LABOUR MARKET REVIEW OF FORMER YUGOSLAV REPUBLIC OF MACEDONIA

WORKING PAPER

Prepared by Sasho Kjosev and Nikica Mojsoska-Blazevski (National Expert Team), Terry Corcoran (International Consultant), Natalia Popova, Anastasia Fetsi, Margareta Nikolovska, Søren Nielsen and Helmut Zelloth (ETF Expert Team)

ETF, 2005

ACKNOWLEDGEMENTS

We thank Veselinka Ivanova and Valbona Dervishi (National VET Observatory in former Yugoslav Republic of Macedonia) for supporting the organisation of field visits and facilitating the preparation of this paper. We also thank Sam Cavanagh (ETF) for the organisation and procurement of the project and Lara Juvenal (ETF) for secretarial assistance.

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PREFACE

During the last decade all Western Balkan countries, at different times and at a different pace, have started their economic and social transformation into functioning democracies and market economies. As in other transition countries the process has been difficult and, despite the progress made to date, major challenges are still present in all fields, including social and economic development. The Western Balkan countries will need to continue their intensive and systematic efforts in order to succeed with their economic restructuring and ensure the economic growth and social cohesion that will allow them to catch up and sustain a closer relationship with the European Union. Taking into account the contribution of employment and productivity to economic growth, part of these efforts need to be directed to the development and implementation of employment policies and structural labour market reforms that support economic restructuring and lead to increases in productivity. In this context, the emphasis is on efforts to develop an adaptable, entrepreneurial and well-skilled labour force through adequate investment in human capital. Importance should also be given to the promotion of inclusive labour markets (open to all and attracting the inactive) for greater social cohesion.

The European Training Foundation, in agreement with the European Commission, undertakes a series of in-depth reviews of the labour markets in the Western Balkan countries with the aim of contributing to a better understanding of their function and identifying areas for further work in the fields of employment policy and of education and training reform. The reviews have a double purpose:

1. Contribute to EU programming by providing well-documented input to its CARDS programme; to the annual country progress reports on the Stabilisation and Association process; and to the European Partnership papers, as well as to the action plans that governments will have to prepare in order to address the challenges identified in the European Partnerships;
2. Provide a comprehensive background instrument for the Commission and the countries of the Western Balkans to support policy developments.

Specifically, the reviews:

1. Analyse the economic context in the Western Balkan countries and in particular the pace of economic restructuring and its impact on jobs and employment (Chapter 1);
2. Analyse recent trends in the labour market (Chapter 2) with the aims of:
    - identifying major challenges in the labour market in view of the economic restructuring process (Chapter 2);
    - assessing policy responses and the institutional setting to address the challenges identified with a view to supporting economic restructuring and growth (Chapter 3); and
    - providing recommendations for further action (Chapter 4).

Labour market challenges and policy responses are examined against the four broad key objectives set in the revised European Employment Strategy:

- increasing adaptability of workers and enterprises;
- attracting more people to enter and remain in the labour market;
- investing more and more effectively in human capital;
- ensuring better implementation of reforms through better governance.

The labour market review of FYR Macedonia was prepared between October 2004 and May 2005 by a team of local and international experts and ETF staff. The reviewing process entailed a broad consultation of documents prepared by international organisations and national institutions, as well as in-depth interviews with national and local stakeholders. One fact-finding field visit took place in October 2004 and a validation seminar was held with national stakeholders on the draft results of the review in March 2005. We would like to thank all those involved in the review process for their availability and commitment to this project.

EXECUTIVE SUMMARY

The former Yugoslav Republic (FYR) of Macedonia has since 1991 been going through a difficult period of transition from a command to a market economy. This process has resulted in high unemployment rates and increasing levels of poverty. Despite significant progress in macroeconomic stabilisation and the process of privatisation, which is almost complete, job creation has been limited while changes in the sectoral structure of employment and labour reallocation from less to more productive jobs have been modest. Foreign and local investment, with the exception of the textile and steel industries, has been low due to the high level of political instability in the country and in the Balkans in general.

Even when allowance is made for possible inaccuracies in the official data on FYR Macedonia, unemployment is extremely high (37.1% in 2003), and the employment rate extremely low (38.5% in 2003) by EU standards. Young people present higher unemployment levels than average (1.7 times more in 2003) and experience a difficult transition from education to work, often passing through precarious types of employment (including informal sector activities). The gender gap in unemployment has disappeared over time although participation of women in the labour market has been declining. Regional disparities in unemployment remain pronounced. Note that the State Statistical Office's Labour Force Survey (LFS) data show lower unemployment than administrative sources (registered unemployment). This can be explained by the incentive for some inactive and informal economy workers to register as unemployed in order to be eligible for free (state-provided) health care, when they do not have other means of entitlement.

Despite some year-to-year variation, the level of employment has been essentially static over the medium term. Given the positive trend in the working-age population, this has led to an ongoing fall in the employment rate. Projections about the near future (next five years) predict further demographic pressure on the labour market that should be addressed by more job creation if employment levels are not to fall further.

The low employment rate is also a reason for the low participation rate, especially among women from ethnic minorities. Low rural/rural or urban/urban labour mobility has been recorded in many studies on the labour market in FYR Macedonia, which further adds to local skill mismatches and affects the unemployment rate.

The magnitude of sectoral changes in employment in FYR Macedonia was relatively modest compared with other transition economies, because labour was reallocated to a lesser extent. Many people ended up working for the informal sector due to lack of employment opportunities in the formal sector. The share of agricultural employment in total employment increased during the transition (22% in 2003), similar to other transition economies, absorbing laid-off workers and serving as a subsistence activity. The share of service sector employment also increased, although these job openings are usually of low quality (accurate data are not available). The share of mining, manufacturing and construction decreased.

On the supply side, despite the demand for higher-level skills, no substantial evidence is available on extensive skill shortages at the present state of development of the economy. On the other hand, a range of educational indicators suggests that FYR Macedonia has large skill gaps compared with the EU and even some South East Europe (SEE) countries. The educational attainment rate of the population, together with coverage of the secondary and higher education system, is relatively low and EU benchmarks in education seem to be far out of reach. Despite partial modernisation of the education system, the quality of education remains low at all levels (from primary to higher education), while skill upgrading opportunities (through training) for the adult population are modest. Substantial inequalities in educational participation patterns remain between ethnic groups, in particular for ethnic Roma.

Taking into account the above challenges, FYR Macedonia needs to develop a systematic and coherent approach to employment policy, addressing issues on the demand and supply side of the labour market. The Ministry of Labour and Social Policy (MoLSP), responsible for developing employment and social policy, has recently drafted, with the assistance of the CARDS programme, a National Action Plan for Employment (NAPE). This is a good first step, yet it tends to be rather general and there is no financial planning mechanism marking it out for implementation. In addition, the policy requires broader endorsement by the government, not just by the Council of Ministers.

Raising the demand for labour has to be the primary objective of policy in a country with such a low employment rate. Important positive factors emerge from an examination of the flexible and adaptable business environment, for example the system of financial incentives for business investment has been assessed as quite competitive in the region. Moreover, labour regulation does not seem to have created any undue rigidity in relation to deployment of human resources. However, two major problem areas have been identified. First, the burden on labour costs imposed by the operation of the system of personal income tax and social contributions is relatively high. This of itself creates disincentives to the creation of formal jobs. Second, the system tends to discourage flexible forms of employment, such as part-time, because of the particularly high tax wedge at low wage levels; and self-employment, for which no allowance is made in terms of access to the social insurance system (particularly health insurance). Combined, these effects can be seen to give rise to a three-tier employment market rather than a two-tier one. Some workers are fully part of the formal market, covered for both tax and social insurance; some are engaged on civil contracts; and some are employed informally, paying neither tax nor insurance.

In FYR Macedonia, more people need to be attracted to enter and remain in the labour market. In this respect, the National Employment Service (NES) is supposed to assist the unemployed, not just by paying unemployment benefit but also by helping them to remain in the labour market through giving advice, guidance and counselling and the delivery of active labour market programmes. There is scope for improvement in the functioning of the NES, in particular through:

1. the reduction of the extremely large number of clients, many of whom are not actively looking for employment and register principally for entitlement to social benefits, in particular health insurance;

2. the further modernisation of the employment service, in terms of premises, equipment and staff development;
3. the increase of the extremely low level of resources devoted to active labour market programmes; and
4. the adaptation of the fundamentally 'employment-unfriendly' structure of the tax and social contribution systems.

Consequently, future updates of NAPE should concentrate on developing more accurate targets, deadlines and resource commitments for activation measures for the unemployed. To support these measures, the most critical starting point for any general move towards a more active policy stance for the National Employment Agency (NEA) must be a review of the system of unemployment compensation/registration, including the way it interacts with the tax and contribution systems. Taken in combination, these systems on the one hand depress the level of employment, thereby raising unemployment. On the other hand, they also force both inactive people and those working in anything other than 'regular' jobs (such as the self-employed), to register as unemployed if they are to retain access to important social services.

Together with efforts to increase labour demand and attract more people into the labour market, FYR Macedonia needs to continue its efforts to improve the quality of its education and training system. At present the education system is undergoing substantial reforms, while facing the challenge of decentralisation. Tangible results are still to come and the reform of initial vocational education needs to be completed with a view to setting up appropriate support structures, to improve labour market relevance and the overall quality of education. Information on skill needs is largely absent but also difficult to obtain due to the large informal sector and volatile economy. However, there is a need for higher qualifications and it is expected that this need will increase in future. Much more attention therefore needs to be paid to higher vocational education and training (post-secondary and tertiary) as well as adult learning, as the latter shows the biggest gap in the education system. Currently, an adult learning strategy or wider human resource development (HRD) strategy is lacking in the country.

In conclusion, there are no 'quick fixes' for problems as severe as those being experienced in the Macedonian labour market. The major prerequisite for a sustained reform programme is that it should have broad support at the political level as well as in the wider population of the country. This kind of broad support can be achieved only if there is an active and wide-ranging dialogue on the labour market and wider economic reform.

