.3	58.0	62.2	65.2

Source: European Commission: Autumn 2010 Economic Forecast.

As a response to the crisis, the Cypriot government acted by adopting fiscal stimulus and structural measures amounting to 1.5% of GDP. The stimulus package was essentially addressed to construction and tourism. Some support measures without a direct impact on the deficit were also targeted to households. In the financial sector, Cypriot banks were not significantly exposed to toxic assets, mainly thanks to strict supervision by the Central Bank.

## Labour market indicators and trends

Although the Cypriot labour market is generally characterised by positive indicators like a relatively high employment rate, including that for older people, and low general and long term unemployment rates, the labour market also is characterised by structural weaknesses and challenges.

The first factor is the strong dependence of the Cypriot economy on tourism (hotels and restaurants) and construction. These sectors each had a share in total employment of about 11% in 2008 which is significantly above the EU average (for hotels and restaurants the figure is more than double the EU average). This dependency has negatively affected the economy during the crisis. It is generally accepted that there is a need to diversify the economy significantly.

Against the background of labour shortages, in particular in low-skilled occupations, the Cypriot labour market has been characterised in recent years by large-scale migration of workers. At the same time productivity has stagnated at a level well below the EU average.

A further issue for the Cypriot labour market is its very high gender pay gap which is amongst the highest in Europe (see below).

### CYPRUS - MAIN LABOUR MARKET INDICATORS 2009 IN COMPARISON TO EU27

	Cyprus	EU27
Employment rate – % population aged 15 - 64	69.9	64.6
Employment rate older people – % population aged 55-64	56.0	46.0
Self employed - % total population	17.2	15.5
Employment in services - % total employment	75.7	70.4
Employment in industry - % total employment	19.8	24.1
Employment in agriculture - % total employment	4.5	5.6
Unemployment rate - % labour force 15+	5.3	8.9
Youth unemployment rate - % labour force 15-24	14.0	19.6
Long term unemployment rate - % labour force	0.6	3.0
Inequalities of income distribution (2008)	4.1	5.0

Source: Eurostat, *Employment in Europe Report 2010*.

## Flexicurity in the labour market and labour market policy

Although the table below illustrates the middle ranking position of Cyprus in regard to major flexicurity indicators such as educational attainment; CVT or lifelong learning; part-time employment; fixed term contracts; and access to flexitime (where Cyprus ranks well below the EU27 average), two points seem to be important if the national context for flexicurity in the Cypriot labour market and labour market policy is to be understood:

First, recent analyses and reports (e.g. Eurofound 2010) indicate that flexible forms of work and in particular “very atypical” contractual arrangements such as very short part-time or fixed-term contracts or on-call work (“zero hours contracts”) are relatively widespread in the Cypriot economy, and in particular in those sectors which are regarded as having been the most dynamic in recent years, i.e. hotels and restaurants, construction and retail.

Second, it is these sectors where coverage by collective bargaining and membership rates in trade unions are lowest. These three sectors are not amongst the five economic sectors in Cyprus that are covered by the minimum wage regulation.

## CYPRUS - FLEXICURITY INDICATORS IN COMPARISON

	Cyprus	EU27
Total population having completed at least upper secondary education (population aged 25-64, %), 2009	72.4	72.0
Part-time employment - % total employment, 2009	8.4	18.8
Fixed-term contracts - % total employees, 2009	13.4	13.5
Access to flexitime, % total employees aged 15-64, 2004	10.4	31.3
Percentage of employees (all enterprises) participating in CVT courses , 2005	30.0	33
Lifelong learning participation – percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey, 2009	7.8	9.3
Job satisfaction – percentage of workers that are either very satisfied or satisfied with working conditions in their main paid job (EWCS 2010)	86.4	84.3
Strictness of employment protection – regular employment, 2008	n.a.	2.11*
Strictness of employment protection – temporary employment, 2008	n.a.	2.08*
Strictness of employment protection – collective dismissals, 2008	n.a.	2.96*
Public expenditure on <i>passive</i> labour market policies (categories 8-9) - % of GDP, 2008	0.38	0.96
Public expenditure on <i>active</i> labour market policies (categories 2-7) - % of GDP, 2008	0.07	0.46
Persons at-risk-of-poverty after social transfers - % of total population, %, 2009	16.2	16.3

Source: Eurostat; Employment in Europe Report 2010; Eurofound (European Working Conditions Survey 2010); OECD.  
 \*OECD average