1. ECONOMIC SITUATION AND BACKGROUND

FYR Macedonia, with a population of 2.02 million (2002 Census), is an ethnically diverse country, Macedonians constituting 64.2%, ethnic Albanians 25.2%, Turks 3.9%, Roma 2.7% and other minorities 5% of the population. It was the smallest and economically the least developed of all of the former Yugoslav Republics (only 7% of total population and 5% of total output).

In contrast to most transition economies, FYR Macedonia has been facing two-figure open unemployment rates since the time of social ownership in the former Yugoslavia. The economy had already been contracting sharply throughout the late 1980s, and in 1990 the unemployment rate was estimated at 24%. The economy contracted even further in the years immediately following independence (1990–94), driven by the instability to the north (United Nations trade sanctions against Serbia) and to the south (Greek embargo).

FYR Macedonia made significant progress in macroeconomic stabilisation and structural reforms in the period 1995–98. Stabilisation programmes reduced inflation from 122% in 1994 to 1% in 1998, and the fiscal deficit was kept below 2%. Meanwhile the political situation in the region stabilised, followed by the reopening of the Greek border. GDP fell by 1% in 1995, and recovered moderately in the following years. Despite the achievement of macroeconomic stability, employment in the emerging private sector failed to grow sufficiently to absorb the redundant workers from state-owned enterprises (SOEs). As a result, unemployment remained very high.

During the following three years (1999–2001), the Macedonian economy was under the strong influence of two external shocks: the war in Kosovo and the internal security crisis in 2001. Initially, the war had a negative impact on the economy, but subsequently the return of the refugees to Kosovo and reconstruction boosted the demand for Macedonian goods and services, resulting in GDP increases of 4.3% in 1999 and 4.6% in 2000.

During the internal security crisis, GDP declined by 4.5% in 2001. Business confidence fell, external demand was reduced, foreign investment remained sluggish, many loss-making companies were closed down and the Kosovo refugees left the country. There was no significant recovery in 2002 (0.9%), and although the real GDP grew by 3.2% in 2003, production was still below 1990 levels and unemployment reached 37.1% (the highest rate in the region). Current estimates suggest slower growth in 2004 (2.5%).

The model and pace of privatisation in FYR Macedonia was influenced by the system of worker self-management (also found in other former Yugoslav republics), which was a social rather than state ownership of companies. At the beginning of the transition process, there were about 1,726 SOEs, which employed 216,000 workers and had an estimated value of DEM4.1 billion. Privatisation started in 1993 and in more than a decade 95% of the enterprises have been privatised. The privatisation of small-scale enterprises can be considered as complete, while the finalisation of large-scale privatisation is part of the current action plan for privatisation and restructuring of loss-makers.

The most common method of privatisation was by management/employee buy-out (MEBO). Later, lack of new capital, technology and management style led to poor performance of the privatised (surviving) enterprises in terms of declining profits and employment; and despite shedding labour resulted in a decrease in productivity. In contrast, start-up businesses (mainly small enterprises) were the main driving force behind the modest growth during transition and absorbers of laid-off workers and new entrants. The share of small enterprises in total employment increased from 20% in 1991 (80,320 jobs) to 44% in 2002 (122,277 jobs).

Privatisation did not lead to any significant changes in the sectoral structure of GDP in the period 1999–2003. The share of agriculture decreased from 11.1% of total GDP in 1999 to 9.2% in 2003. Industry's share increased by 1.5% to 24.3% in 2003 whereas the service sector's share did not change.

The amount of foreign direct investment (FDI) in privatised companies has been very limited due to the high level of political instability in FYR Macedonia and in the Balkans. There have been some investments in the textile industry, which is characterised by low wages and low-skilled labour. In addition, the textile industry is under heavy competitive pressure from neighbouring countries, which also offer abundant cheap labour.

The top exports include textiles and processed steel. All these sectors are labour intensive, offering low wages, with little value added. In addition, FYR Macedonia has to import the raw materials, which have very volatile prices in world markets.

The Macedonian economy was integrated in the market of the former Yugoslavia, and with disintegration it lost its traditional markets. Moreover, the Yugoslav industrial structure consisted of a string of companies dispersed throughout the country, where some parts were made in Slovenia, others in Macedonia and the whole was assembled in Serbia. This integrated structure fell apart, leaving FYR Macedonia with an incomplete industrial set-up, often producing only intermediate products. The country had also been exporting to the Central and Eastern European Countries (CEECs) and, with the process of transition, these markets were lost too.

As in all CEECs, poverty in FYR Macedonia has been increasing during the entire transition period (Rutkowski, 2001). In general, data showing an increase in poverty points to two factors: a decline in consumption and a growing inequality in its distribution. The 2002 Household Budget Survey[1] showed that only 3.1% of householders in FYR Macedonia believe that they are able to meet all their needs with their available monthly income, whereas as many as 69.5% are either partly or fully unable to do so. On the other hand, data from the relative method of assessing poverty, based on the relative living standard,[2] show that the population living in poverty increased from 23.3% in 1999 to 30.2% in 2002. The Gini coefficient, which expresses inequality in income, has risen from 31.6% in 1997 to 34.7% in 2000.

[1] An annual Eurostat survey.

[2] Since 1997, this standard has been defined as 70% of the median equivalent expenditure of households, whereas for the period 1994–96 it was determined as 60%.

In conclusion, taking into account the extent of internal and external shocks that the Macedonian economy has faced over the last decade, its performance can be evaluated as resilient. Nonetheless, the pace of economic growth has remained too slow to meet the development needs of the country and its people. In particular, not enough jobs have been created, resulting in continuing high unemployment. Labour market performance is examined in greater detail in Chapter 2.

2. TRENDS IN THE LABOUR MARKET

2.1 POPULATION

The 2002 Census of Population registered 2.02 million citizens in FYR Macedonia. On average, population has increased by about 0.5% per annum over the last decade. According to the LFS, the working-age population (15–64) in 2003 reached 1.389 million, up from 1.337 million in 1999, with an average growth rate of 0.96%. The working-age share in the total population in 2003 was 68.7% (up from 66.3% in 1999), which is broadly similar to that in the EU15 and the new member states (NMS).

Youth and old age dependency rates represent the so-called 'demographic burden'. Whereas age-dependency in FYR Macedonia is relatively low (14 persons aged over 65 per 100 working-age population in 2003 as against 19 in the NMS and 24 in the EU15), youth dependency is high. In particular, in 1999, the youth dependency ratio was 37.3%, and it declined to 32% in 2003. However, it is still high compared with the ratio of 27% in the NMS and 25% in the EU15.

The high continuing demographic pressure on the labour market can be illustrated by the fact that the number of potential labour market entrants over the next five years[3] represents about 12% of the current working-age population. The equivalent ratio for the EU15 is less than 9%. More strikingly, potential entrants over the next five years are equivalent to 30% of the current employment level in FYR Macedonia measured by the LFS, while the EU15 ratio is less than 14%.

Migration patterns

The degree of urbanisation in FYR Macedonia has been relatively steady in the last decade, with the urban/rural distribution of population estimated at approximately 60/40 (UNDP, 2004), with a low level of internal migration. Inland migration flows are typically from rural (hill and mountain areas) to urban regions, mainly the capital city of Skopje (UNDP, 2001). This has negative implications for both emigrant and immigrant regions: whereas the former suffer ageing workforce and economic slump due to underutilisation of arable land, the latter face excess labour supply and formation of poverty 'pockets'. Low rural/rural or urban/urban mobility has been recorded in many studies of the labour market, which adds to local skill mismatches and unemployment rates. USAID (2002) explains that the lack of a housing market, ID cards tied to residence for distribution of social benefits, and discouragement of migration during the communist period are the main reasons behind low migration today. Relatively bad road infrastructure and public transport also hinder daily commuting, making unemployment structural and local.

The UNDP (2004) data on population growth and on the natural increase of population suggest that there was a small decrease in population due to international migration, amounting to 1.4% or 28,000 in absolute terms, over the six-year period 1996–2002. According to data from the

[3] The population aged 10–14 is used as a proxy.

2002 Census of Population (State Statistical Office, 2004), emigrants are predominantly Albanian, and are typically male workers aged 20–39.

2.2 LABOUR FORCE

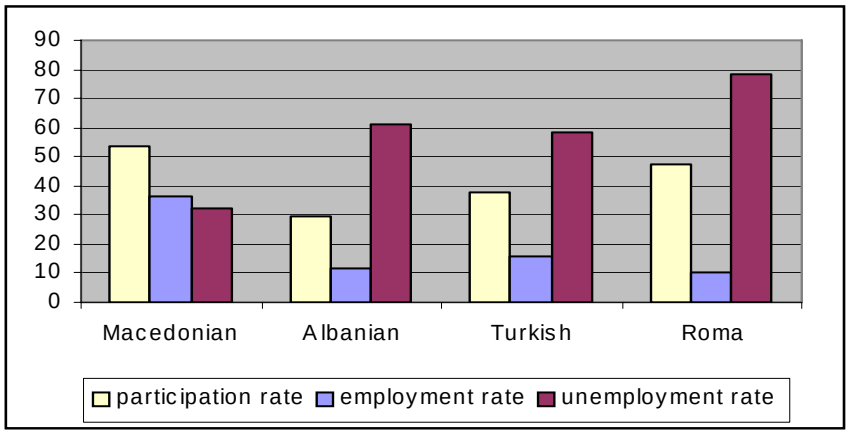
The LFS estimated the labour force at 861,000 in 2003. The labour force participation rate was 61.3% in 2003, compared with 70.0% in the EU15 and 65.5% in the new member states. Data show no strong trend in participation in FYR Macedonia in recent years – fluctuating in the range 60–62%. Male participation is just under 73% (no trend), female 49% (trend uneven, but rising gently). Thus, the gender participation gap narrowed from 26.5% in 1999 to 23.2% in 2003. Male participation is below the EU15 level (78.5%), but marginally above the NMS (71.9%). The female rate is well below both EU15 (61.5%) and NMS (59.3%) levels. Male participation is close to European norms in the 25–44 age group, but relatively low for both younger and older age groups. For women, the rate is well below European norms across all age groups.

A fairly stable participation rate may suggest that the main factors behind decreasing activity in other transition economies (for example, voluntary quits, semi-voluntary quits, forced withdrawals or discouraged workers effect) were of smaller size in FYR Macedonia.

Female participation in FYR Macedonia is by tradition lower than that of males, because of the special role women play in society. This holds particularly true for ethnic minorities, such as Albanians and Roma. According to LFS 2000, the participation rates of women of ethnic Albanian and Roma origin were 11% and 36% respectively, compared with 51% for ethnic Macedonians (see also NAPE 2004-2005, MoLSP, 2004). It has also been argued that, during the transition period, female participation rates declined due to deteriorating access to childcare facilities, longer maternity and parental leave, and reasons on the demand side reflecting employers' view of women as more expensive labour because of the likelihood of child care. However, as noted above, female participation has tended to rise again in recent years.

Data from the 2002 Census show that the participation rate differs across different ethnic groups (see Figure 1). The Macedonian ethnic group displays the highest participation rate of 53.5%, followed by the Vlachs (48.3%), Roma (47.6%), Serbs (47.3%), Bosnians (43.3%) then ethnic Turks (38.1%). Ethnic Albanians have the lowest participation rate of 29.3% which is mainly due to the extremely low activity of Albanian women (see above).

Figure 1: Participation, employment and unemployment rates by ethnic affiliation, 2002 (%)

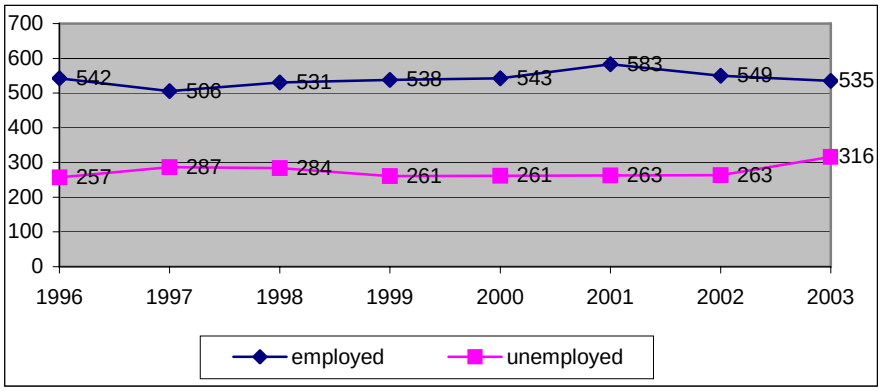


Note: Working-age population defined as those aged over 15.
Source: State Statistical Office (2004), 2002 Census of Population.

2.3 EMPLOYMENT

In line with the relatively strong growth in GDP between 1998 and 2000, employment grew by 2.3% (see Figure 2).

Figure 2: Number of employed and unemployed (thousands)



Source: State Statistical Office Labour Force Surveys.

The substantial year-to-year employment increase of over 5% reported by the LFS in 2001 partly reflects the seasonal effect of the survey being carried out in autumn (harvest period), instead of April, due to the 2001 civil war. It also partly reflects the (inappropriate) inclusion of police and army reservists in the employment figures. Consequently, the increase was almost fully reversed in 2002, when the survey was carried out in spring and the reservists were not included. Employment then fell by a further 2.6% in 2003. Over the period 1998–2003, employment grew by 4336, only 0.8%[4].

[4] According to the latest available data from the LFS April 2003, employment was estimated at 545,000, see Annex 1 for more details..

With the working-age population growing (3.7% over 1998–2003) and employment almost static, the employment rate fell from about 40% in 1998 to 38.5% in 2003. This low level of employment (compared with the 55.9% employment rate in the NMS and 64.3% in the EU15), is a major contributing factor to low living standards and increased poverty.

The employment rate for men in FYR Macedonia has been falling and in 2003 reached 45.6% (from 49.8% in 1998), which is well below the male employment rate in the EU15 (72.6%) and the NMS (61.7%). The female employment rate in 2003 was 31.3%, a two percentage point increase from 1998, but there is no significant trend over time. As with men, women in FYR Macedonia have an employment rate well below both the EU15 (56.0%) and the NMS (50.2%).

Data on employment rates by education[5] show that the lowest employment rate is found among those having completed lower secondary education or less (total 20.7% in 2003, 29.2% for men and 14.1% for women). Not surprisingly, the highest employment rate is for those who have completed tertiary education (total 63.6% in 2003, 62.8% for men and 64.4% for women).

Data from the 2002 Census show a relation between regional participation, employment and unemployment. In the regions where employment rates are relatively higher and unemployment is lower, participation is higher. The employment rate in the South-Eastern region in 2002 was 37.1%, 33.8% in the region of Skopje and 33.4% in the Eastern region, followed by Pelagonia (32.1%), Vardar (29.4%), South-Western region (24.1%), North-Eastern region (23.2%) and Polog region (16.4%).

Sectoral changes in employment

The magnitude of the sectoral changes in employment in FYR Macedonia was relatively modest compared to other transition economies, probably due to the smaller scale labour reallocation. The agricultural employment share in total employment increased during transition, similar to developments in Bulgaria, Croatia, Lithuania and Romania. It increased from 21.7% in 1999 to 25.3% in 2001 absorbing laid-off workers, or serving as a subsistence activity, at a time when the number of jobs in the formal sector was very limited (World Bank, 2003*a*). In 2003, the share of employment in agriculture declined to 22%, but this remains well above the EU15 (3.8%) and the NMS averages (12.4%). At the same time, the share of agriculture in GDP declined by 12% in the period 1996–2002, with detriment to productivity.

The share of employment in mining, manufacturing and construction decreased from 36.4% in 1999 to 33.9% in 2003, in contrast to the real GDP growth in these sectors. The comparable figure in the EU15 is 3.8% and in the NMS 12.4%.

The services share in employment increased from 41.9% in 1999 to 44% in 2003 (after an initial decline to 39.9% in 2001). Yet the growth in employment was much lower than the respective GDP growth, and is below that in the EU15 and NMS. Here, it should be noted that the main part of the informal economy operates in the services sector, which implies that services are

[5] Labour force, employed and unemployed are defined as population aged over 15.

underestimated in terms of share in GDP and employment. New jobs in services may be divided into low and high quality, the latter in business services, public administration and especially financial services. The share of financial, insurance and real estate services in total employment is very low in FYR Macedonia (2.9% in 2003), indicating that service sector job openings are usually of low quality, although precise data are not available.

Public versus private employment

The lack of alternative private-sector job opportunities, together with the perception of greater risk and uncertainty in private-sector employment, have constrained the scale of departures from the public administration. This is reflected in the relatively high share of public administration in total employment. Despite government efforts to create a small and effective administration (part of the financial arrangements with the World Bank and the International Monetary Fund), public administration employment increased from 5.7% of total employment in 2001 to 6.4% in 2003.

The ownership structure of the Macedonian economy is changing towards higher representation of private-sector employment. The private share in total employment increased from 41.6% in 1999 to 54.4% in 2003. Private-sector employment was most common in agriculture – 89% of total agricultural employment, although part of this is related to subsistence farming, followed by industry – 50.5% of overall employment in the industry sector, which however contributed only 40% to total service sector employment.

Type of employment contract

An important employment issue is the incidence of part-time working, which creates additional opportunities for workers and helps employers to quickly respond to changing aggregate demand. In FYR Macedonia, 5.7% of workers were covered by such arrangements in 2003, a decline from 7.9% in 2002. The part-time share in total employment was fairly stable in the years of transition prior to 2002, at around 7%. Women make more use of part-time employment, probably because they try to combine family and working life. About 6.5% of women in 2003 were working part-time. Part-time working arrangements are more widespread among youth (11.7% of youth employment in 2003) than in the prime-age working population (25–54), 4.7%. There is an increase in the use of part-time contracts for older workers (55–64), who are likely to combine their formal inactivity with part-time employment in order to increase their living standard, having retired under early-retirement schemes used in the privatisation process or being eligible for unemployment benefit until retirement age.

Fixed-term employment acts as a precautionary measure for employers in unfavourable economic conditions. The fixed-term share in total employment was in the range 10% to 13% after 1996, and increased to 17.7% in 2003. Focusing on age groups, again, such employment is more frequent among young workers, rising from 9.4% of employees aged 15–24 in 2000 to 44.3% in 2003.

From a policy perspective, the age structure of part-time and fixed-term employment may suggest youth discrimination in terms of constrained access to permanent/full-time jobs, on-the-job training and promotion prospects. The use of civil contracts (regulated under the Law on Obligations and Acts but not in the Labour Code) has also increased during transition but there is no data source to determine the magnitude of this development.

2.4 UNEMPLOYMENT

As part of the former Yugoslavia, FYR Macedonia experienced two-figure unemployment rates even during the 1980s. Throughout the 1990s, unemployment continued to increase despite limited restructuring and job-shedding, reaching 36% in 1997. In the period 1999–2001, a rise in real GDP and employment was accompanied by a moderate decline in the unemployment rate. In 2003, unemployment reached 37.1% of the active population aged 15–64, due to both increased participation and reduced employment.

While in most CEECs, LFS data show higher unemployment than administrative sources (registered unemployed persons), registered unemployment in FYR Macedonia is higher than LFS unemployment figures (Mojsoska, 2003*a*). This can be explained by the incentive for part of the inactive and informal economy workers to register as unemployed in order to be eligible for free (state-provided) health care, when they do not have other means of entitlement (e.g. employed spouse, employed parents, pension rights, etc).

Women were more likely to be unemployed than men during the transition period. However, the gender gap has been decreasing over time and was even reversed in 2003, when male unemployment, at 37.4%, was marginally above the female rate of 36.7%.