When it comes to flexicurity as a guiding principle of labour market policy in Cyprus a recent report has argued that the flexicurity approach in the country “*is at such an early stage that there cannot yet be made any considerations about the existence of a national policy in relation to this matter.*” (Eurofound 2009)

The European Commission in its 2008 annual assessment report of the implementation of the Growth and Job Reform Programme in Cyprus made a similar comment:

*“The NRP reports on a number of on-going or planned initiatives on all four components of Flexicurity but without explicitly referring to an integrated national flexicurity pathway”.* (EU Commission 2009, p. 52)

## Conclusion

The above trends and developments in the Cypriot economy and labour market make it clear that there is already a high degree of flexibility, particularly within those sectors and labour market segments which have grown fastest and have created most jobs in recent years. The question arises whether or not the flexicurity concept as an *integrated* strategic approach makes any sense from the Cypriot point of view or whether it would be rather necessary to address specific challenges directly without referring to a more holistic flexicurity pathway.

## 2 Flexibility and security in recent labour market and social policy reforms

### Introduction and overview

Neither in the 2005 – 2008 National Lisbon Programme for Cyprus nor in the Renewed National Reform Programme of the Republic of Cyprus (Cypriot Government 2008) the term “flexicurity” is mentioned at all. An important guiding principle of more recent labour market policy reform initiatives, as described for example in the annual implementation report for 2009, seems to be that of labour market “flexibility” which is addressed in the 2009 implementation report in a special chapter on “flexicurity in the labour market” (see Cypriot Government 2009, p. 27). Here, the Cypriot government states that the labour market in Cyprus can be considered to be relatively flexible and well functioning. Nevertheless the government also sees “still a room for more flexibility” mentioning in particular mismatches between demand and supply in a number of professions and the significant number of low-skilled, foreign workers in the labour market. The text passage only refers very briefly to the security component of flexicurity by stating that *“the national Social Security Scheme and the Termination of Employment Legislation were revised during 2008 to encourage flexibility and stability.”* (Cypriot Government 2009, p. 27).

Against this it is understandable that the EU Commission, in its assessment of the Cypriot Reform Programme, comes to the conclusion that a national pathway of flexicurity is generally missing (see above).

The following information is mainly taken from the reports of the Cypriot government on different policy fields covered by the flexicurity approach and information provided by the response to the survey carried out as a part of the project.

### Lifelong learning and the mobility of workers

In the evaluation of Cyprus’s progress on the implementation of the NRP 2008-2010, the EU Commission has set a country specific recommendation with respect to lifelong learning as follows:

*“Cyprus should continue with the efforts to expand lifelong learning opportunities, especially for the low skilled, unemployed and disadvantaged groups by proceeding further with the implementation of actions within the approved Lifelong Learning National Strategy, including the reforms of the vocational, education, training and the New Modern Apprenticeship Scheme”.* (Cypriot Government 2009, p. 22)

In response to this the government refers to a number of initiatives taken to improve the situation, e.g. the adoption of the “Cyprus Lifelong Learning Strategy” in November 2007, the reform of the apprenticeship system and various activities by the Ministry of Education and Culture and the *Human Resources Development Authority* HRDA.

The HRDA offers a number of training programs, aimed both at companies and employees which seek to upgrade human resources, with continuing and lifelong training and retraining of workers, new labour market entrants, the unemployed, women and those low-skilled and older employees. In response to the economic crisis the HRDA has also introduced further training programmes for the unemployed in order to improve their employability and in-house training in enterprises which have been on short-time work.

The apprenticeship scheme of Cyprus is currently undergoing major changes and is likely to start under a new system in September 2011. The purpose of the reform is to make apprenticeships more attractive, more inclusive and more in line with the changing needs of the labour market. It will also serve to meet the specific needs of early school leavers by enabling them to join the system more easily.

## External/internal flexicurity and contractual arrangements

Although the Cypriot labour market is already generally regarded as comparatively flexible, both external and internal flexibility and flexible contractual arrangements are a major focus of labour market policy:

In May 2010 the *Cyprus Productivity Centre* launched a pilot subsidy scheme for attracting people into the labour market through flexible employment arrangements. The scheme will run until August 2015. The plan includes wage subsidies for companies that wish to participate and also covers the employees' transportation costs. It aims at creating new work positions and reducing unemployment. Another pilot plan for creating flexible employment positions within companies (for current employees) is expected to commence in 2012.