As everywhere, young workers (aged 15 to 24) in FYR Macedonia are more likely to be unemployed relative to other age groups. Their unemployment rate is 1.7 times higher than the national average for 2003. The youth unemployment rate declined from 70.9% in 1998 to 60% in 2000, and then increased again to 65.7% along with the increase in the overall unemployment rate in 2003. At the same time, unemployment of the prime-age group (25–54) increased from 28.6% in 1998 to 33.7%, and that of older workers (55 years and over) from 13.4% to 20.5%. The latter may point to decreasing returns to experience during transition as businesses begin to favour younger workers with higher education, which is more compatible with the new production and information technologies.

Unemployment has substantial regional variations and a significant characteristic is its concentration in the larger urban centres of the country. One quarter of 123 municipalities have an unemployment rate higher than 50%, the majority from the Skopski and Pelagoniski regions, peaking in the municipality of Zelino at almost 80% (UNDP, 2004).

Data on unemployment rates by education show that the highest rate among over 15-year-olds rests with those having completed lower secondary education or less (total 47.1% in 2003,

29.2% for men and 41.7% for women). Not surprisingly, the lowest rate is for those who have completed tertiary education (total 19.4% in 2003, 17.7% for men and 27.0% for women).

Regarding the education characteristics of the unemployed, those with primary education have a greater chance of becoming unemployed in FYR Macedonia, compared with those with three or four years of secondary education, especially those with tertiary education. According to the World Bank (2003*b*), the relatively lower unemployment figures for workers who have not completed primary education can be explained by the fact that they are less reluctant to accept low-qualified jobs, mainly in the agricultural sector. The increase in the unemployment rate between 1999 and 2003 hit individuals with primary and three-year secondary education harder than those with higher education. Nevertheless, in 2003, about 20 in 100 persons with higher education and 19 in 100 with university education were unemployed.

Another important feature of the labour market is the incidence of long-term unemployment (LTU). Because of the depreciation of knowledge, skills and working experience, the longer that people are unemployed, the lower are their chances of finding work. Consequently, people in this category of unemployed are in a worse position because they are not only without a job but they are also continuously unsuccessful at finding one. Data clearly illustrate that LTU is a serious problem in FYR Macedonia. Throughout transition, the LTU share in total unemployment has been over 80%, which is well above the CEEC average of 55.3% and the EU15 average of 40.2% in 2002. Those unemployed for less than one month account for only 1% of registered unemployed. LTU is almost evenly distributed between women and men.

2.5 QUALIFICATIONS OF WORKFORCE AND SKILL MISMATCHES

The educational attainment level of the population aged 25–64 is still lower than in the EU15 and NMS. Only a relatively small proportion of Macedonian adults (14%) attained tertiary education compared with the EU15 (22%) in 2003,[6] at the same time the share of those with only low educational attainment (43%) is comparatively high, in particular with regard to the NMS (19%) (Table 1).

[6] On the other hand, the share of population aged 25–64 with tertiary education is comparable with NMS (15%). Note also that a substantial part of current Macedonian students study in a foreign country and that there is a brain-drain issue as a number of them will probably find employment abroad.

Table 1: Educational attainment rates of population aged 25–64, 2003 (%)*

Level of education	Total	Male	Female	EU15	NMS
Lower secondary or below (ISCED 0–2)	43	36	49	35	19
Upper secondary or post-secondary non-tertiary (ISCED 3 or 4)	43	49	37	43	66
Tertiary (ISCED 5 or 6)	14	15	13	22	15

*Data for FYR Macedonia are from 2003 whereas those for the EU15 and NMS are from 2002 (in which year data were calculated for the same age groups). There is a lack of comparability as EU data refer to a different age group (15–64) than the Macedonian data, which refer to the 25–64 age group.

Sources: ETF Key Indicators database 2004; Eurostat 2003.

An additional disadvantage for the Macedonian workforce is the low educational level of the unemployed. Apart from the fact that unemployed people with only primary education represent the largest share of total unemployment (less so in the 20–24 age group), the share of unemployed having completed four years of secondary education also remains high (Table 2).

Table 2: Total unemployment and youth unemployment by level of education, 2003 (thousands)

Level of education	Total unemployed all ages	Unemployed aged 15–19	Unemployed aged 20–24
Total	315.9	17.1	59.9
No education	3.7	0.5	0.4
Incomplete primary	16.7	1.3	2.0
Primary	112.6	7.9	18.9
Three-year secondary	49.1	2.3	9.7
Four-year secondary	108.4	5.1	27.7
Higher	7.7	0	0.1
University	17.7	0	1.1

Source: State Statistical Office Labour Force Survey, 2003.

According to an earlier analysis (1991–99 cohorts) of 29,697 primary-school graduates, 18,336 (62%) graduated from secondary school four years later, and 3735 gained a four-year tertiary degree. Some 6300 students dropped out between primary and secondary schooling. There are no statistics illustrating what happens to students after secondary schooling, with the exception of some data on university graduates. Given the high level of unemployment and the current lack of post-secondary alternatives to university, it may be assumed that a high proportion of the 14,500 students who graduated from secondary school and did not pursue a degree, became unemployed (World Bank, 2002*a*). The situation for ethnic Roma remains particularly severe. According to the OECD, 90% are unemployed, and the UNDP (2001) stresses that only 2% of

the total number of employed are skilled (with any education higher than primary) and 75% have only elementary education.

Information on skills needs in FYR Macedonia is not collected in a regular and systematic way. Some mechanisms and tools have been developed and tested to identify more qualitative sector competences, but were never implemented on a wider scale, partly due to limited resources and cooperation between MoLSP and MoES, the latter expecting the former to take forward this initiative. A further weakness is the low capacity and weak motivation of social partners to become more proactive in formulating their skills requirements. A number of employers' organisations only emerged in 2004, and tripartite structures are not yet mature and effective in the fields of education and employment.

An earlier survey from 1998 on labour market demand among 400 enterprises showed the need for better practical training of students, higher proficiency in language skills, and the need for improved core competencies, such as taking the initiative, entrepreneurship, planning and innovative working.[7] Analysis of enterprises carried out by the Regional VET Centres in 2002 showed higher demand for a 'qualified' labour force (57% of companies do not lack staffing in this category) rather than basic labour (71% of companies do not lack this category). Two-thirds of the companies surveyed faced serious difficulties when employing specialised skilled new staff, with entrants lacking practical training (Nikolovska and Kjosev, 2002).

Taking into account the global trend towards the knowledge economy (although the pace of progress is assumed to be slower in transition economies), an increased need for higher qualifications can be expected in the medium and long term. A comparison of the structure of employment and unemployment by educational attainment shows significant lower unemployment for those with at least four years of secondary education and more, compared also with their share in employment (Table 3).

Table 3: Structure of employment and unemployment by educational attainment, 2003 (%)

Level of education	In employment	Unemployed
Less than primary	7.5	6.5
Primary	22.4	35.6
Three-year secondary	12.8	15.6
Four-year secondary	38.1	34.3
Post-compulsory non-tertiary	5.5	2.4
University	13.7	5.6

Source: State Statistical Office Labour Force Survey, 2003.

[7] This survey was part of PHARE VET support. According to the OECD, the survey has allowed a sustainable research system to be established that could be implemented on a regular basis by an appropriate institution with minimum supervision. In practice, however, this methodology has never been used as expected.

There is a visible gap in information on occupations and the labour market, and the provision of career information, guidance and counselling is underdeveloped in both the employment and education sector. The limited guidance services of the NEA are oriented more towards psychological expertise than labour market issues.

Initial education and training

In terms of participation, a range of indicators suggest that FYR Macedonia has educational gaps compared with the EU and even some SEE countries. Although the number of students at secondary level has been on the increase in recent years, the coverage of the initial education system is relatively low and participation is not even comprehensive at primary level (90% of those aged 7–15). The early school-leaving rate (share of 18 to 24-year-olds with low qualifications, ISCED 0–2, and are not participating in any education and training) was very high in 2003 (36%, ETF Key Indicators) and far above the EU15 average of 25%. The EU target of achieving 85% completion of upper secondary education in 2010 (for those aged 22) is far out of reach. Participation of ethnic Albanians in upper secondary education is only 16%, compared with primary and lower secondary (around 30%, UNDP 2004).

The UNDP analysis concluded that public spending on both secondary and higher education is 'strongly non-poor' (in contrast to primary education) in FYR Macedonia, and that secondary and tertiary enrolment rates vary considerably across income groups and regions. Both ethnic Albanians and Roma women and girls have the highest proportion of drop-outs from primary education and comparatively lower levels of education than their Macedonian counterparts (UNDP, 2003).

Macrolevel and centralised planning data are used on a national and regional scale to make decisions about investment in secondary education in the country. Enrolment policy in initial vocational education and training (IVET) has a major impact on the labour market, and evidence indicates that shaping the structure of IVET from a 'centralised enrolment perspective' causes a situation where new graduates with outdated skills enter the labour market and remain unemployed for years – the process can last over a decade. For example, there were still around 20 machinery schools in 2003, whereas 90% of companies in this sector had closed down[8].

The continuing enrolment of students in outdated IVET profiles over the years generates imbalances in the labour force and significantly contributes to skills mismatches at local level. While the centralised school curricula and syllabi are welcomed in secondary schools, providing general education, such an approach to IVET risks contributing to the growing discrepancies between labour supply and demand.

[8] Anecdotal evidence provided by interlocutors during field visits. A number of regions, such as Ohrid, Kochani and Tetovo, show constantly large numbers of students in the machines profile, although this profile had one of the highest unemployment rates. On the other hand, many areas such as Bitola or the city of Tetovo show a large share of unemployed with primary and secondary general education, with no VET specialization (Nikolovska and Kjosev (2002).

According to evidence provided by international assessment of student competencies at various ages, Macedonian students perform rather poorly. In 1999, in the Third International Mathematics and Science Study (TIMSS), the average test scores of Macedonian pupils (aged 15) were 6% lower than the international average. Similarly, in the Programme for International Student Assessment (PISA), which assesses the ability of 15-year-olds to apply their knowledge acquired in school to real world issues, FYR Macedonia ranked 38th out of 41 countries in both the combined reading and mathematical literacy scales, and was among the four worst performers (along with Albania, Indonesia and Peru). In 2001, in the Progress in International Reading Literacy Study (PIRLS), measuring reading achievement at age 10, FYR Macedonia ranked 28th out of 35 countries, and the lowest of all European countries.

Regarding other key competences, such as learning foreign languages, the country is also lagging behind. Less than 3% of pupils in primary education study any foreign language, and only one-quarter (25%) of pupils in general and vocational secondary education (ISCED 2 and 3) study two foreign languages in the same year (75% studied at least one foreign language in 1999/2000)[9].

It is important to point out that recent pressure from the unemployed having completed their secondary education (general secondary and IVET four-year programmes) has resulted in a significant increase in the number of students in university education. In 1996/97, the total number of students enrolled at university was around 30,000; five years later in 2000/01 the number rose to a total of 39,000, and in 2003 almost 47,000 (an increase of more than 50% in seven years). This contributed to substantial changes in the student/teacher ratio. While at the beginning of the 1990s, the student/teacher ratio in university education was approximately 1:23, ten years later the ratio is nearly 1:30. This fact is opening up questions about the quality of the teaching and assessment of student performance, which in turn has a significant impact on the skills attained.

Whereas the number of students who are entering university education in FYR Macedonia is rising, the number of students graduating is still very low. In addition, the overwhelming majority of students (85% in 2001) take longer than the normal time to complete their degree. Although the pressure for a higher level of skills is evident, the general impression is that university education in recent years provides a substitute for employment for those who would otherwise remain unemployed for years.

Continuing education and training

In FYR Macedonia, the relation between IVET and continuing vocational education and training (CVET) is very weak. The country has made efforts in developing the IVET system, which needs to be improved according to local market requirements, however there is hardly any provision for post-secondary VET and CVET. At the same time, the adult education system is

[9] Only students from Grade IV (regular schools) learn foreign languages in FYR Macedonia (European Commission, 2002).

underdeveloped. Both three- and four-year IVET courses fall at level 3 of the International Standard Classification of Education. There is almost no VET provision at ISCED level 4 and the ISCED 5b system (applied higher education) is not well developed – levels of education and training that need to be expanded in most advanced economies if they are not to experience serious skill shortages in future years. The four-year IVET courses should prove continuity to post-secondary VET courses, rather than via the Matura to higher education.

Those who have completed secondary education in FYR Macedonia have only two possibilities open to them: to go to the labour market and remain unemployed over long periods, or to enrol at one of the faculties or higher education institutions. As current legislation is concerned only with secondary education, it does not recognise the contribution to CVET made by the Workers' University and the Employment Office's contribution, limited though it is, to the requalification of the unemployed. Thus, the crucial links between initial and continuing education are lost, and adult education and training are marginalised.

The participation rate for adults (aged 25–64) in education and training is comparatively low at only 1.9% (ETF, 2003). There is no mechanism for motivating employers to invest in training and awareness is low that training has a direct influence on productivity and output. As a result, only a small number of enterprises train staff regularly. There is no private training market other than a few consultant companies offering language and IT courses. The trade unions and chambers of commerce are still focused on establishing their basic rights and organising themselves. Employment Law does not regulate employees' rights when it comes to training. An employee cannot initiate activity for additional training; all is left to the employer's will to invest in staff training.

Opportunities for an unemployed person to participate in training are even more limited (only 1.3% of the unemployed aged 25–64 in 2003) (ETF, 2004). The lack of CVET and post-secondary VET is one reason for such a low participation rate in retraining and further training of the unemployed.

2.6 MAIN CHALLENGES

This chapter has documented the substantial labour market problems faced by FYR Macedonia. Even when allowance is made for possible inaccuracies in official data, unemployment is extremely high, and the level of employment extremely low by international standards. Moreover, despite some year-to-year variation, the level of employment has been essentially static over the medium term. Given the trend in population, this has led to an ongoing fall in the employment rate – i.e. the percentage of the working-age population who have jobs.

Increasing adaptability of workers

The main problem remains lack of demand for labour in the formal economy, combined with a very limited amount of foreign and local investment. The privatisation process did not lead to the creation of new jobs. One indication of this is that the participation rate has remained stable during the transition process, which means that the effect of voluntary quits, forced withdrawals

and discouraged workers has been of considerably smaller magnitude than in other transition economies.

The private sector jobs that have been created during the transition period have been mainly in agriculture and manufacturing (e.g. textiles). The extent of labour reallocation has been very limited due to limited sectoral changes in employment. There has been no pronounced movement of labour from sectors of low growth and productivity to sectors with higher levels of growth and productivity. In addition, the main Macedonian export-related industries – textiles, iron and steel processing – are labour intensive, offer low wages and are heavily dependent on imported raw materials, which in turn have very volatile world prices. The main outstanding issue is from which sectors the new jobs can potentially come, especially better ones. Further research should be done in this area, one possibility being to have regional and local approaches to labour demand and survey local entrepreneurs to gain some insight into which direction the economy is heading.

Many people are forced to work in the informal sector due to lack of formal employment opportunities and increasing levels of poverty; however there is no detailed statistical information and analysis on the magnitude of the issue, in particular on the characteristics of the poor – ethnicity, place of residence, place in the labour market, educational attainment levels, coping strategies and chances of finding formal employment.

In addition, further analysis should be carried out on regional disparities in employment/unemployment and poverty, and more specifically on the underlying causes of such disparities. This will give an additional insight into how local development can be fostered and how it can lead to new employment opportunities. This is of particular relevance given the very low labour migration in the country, resulting in unemployment that is mainly structural and local.

Attracting more people to enter and remain in the labour market: making work a real option for all

The low participation rate is a result of the low employment rate in the country, and it is particularly low among women from ethnic minorities. Besides the lack of demand for labour, this can be attributed to cultural factors as well as to low levels of skills.

Young people, especially those looking for their first job, are the ones most discriminated against by the labour market, subjected to precarious types of employment contract (short-term, fixed-term, etc.). There is a two-tier labour market of insiders well protected by the current system and young people, looking for their first job, for whom the probability of finding employment is very slim. The few lucky ones who do manage to find work are usually well educated, although offered low wages. It has been shown that the lowest unemployment rate is that of those who have completed tertiary education, which is why well-educated young people are often discouraged and seek job opportunities abroad. Further investigation should be carried out on migration flows and the extent of the brain drain.

In addition, long-term unemployment remains very high and the integration of these people into the labour market remains a serious concern for the country.

Investing more effectively in human capital and lifelong learning

A range of educational indicators points to significant gaps in the qualifications of the workforce as well as several problems across the entire education system from primary to higher (access and early school leaving, quality, assessment, inequalities between ethnic groups, lack of career information and guidance, scarce resources).

The reasons for comparatively low educational outcomes, measured by different international studies (PISA, PIRLS), need to be further analysed and responded to by measures to raise the quality of education at all levels.

The way that quality assurance and assessment in secondary education is conducted has a significant impact on the quality of the knowledge and skills of the labour force. The major problems in measuring knowledge and skills arise from the lack of a national standardised and comprehensive system of examinations and assessment of students' performance in secondary education. Teachers themselves examine the students and assess their skills, without reference to any standards. This type of assessment gives an unreliable picture of students' knowledge and skills, and further contributes to the skills mismatch in the labour market.

The VET provision in FYR Macedonia has proved to be too inflexible to adapt to the dynamic changes in society. The complexity of the situation cannot be underestimated, taking into account that about 61% of all students enrolled in secondary education participate in IVET. There is also some potential for optimisation of the VET school network and more effective use of existing schools for VET and CVET. However, the biggest challenge for the government is the decentralisation of education[10] required by the Ohrid Agreement of 2001, but it is also and even more a national policy to make vocational education and training more responsive to labour market needs and to improve the quality of education.

A number of internal and external factors put constraints on the development of a decentralised model of VET provision. Internal factors include (i) limited institutional capacity (in terms of expertise and availability of institutions) at central level to provide professional support to schools in the implementation of the reform; and (ii) the low participation of social partners. External factors include (i) a subnational public administration system in transformation and still undecided; and (ii) limited resources made available by both the central budget and the social partners.

[10] The UNDP also sees centralised systems at greater risk of being driven by other concerns (such as teachers hired many years ago and their type of specialisation) rather than by local labour market needs. See *Decentralisation for Human Development* (UNDP, 2004). In practice, however, the picture is more complex and involves issues such as the social function of schools in rural areas in a context of low labour demand, proper planning according to labour market needs in a difficult situation, capacity of educational stakeholders at local level, etc.

Traditionally, the country's policy was through adaptation of new legislation to bring changes in the system; however, experience shows that the enforcement of new legislation is very difficult if governance infrastructures are not in place. The Ministry of Education and Science's attempts to decentralise education is set in a broader national administrative reform framework. It is also important not to overestimate the effects that arise from decentralisation itself within the sector. Steps towards a more integrative policy framework and regulations that will take on board the issues of IVET and CVT, providing lifelong learning opportunities for all citizens of the country, is gaining momentum. This is currently seen as the highest priority. Revision of the legal framework regulating the provision of VET, including the tripartite institutional setting (VET Council, VET Centre), is under way. A new VET Law is expected to encompass adult education as well. National occupation/qualification standards could function as the major integrative and unifying instrument in the process of decentralising VET. This is under deliberation in the MoES, and measures are being prepared to establish a regulatory qualification framework to support the integration of IVET and CVT with a view to lifelong learning. The VET schools, today equipped with advanced technology through various donor projects, could substantially contribute to the development of human resources in the country.

3. REVIEW OF POLICIES, LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS TO ADDRESS LABOUR MARKET CHALLENGES

3.1 EMPLOYMENT POLICIES AS PART OF OVERALL POLICY AGENDA

The experience of the European Union shows that the labour market is affected by a wide range of government actions – not only in employment policy, but also in education, social welfare, business regulation and taxation. One of the goals of both the EU and the member states in implementing the European Employment Strategy over recent years has therefore been to ensure that employment impacts are fully taken into account in the formulation of policy in these other fields. It is also particularly important that employment policies are consistent with and coordinated with the economic policy priorities of governments.