As reported by the Cypriot government in the 2009 implementation report of the National Reform Programme for Growth and Jobs, the legislative framework of the termination of employment contracts was reviewed in 2008. Despite this, the reply to our survey suggests that no major change has occurred in regard to external/numerical flexicurity.

With regard to internal flexicurity the social partners report that *“flexicurity arrangements exist at the company level at various enterprises at a very limited extend and not as a result of a social dialogue but mostly in manners most suitable for the employers”*.

## Active labour market policy

Labour market policies focus on training measures and measures targeting the unemployed, recent graduates and people with low job security. They include on-the-job training programmes, training programmes for unemployed persons and training programmes for newcomers.

A number of active labour market initiatives are currently in place. These initiatives include training schemes implemented by the HRDA for the unemployed to improve their employability and subsidy schemes through the Ministry of Labour and Social Insurance addressed to businesses to encourage employment.

In the past few years there have been activities designed to improve the efficiency of the Public Employment Services (PES), e.g. by opening new offices in isolated rural areas allowing job seekers to find new jobs more quickly and effectively with a personalised approach in matching an employee's skills with a prospective employer. Also, the law concerning the Private Employment Services is about to be amended in order to act complementary to the PES and serve better the needs of the labour market.

Nonetheless, according to the trade union organisation SEK there are significant drawbacks in the system with the PES suggested to be understaffed and undertrained to support the increasing number of unemployed.

## Supportive social security systems

Faced with several problems (e.g. non-payment of social security contributions, low pensions) there is a need to reform the social security system in Cyprus and the government started a revision of the National Social Security Scheme during 2008 in order to encourage flexibility and security. At the same time the system was made more stable by safeguarding pensions and other benefits for a long period. However, according to the trade union reply to our survey, *“the contributions are still [too] low to support a flexicurity system as stated in the Common Principles”*.



## High quality and productive workplaces

In order to improve quality and productivity at work, including health and safety the Cypriot government has initiated measures targeting in particular SME's. The measures aim to provide focused training services to enhance the competitiveness of micro-enterprises as well as providing focused training to enhance HR investment and improve the productivity of small and mediums sized enterprises (see: Cypriot Government 2009, p. 28)

According to the survey reply, other measures have not been very successful in this context: The *Cyprus Productivity Centre* (CPC) has introduced a scheme for companies and organisations for replacing low productivity jobs with high productivity jobs. This is part of a broader national strategy in an effort to increase productivity and competitiveness. According to the respondent, nothing has been achieved. The HRDA has implemented a programme on further vocational qualifications, as part of the pending “*National Qualifications Framework*”. Even though five vocational qualifications have been developed and introduced in the meantime, improvements in the upward mobility of workers have not been identified so far.

According to the national respondent, *“productivity is still very low and any schemes put forward by the government to improve it have been supported by the trade unions but the employers have not shown any significant interest to cooperate.”*

## Gender equality

Cyprus traditionally has a very high gender pay gap which in 2009 was around 21.6% and one of the largest in the EU. In order to address this problem the government carried out a number of initiatives and launched an Action Plan developed by the Ministry of Labour some years ago. Concrete measures taken, according to the government, were aiming at encouraging employment and self-employment of women and female entrepreneurship as well as measures promoting the reconciliation of work and family life. Another measure was a pilot program designed to help women outside the workforce back in employment through flexible arrangements.

## Financial sustainability

Many of the initiatives undertaken are funded, in part, through EU institutions including the European Social Fund and in part by the Government of Cyprus. The programmes of the HRDA are either funded in whole through the Fund of the HRDA or in part by the ESF.

## Conclusion: Strengths, weaknesses and challenges

In the assessment of current strengths and weaknesses in the implementation of flexicurity in Cyprus a questionnaire respondent draws a picture that is dominated by weaknesses: in eight out of eleven policy fields/aspects the situation is described as a weakness and in the remaining three (lifelong learning, supportive social security systems, assuring the financial sustainability of implemented measures) the situation is described as “neither strength nor weakness”.

It is suggested that major challenges exist in particular in the field of the “security” component of flexicurity, i.e. to overcome the weak coverage of certain sectors by the flexicurity principles and to improve social and employment security for workers in sectors with “very atypical” contractual arrangements.