Within this overall economic policy context, primary responsibility for employment policy in FYR Macedonia rests with the Ministry of Labour and Social Policy[11]. Despite the importance of employment developments over the period since independence, until recently there had never been any coherent government employment policy, or coordination of employment policies with other areas of government activity. First steps have now been taken to rectify this deficiency in the form of the National Action Plan for Employment 2004–2005 (NAPE), which sets out to present a comprehensive statement of employment policy.

In framing employment policies, NAPE takes explicit account of the government's broader economic policy objectives, and recognises the place of employment policies as contributing to the overall process of structural reform:

> '*within this [macro-policy] framework … specific activities for the improvement of the reform processes are foreseen, and will be carried out also through the provisions of NAPE'* (MoLSP, 2004, p. 7).

A second feature of NAPE that serves to support coordination is that it is not limited to the planning of actions to be carried out solely by MoLSP and its constituent agencies. The importance for employment of actions by other government ministries and agencies is acknowledged. Thus, NAPE includes:

- a range of measures to be undertaken by the Ministry of Education and its agencies, including plans for the development of regional training centres in collaboration with the Agency for the Development of Education;
- actions by the Ministry of Economy and its constituent agencies in the fields of support for entrepreneurship and promotion of foreign direct investment (FDI);

[11] The direct operations of the MoLSP, and of its main operational body the Employment Service Agency, are dealt with in more detail in later sections.

- possible fiscal measures under the responsibility of the Ministry of Finance – e.g. consideration of tax incentives for employers in relation to expenditures on training their employees.

Equally, within the area of responsibility of the MoSLP itself, NAPE includes consideration not just of the potential employment effects of 'active' policies, but also of 'passive' measures (unemployment benefits) and of labour regulation (e.g. hiring/firing laws).

Reflecting this cross-ministry approach, the Action Plan was prepared by a working group established by the Minister of Labour and Social Policy. The group included independent experts as well as representatives of the Ministries of Education, Economy, Finance and Local Self-Government, ESA, the Association of Local Government Authorities, and social partners (Chamber of Commerce, Association of Trade Unions).

Finally, while NAPE is formally a document approved and adopted by the Minister of Labour and Social Policy, its implementation will be monitored and guided on a cross-ministry basis at two levels:

1. The working group that prepared the plan will remain in existence to monitor its implementation;
2. A Joint Ministerial Committee has also been established made up of deputy ministers[12] of the relevant ministries as well as designated social partner representatives. Coordinated by the MoLSP, the committee's purpose will be 'to supply the necessary political guidance and to exercise overall supervision of the implementation of the plan' (MoLSP, 2004, p. 27).

Assessment

NAPE represents a useful first initiative in bringing coherence to employment policy and in bringing employment closer to the centre of government's political concerns. Preparation and implementation of a NAPE is by its nature an annual rolling process. Bearing this in mind, there are a number of features where improvements might be considered as time goes on.

First, many of the NAPE objectives and priorities are stated in only vague and general terms. This is understandable at the global level – at this early stage it would not necessarily be useful to set very specific targets for employment and unemployment rates, for example, either in aggregate or for particular groups. However, the vagueness often extends to a failure to include financial plans, to specify the scale of resourcing of proposed programme interventions – how much expenditure is proposed, how many people will be affected – or to quantify the expected outcomes. At the same time, NAPE does envisage the collection of data on a range of indicators relating to each of its priority fields. *An assessment of these data in the first year of NAPE implementation should be used as the basis for including more quantified resourcing commitments, outcome targets, and overall financial plans in NAPEs of subsequent years.*

[12] Typically, a ministry in FYR Macedonia is headed by three political appointees – in order of seniority, minister, deputy minister and state secretary.

Second, NAPE acknowledges the importance of regulatory and fiscal barriers to the creation of additional formal employment. However, there has as yet been limited analysis of the relative importance of the various barriers in terms of their employment impact. This in turn makes it difficult to set priorities between different areas of regulatory/fiscal reform, or to identify the precise reforms that would be required. *More detailed analysis of the importance of specific regulatory and fiscal issues should underpin future annual NAPEs*[13].

Third, while interministerial coordination arrangements have been established – in the form of the Joint Ministerial Committee and the working group – these are not yet as strong as those in other countries. To underline the political commitment of government, in many EU member states the annual employment action plan is formally adopted by the full government, and sometimes by parliament. The message is often further emphasised by prominent publication of the plan and promotion of widespread debate on the issues it raises. In the absence of such commitment, there is a risk that NAPE in FYR Macedonia (and labour market problems more generally) will be seen essentially as the 'property' of the MoLSP. It is understood that the success of the existing interministerial committee as a mechanism for coordinating and mobilising policy actions is to be reviewed during its first year of operation. *This review should give consideration to more formal adoption and publication of the NAPE as a signal to ministries and agencies of the strength of the government's political commitment to the measures it contains.*

3.2 INCREASING ADAPTABILITY OF WORKERS AND ENTERPRISES

Raising the demand for labour has to be the primary objective of policy in a country with an employment rate as low as that in FYR Macedonia. This in turn will be achieved only through the creation and expansion of dynamic and adaptable private-sector companies that can compete in the home and foreign markets.

Government can affect the growth and development of businesses in several main ways.

- First, investment decisions may be influenced by taxation policies and the financial costs they impose on companies starting up or continuing in business.
- A second role of government is in its responsibility for the regulatory environment – e.g. the extent of the 'red tape' requirements associated with necessary business activities such as establishment of companies, acquisition of property, registration of contracts etc. This also includes, as noted above, the effectiveness of the judicial system in underpinning both rights and responsibilities in relation to property.
- Finally, government may provide financial, advisory and other promotional supports for productive investment either by new or existing domestic businesses, or alternatively in the form of foreign direct investment (FDI).

[13] Some of these fiscal and regulatory issues are discussed in more detail in subsequent sections of this review. It is hoped that this preliminary analysis may be of help in setting the direction for work on future NAPEs.

Current situation

Taxation

At first sight, the tax burden on economic activity in FYR Macedonia does not appear particularly onerous. The corporate income tax on profits has been reduced over time from 30% in the mid-1990s to 15% at present. Personal income tax rates, previously set at between 23% and 35%, were reduced and streamlined in 2002, so that there are now only two rates, 15% and 18%.

However, the income tax system is in fact quite complicated in its impact on the 'tax wedge',[14] particularly when account is taken of social contributions and of the fact that the assessment base for income tax and for social contributions differs. The system is analysed in more detail in Annex 4. In brief, the analysis concludes that:

- the tax wedge is relatively high by international standards;
- the system seems to bear relatively more severely, by comparison with other countries, on those in low-paid jobs and on workers with dependants;
- the structure of the system represents a major barrier to the growth of output, and employment, in the formal sector.

Regulation

The most recent assessment of the regulatory environment in FYR Macedonia was carried out by the World Bank as part of its international study *Doing Business* (World Bank, 2004*a*). This study compares countries across a range of types of regulatory impact. The results for FYR Macedonia can be summarised as follows.

- *For setting up a business*, both the number of procedures and the amount of time required are greater than in a typical country in the region (Europe/Central Asia) or in the OECD overall. The financial cost of these procedures (at about 12% of average annual income in the country) is above the OECD average, but below that for the region. Finally, the minimum capital required to be eligible for business registration – equivalent to 90% of annual income – is extremely high by international standards.
- The labour regulation index (measuring restrictions on hiring/firing, regulation of working hours) shows a degree of rigidity below average for the region, but slightly above the OECD average.[15] The financial costs of firing workers are slightly below international norms.
- Registering property is a faster process than in the surrounding countries, but slow by OECD standards. The costs involved are higher than in the region, but below OECD levels.

[14] The tax wedge is defined as the sum of personal income tax plus social contributions (whether paid by employer or employee) as a percentage of total labour cost. The size of the tax wedge is widely used as a basis for cross-country comparisons of the burden of taxation on labour.

[15] This contrasts somewhat with the results reported for earlier years by the World Bank (2003*b*). Labour regulation was found to have been still more restrictive than in the surrounding region, and much more rigid than in the OECD, as recently as 1999.

- FYR Macedonia scores relatively poorly on ease of access to credit information on potential suppliers/customers/partners, and also on the difficulty and cost of subsequently enforcing contracts.
- Investor protection through information disclosure is rather stronger than in the region, but still not as strong as in the OECD. Bankruptcy procedures, however, are particularly inefficient – they take longer and are much more costly than is typical of either the region or the OECD, and the debt recovery rate is extremely low (8%, as against 31% in the region and 72% on average across the OECD).

The OECD/EBRD (2003*a*) *Enterprise Policy Performance Assessment,* based in part on structured focus-group interviews with small businesses, tends to support these findings. These interviews help give a qualitative impression of the environment as seen by the SME owners, to complement the more quantitative approach in the World Bank study (2004*a*). The main additional insight is that of the need for consistency, certainty and transparency in the design and implementation of regulation. There is often a lack of clear and comprehensive information on the exact content of regulations, and these regulations themselves may be subject to frequent change that is not well signalled in advance. This creates difficulties in compliance, can expose SMEs to arbitrary official decisions, and inhibits planning for the future of the business.

From the point of view of this review, with its focus on the labour market, it is noteworthy that labour/employment regulation per se does not feature highly in the concerns of SMEs as reported by the OECD. This seems to bear out the assessment in *Doing Business* (World Bank, 2004*a*) that the regulation of hiring, firing and working hours/conditions is not particularly onerous.

Financial and advisory support

There are a number of financial supports for investment by both existing and start-up companies.

Most of these are tax-based, for example:

- Where a business invests in certain defined productive assets, the first €100,000 is fully allowable, and the amount over that is allowable at the rate of 30%, against the profits-tax base.
- For a start-up, the profits tax is reduced by half in the first year.
- Profits on business investments made by foreigners are exempt from profits tax for the first three years, subject to repayment if the business fails to continue in operation for at least a further three years thereafter.
- Businesses established in free economic zones are exempt from profits tax for the first ten years.
- There are additional tax incentives for investment in certain economically underdeveloped regions, or investments for the protection of the environment.

Based on a number of OECD assessments carried out in 2003, the government considers that these incentives compare favourably with those in the surrounding region, and the focus of policy will be, therefore,

> *'not on increasing the generosity of its investment incentives in a situation where they are already generally considered to be highly competitive, but on improving the basic operation of the system'* (MoE, 2003).

The government (as well as external donors and NGOs) has also taken an active interest in the question of ease of access to credit, particularly for smaller businesses. The recently published national report on compliance with the European charter for SMEs notes that credit lines have been provided for small businesses over a number of years under EU programmes such as PHARE and by development agencies from Germany, the Netherlands and Italy as well as by the Soros Foundation.

The most notable recent development under this heading was the establishment in June 2003 of the first commercial microcredit bank – ProCredit Bank. The bank has at present about 10 branches all over the country and is expanding rapidly. In its first year of operations it extended some 7750 loans to a total of €31 million (average of €4000). According to a specially created government database, total long-term credit advances to SMEs rose from €30 million in the year ending June 2002 to €37 million in the year ending June 2003, and rose further to over €51 million in the year ending June 2004. The arrival of ProCredit therefore appears to have contributed to a significant acceleration in the availability of credit.

One problem for small businesses seeking credit has been the difficulty and cost of providing the collateral required by lending institutions. To address this issue, there are currently two Guarantee Funds, one financed by the Swedish Agency for International Development Cooperation (Sida) and another recently established by the Macedonian Enterprise Development Foundation (MEDF). Both funds offer guarantees for projects for which banks are willing to provide finance, if sufficient collateral is lacking. It is felt that further action in this area is needed in the form of a state guarantee fund. While the necessary legislation has been drafted, government has not yet established the proposed public fund.

A wide range of advisory and consultancy services is also available for small business. Many of these are provided through projects funded by international donors such as the World Bank, USAID and GTZ, the German Technical Cooperation Agency. There is also a developing commercial business consultancy sector. In some cases, these commercial consultancies have grown out of previous donor projects that have become self-financing over time. Thus, five Regional Enterprise Support Centres (RESCs) promoting entrepreneurship were founded in 1999 and their financial support from the donors lasted until the end of 2002. Their original purpose was to promote and upgrade the entrepreneurial spirit in their respective regions, as well as assist with loan applications. After 2002, these centres continued functioning as independent units, providing similar services as in the past but on a fee basis. Over the last

year, the Ministry of Economy has funded the participation of over 300 SMEs in specially designed seminars provided through these and other local consultants.

Finally, the government has recently created the Agency for Promotion of Entrepreneurship as successor to the National Enterprise Promotion Agency, with the task of implementing the national SME strategy. The agency was established in May 2004 and has recently appointed a management board, executive director and part of its staff complement. It will be increasingly active on behalf of the SME sector and will be a key mechanism for ensuring stronger and more effective SME representation.

Assessment

A number of important positive factors emerge from this examination of the environment for flexible and adaptable businesses in FYR Macedonia. Thus, the system of financial incentives for business investment has been assessed as quite competitive by comparison with those in other countries in the region. Credit access for small businesses has improved over the last few years, and steps are being taken to improve this further, particularly in the area of provision of collateral guarantees. The availability of advisory services is increasing over time, and the fact that previously donor-funded services have managed to become self-financing is an encouraging sign. Finally, no undue rigidities seem to arise in relation to companies' deployment of human resources as a result of labour regulation.

Two major problem areas have been identified, however.

First, the burden on labour costs imposed by the system of personal income tax and social contributions is relatively high. This in itself creates disincentives to the creation of formal jobs. Evidence of the impact of this is the increasingly widespread use, in the formal sector, of what are known as 'civil law contracts'. While an employer using this kind of contract is liable for an employee's personal income tax deductions, no social contributions are payable, thus reducing the cost to the employer by 32%. In an attempt to economise on the wage bill, government itself has become a major user of this kind of contract, with a growing number of 'civil contract' workers employed in both ministries and public agencies. However, this is unsatisfactory in that employees have no entitlement to health care while in employment, nor are they earning entitlement to subsequent unemployment benefits or pension payments.

Second, the system tends to discourage flexible forms of employment. Two examples have been given above – part-time employment, which is discouraged by the particularly high tax wedge at low wage levels, and self-employment, for which no allowance is made in terms of access to the social insurance system (particularly health insurance). The effects of these disincentives are marked, for example:

- as noted in Chapter 2, part-time jobs account for less than 6% of employment in FYR Macedonia; this compares with 17% in the EU overall;
- despite the continuing importance of agriculture and other sectors that usually involve a substantial degree of self-employment, only 3% of the working-age population is reported as

being self-employed in FYR Macedonia; for the EU overall this figure is 10%, and is much higher again in countries such as Poland where agriculture remains an important sector.

Combined, these effects can be seen as creating not a two-tier but a three-tier employment market. Some workers are fully in the formal market, covered for both tax and social insurance; some are engaged on civil contracts; and some are employed informally, paying neither tax nor insurance. In this regard, it would be a mistake to see informal work as a 'safety valve' for a high-unemployment society, other than in the short term. As time goes on, a growing number of workers are uncovered for insurance purposes; eventually, to avoid impoverishing these workers, alternative forms of pension and welfare payments, not based on the insurance principle, will have to be developed. Moreover, not just individual workers, but entire small businesses, can become confined to the informal sector for long periods. Such companies will tend not to invest in the business – their informal status will block their access even to microcredits, and in any case investment-led growth would tend to make them 'visible' to the authorities they are avoiding. Owners will therefore tend to invest profits outside the business, for example in property either inside or outside the country. This lack of business investment will tend to prevent both the informal sector, and the country overall, from achieving higher productivity and living standards.

There is therefore an urgent need to address the disincentives to formal business and employment that are created by the tax and contribution systems. Priority should be given to:

- widening the tax base by enforcement and by vigorous application of the income tax rules to all forms of income – including earnings in the informal sector and non-labour income – rather than concentrating primarily on formal labour income;
- using the proceeds of increased enforcement to reduce taxation rates – particularly for social contributions;
- recasting those aspects of the system that particularly discourage atypical and flexible work such as part-time and self-employment; this might include, for example, reviewing the 'minimum reference income' for social contributions, and opening up access to the social contribution system for the self-employed;
- revising the basis of calculation to bring it more into line with other countries, emphasising the concept of the gross wage rather than the net wage, thus bringing greater transparency to the wage-setting system.

3.3 ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

The tax and contribution systems described in Section 3.2, given their major impact on incentives to work, may be seen as 'one side of the coin' of an overall activation policy. The other side of that coin is made up of what may be seen as more specifically labour market policies. These include:

- the job-broking, advice, guidance, counselling and job-search support provided by the public employment service, which may be particularly targeted at 'activating' unemployed and inactive people in receipt of welfare as well as other groups (youth, the disabled, etc.);
- the structure of 'passive policies' – the various forms of income maintenance welfare payments that are provided for the unemployed and inactive, and how these affect work incentives;
- specific active labour market programmes – usually providing training, temporary public employment, or subsidies to recruitment by private employers (or some combination of these three) for targeted unemployed.

Primary responsibility for the delivery of both active and passive labour market policy in FYR Macedonia lies with the Employment Service Agency. The ESA is responsible for all aspects of employment service provision – registering the unemployed, paying unemployment benefits to those who are entitled, giving advice, guidance and counselling to jobseekers, and delivery of active labour market programmes.

Current situation

The ESA currently employs 507 staff, of whom 30 are at the head office in Skopje, and 477 are employed in a network of 30 local offices. In late 2004, there were approximately 380,000 jobseekers registered as unemployed with the ESA. The bureau thus has one head of staff for every 750 registered unemployed; the ratio of ESA staff to the overall labour force of 860,000 is approximately 1:1,700. Relative to the size of the labour force, ESA staffing compares reasonably with that in other countries; if measured relative to the high level of unemployment, however, its staffing is relatively low and its potential workload is relatively very high.

In terms of passive policies, cash unemployment benefits are payable to insured workers who lose their jobs. Benefits are pay-related – based on the average of the last 24 net wages earned prior to becoming unemployed. As of June 2004, benefits are payable for 14 months – at 50% of previous net earnings for the first 12 months of entitlement and at 40% for a further 2 months. However, where a worker is aged over 55 on becoming unemployed, and has 15 years insured work experience, benefit can continue to be paid at the 40% rate until the recipient reaches retirement age (64 for men, 62 for women). There is no minimum payment specified under the law, but the maximum payment may not exceed the current average net wage in the economy. Where payments last for more than one year, they are up-rated annually in line with the rise in average net wages. Only a minority of those registered as unemployed receive unemployment benefit – at present, recipients number 50,000. The majority of these – about 30,000 – are persons aged over 55 who will be entitled to receive benefit up to retirement age.

Clearly, then, for younger workers and the newly unemployed, unemployment benefit coverage is very limited. For these, the major incentive to register with the ESA is that the bureau pays the health element of the social contribution for all registered unemployed. As noted in Section 3.2, for anyone who does not have a formal job as an employee, registration as unemployed is the

only way to gain access to health insurance. It may also be that many people are registering as a requirement for access to 'social assistance' cash benefits administered by another agency of the MoLSP – the Centres for Social Work (CSW). These are pure means-tested income support payments, and it is estimated that about 500,000 people or 25% of the population lives in recipient households (World Bank, 2004*b*, p. 24). What is not clear, however, is the extent to which labour market criteria (e.g. availability for work, job-search) are applied by the CSW when assessing entitlement. According to the same World Bank report,

> *'Very little data is collected or analysed, however, on the profiles of beneficiaries, their welfare situation and employment capabilities etc.'*

While it seems inevitable that a large number of ESA registrants are in fact receiving social assistance, the absence of a data link between ESA and CSW means that there are no exact data on the numbers involved.