## 3 The role of the social partners

### General remarks on the role of social partners

Cyprus is characterised by a relatively high trade union density rate (see below) though membership density declined significantly since 1990 when it was reported to be around 76%. Although there are no figures on employers' organisation density, reports of the largest employer organisation OEB indicate coverage of around 60% of employees in the private sector by the organisation.

According to latest available figures (2006) the percentage of employees covered by collective agreements was 57%, marginally below the EU average (62.9%). According to the Cypriot social partners a decrease in membership and collective bargaining has been a major problem in the context of the dynamic economic development in recent decades. The decrease in the rate of union density results from a substantial increase in the number of non-unionised workers.

#### CYPRUS - MAIN SOCIAL DIALOGUE INDICATORS

	Cyprus	EU27
Collective bargaining coverage, 2006	57%	63%
Trade union density, 2005	62.6%	25%
Employer organization density, 2006	~ 59%	n.a.

Sources: Eurofound EIRO Country profiles, EU Industrial Relations Report 2008.

Although national law has not established any institutionalised bodies of social dialogue, social dialogue in Cyprus is nonetheless firmly established and a long tradition of social dialogue exists with the implementation of almost all proposals and policies regarding industrial relations being the result of social dialogue between the government, the employer organisations and the trade unions. On a practical level, cooperation between the three parties is achieved through the operation of technical committees and other bodies of tripartite representation, but mainly through the representation of the stakeholders in the *Labour Advisory Board* within the Ministry of Labour and Social Insurance. The social partners are also engaged in other policy-making bodies like the *Human Resources Development Authority*, HRDA. As a result, this participation allows in principle for social partner involvement in labour and social policy issues. However, in practice it is reported in a recent survey on flexicurity and industrial relations in Cyprus that “the question of flexicurity has not yet been the subject of social dialogue”.

### Main instruments and levels of influence

The response to our survey confirms the important role of collective bargaining at national, sectoral and company level (see below) as main instruments and levels of influencing and implementing policy in Cyprus. Apart from bargaining, “consultation by public bodies, tripartite negotiations and agreements” are referred to as very important. Less but still important are also lobbying and awareness raising campaigns and unilateral initiatives by either social partner.

### Recent changes and challenges

According to the response to our survey, during recent years the influence of social partners in single policy fields has increased with regard to social security and social protection policy. In most other areas the situation is assessed as stable, i.e. neither increased nor decreased influence. A decrease of social partners' influence is reported in the field of “collective bargaining and collective agreements at the enterprise level”.

## Cases of good practice in the field of labour market flexibility and security

As the only case of good practice reported in response to the survey, the *Cyprus Employers & Industrialists Federation*, OEB explained that many Cypriot companies have flexible arrangements and practices in place such as flexible working hours and working from home initiatives. Above that, the employer federation described the annual “Corporate Social Responsibility” award as a good practice since it recognises flexible working arrangements as well as other CSR practices and this encourages the migration of best practice.

## 4 Key points arising

From the point of view of the author of this report the following key points are arising with view on flexicurity in Cyprus:

- *It seems that the Cypriot economy and labour market is already characterised by a high degree of flexibility in particular within those sectors and labour market segments which have grown fastest and created most jobs in recent years. Against this – does the reform approach of flexicurity makes any sense from the Cypriot point of view?*
- *There seems to be a "contradiction of engagement" where a strong tradition of social dialogue and social partner involvement in social and labour market policy development in Cyprus on the one hand whilst the social partners play little or no role in the context of the debate on flexicurity? What explains this apparent contradiction (lack of interest, lack of opportunities, opposition to the concept etc)?*

## Sources and references

### Replies to the questionnaire survey

Questionnaire responses to the survey were received from the ETUC member organisation SEK and the BUSINESSEUROPE member organisation Cyprus Employers & Industrialists Federation, OEB.

### Further resources

1. Eurofound 2009: Flexicurity and Industrial Relations. Country Report Cyprus.
2. Eurofound 2010: Cyprus – Flexible forms of work: “Very atypical” contractual arrangements.
3. Cypriot Government 2008: Renewed National Reform Programme of the Republic of Cyprus for 2008 - 2010.
4. Cypriot Government 2009: Annual Implementation Report.
5. EU Commission: Annual Progress Report / Annual Country Assessment, Brussels, December 2008.
6. EU Commission 2009: Implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan - Annual country assessments: Recommendation for a Council Recommendation on the on the 2009 up-date of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies, Brussels, January.