The opinion of both expert observers and of ESA officials is that a large majority of those who register with the bureau do so solely for access to health insurance or other benefits – they are not actually seeking work, but are either inactive or are employed in the informal economy.[16] At the same time, although accurate national data are not available, it is clear that few vacancies are notified by employers to the ESA. Equally, inflows of new registrants, and outflows of people leaving the register, are small. In one office visited, with a stock of 28,000 registrants, it was estimated that inflows and outflows were each of the order of 50 per month.

In these circumstances, the extent to which the ESA can offer real advice, guidance or employment opportunities to jobseekers is strictly limited. Indeed contact with registrants is infrequent. Those receiving benefit are expected to visit the local office once a month; those registering for health insurance purposes must visit once every two months; and those wishing to remain registered as unemployed for other reasons must renew their registration every four months. It is clear that most visits are made by people registering purely for benefit/insurance/social assistance purposes; inevitably these visits involve only a perfunctory interview.

The actual role of the ESA in 'activating' unemployed people through advice, counselling, and job-search support is thus extremely limited. Active programme interventions are also extremely limited – accounting for only 4% of the ESA budget in 2003.

The only labour market training effort managed through the ESA takes the form of a subsidy to employers for initial on-the-job training of unemployed people recruited from the bureau's register. The subsidy can last for up to three months, during which the employer is expected to

[16] Although accurate national data on the scale of registration purely for health and other benefits were not available as this review was being compiled, informal estimates for one office visited during the study suggested that almost 70% of registrants fell into this category. The office may not have been typical, as it was indicated that only 5% of registrants were receiving unemployment benefit, compared with the national average of about 13%.

pay a net wage of MKD4000, of which 50% can be reclaimed from the ESA. The total number of workers affected in 2003 was approximately 2000.

Under the Law for Boosting Employment, introduced in April 2003, employment subsidies were given to employers, in the form of a two-year exemption from payment of social contributions, for all new employees recruited from certain targeted categories of the registered unemployed.[17] The law did not, however, provide a straightforward targeted recruitment subsidy, because the social contribution exemption for those recruited only applied if, at the same time, the total number of employees with the particular employer exceeded the total number a year previously. Some 15,000 recruits were claimed for under this legislation. However, it made little or no impact on unemployment data as its introduction coincided with a temporary upsurge in restructurings and company closures. As in other countries, there were concerns about the extent of possible 'deadweight',[18] and the escalating cost of the programme. It was discontinued at the end of 2003.

The ESA also faces major challenges in upgrading its own premises, equipment, administrative structures and human resources. This work is proceeding with financial and technical support from the European Agency for Reconstruction (EAR) under CARDS. Under Phase 1 of its project on employment policy reform, started in May 2003 with funding of €2.5 million, EAR provided initial support for the restructuring of the ESA administration, and for upgrading local employment offices through the provision of training and equipment.[19] These supports are continuing under Phase 2 of the project with further EAR funding of €1 million.

The EAR project is also supporting experimentation in active measures through the implementation of 11 pilot projects across the country. Selected on the basis of a competitive tender for proposals, the projects take a range of approaches, with a varied mix of training and business counselling, generally with a view to participants ultimately engaging in self-employment. The projects commenced in mid-2004, have a typical duration of about 10 months, and involve some 1500 participants in all.

Assessment

Present policies and institutions are not oriented towards activation of the unemployed or of other groups of potential workers currently outside the labour force. There are several principal reasons for this:

- the need to further modernise the employment service, in terms of premises, equipment, and staff development;

[17] The particular groups were long-term unemployed, redundant workers, workers from bankrupt enterprises and social assistance beneficiaries.

[18] That is, payment for recruitment that would have occurred in any case even without the subsidy.

[19] The first phase of the project also provided assistance to the MoLSP in the development of NAPE, and monitoring and implementation of NAPE continue to be supported under Phase 2.

- the high number of ESA registrants who register principally for entitlement to social benefits of some sort;
- the extremely low level of resources devoted to active programmes;
- the fundamentally 'employment-unfriendly' structure of the tax and social contribution systems.

NAPE proposes to reorient the work of the ESA more towards activation. The major existing and planned measures in this area include:

- continued strengthening of the physical and human resources of the ESA and its local offices, including provision of the necessary computer hardware and software and an ongoing programme of staff training;
- introduction of expanded training programmes for the unemployed, at both national and regional levels;
- expanded programmes to promote and support self-employment as an option for the registered unemployed;
- enhanced partnership between the ESA and the VET authorities and institutions to ensure that the training offered is in line with labour market needs;
- a review of the operation of unemployment compensation (benefits, etc.) to address possible disincentives.

All these measures are welcome, and are likely to make a contribution over time to the development of more active policies. However, as noted in Section 3.1, in most of these areas NAPE merely outlines the general direction of proposed changes. There are few clear statements of the scale of resources to be devoted to particular programme measures. Where the proposed actions involve reviewing or changing procedures and regulations, no clear timelines for these changes are specified in NAPE. It is recommended, therefore, that the current direction of change in the organisation and resourcing of the ESA should continue. Moreover, future updates of NAPE should concentrate on developing more precise targets, deadlines, and resource commitments to the proposed measures.

To support these measures, the most critical starting point for any general move towards a more active policy stance for the ESA must be a review of the system of unemployment compensation/registration, including the way it interacts with the tax and contribution systems. Taken in combination, these systems on the one hand depress the level of employment, thereby raising unemployment. On the other hand, they also force inactive people, and those working in anything other than 'regular' jobs (such as the self-employed), to register as unemployed if they are to retain access to important social services. This swamps the ESA with a large number of totally inappropriate clients, effectively smothering its ability to deliver the type of services and activation supports it should be providing to the core unemployed.

A number of recommendations in relation to the tax and contribution systems have already been made in Section 3.2. *Of these, perhaps the most urgent from the short-term perspective of the role of the ESA is the reorganisation of the health insurance system to remove the incentive for large numbers of non-jobseekers to register as unemployed.* This will free up resources in the ESA to be devoted to a more active approach with its remaining clients.

This active approach should take the form primarily *of promoting and monitoring active job-search among targeted groups of registrants*. Initially, the main target group should be recipients of unemployment benefit, for whom the requirement to be actively seeking work is not in practice enforced at present. In addition, the ESA should work with the CSW to identify more precisely all social assistance recipients whose benefit is (or should be) conditional on their being available for and seeking work.

At the same time, there will be little point in developing an active approach in the ESA, designed to encourage the unemployed and inactive to take up formal jobs and to be flexible in considering part-time and other forms of employment, if at the same time other aspects of government intervention in the economy are actively discouraging the creation of employment opportunities. *Over the medium term, therefore, the changes needed to reduce the overall employment-depressing impact of the tax and contribution systems are also vital.*

Past intervention in the form of active labour market programmes has been limited in scale and relatively ineffective. *In current circumstances, it seems difficult to justify continuation of the labour market training programme – which has more of the characteristics of a labour subsidy, in any case – nor reintroduction of the more general programme of labour subsidisation that was phased out at the end of 2003. Consideration might be given to developing active programme measures at a later stage – but only after the necessary reforms have reduced the scale of registration with the ESA to manageable proportions and the ESA can develop the necessary interaction with (and information on) clients that will allow it to form informed judgements about the types of intervention clients require.* As will be seen from the following section, the initial indications are that interventions will need to focus primarily on raising human resource levels in the working-age population. Careful analysis of the outcomes from the EAR pilot projects referred to above should contribute to the design of any future interventions.

3.4 INVESTING MORE EFFECTIVELY IN HUMAN CAPITAL AND LIFELONG LEARNING

As part of the country's political agenda connected with two important documents: the Stabilisation and Association Agreement with the EU from April 2001 and the Framework Agreement, signed between leading political parties in Ohrid in August 2001, decentralisation of education is seen as a vehicle that could potentially lead to a more equitable society, where all individuals, independently of their origin and ethnic background, can benefit from equal access to learning opportunities.

Current situation

Although the data show that public investment in education has been traditionally one percentage point lower than in the EU (around 4% of GDP compared with 5% EU average in recent years), it is important to recognise that, since 1998, the MoES has invested much time and effort in reforming the education system. These measures have resulted in adaptation of new legislation aimed at providing space to operate in a decentralised context. Current education legislation, which also regulates IVET (Law for Secondary Education, 1995), has been amended several times in 2002, 2003 and 2004. The VET legislation is under development, and is on the government agenda for approval in 2005. The MoES has also shown interest in being involved, through cooperation with the ETF, in the EU Copenhagen process on Enhanced European Cooperation in VET.

The IVET reform, which started in 1998 and was assisted by the EC PHARE programme (1998–2000), in 16 pilot schools, has not yet been completed. Four successive PHARE and CARDS programmes have been supporting VET reform in selected pilot schools (curricula, teacher training, equipment), two projects have been completed, one is currently being implemented to take forward the developed building blocks of a VET system (legislation, policy, institutions) and the fourth one (equipment) will start in parallel early in 2006. Although the MoES extended the reform to 32 VET schools (which is more than 50% of the total number) and new curriculum is being implemented in all classes of these schools, the reform has been mainly curriculum-driven with the pilot schools approach.

The PHARE programme deals with the modernisation of four-year profiles in IVET. The aim is to combine a good general education and the development of employment skills through four-year IVET programmes. The general education section of each educational profile accounts for 45% of the total time. General education comprises both the ‘common subjects’ taken by all students (mother tongue, foreign language, business and entrepreneurship, IT and history) and ‘subjects in service of the vocation’, e.g. mathematics, physics and sociology. The vocational education section of the profile accounts for 35% of the total time and includes subjects that are common to the whole ‘vocation’ or ‘department’ as well as some additional ones that are specific to the educational profile. 10% of the profile is devoted to practical training, while the final 10% is for optional studies to allow students to prepare either for the ‘final examinations’ or for the Matura.

A ‘model for professional counselling and mediation for employment’ was developed with EU assistance in 2003/04, however it is not yet implemented.

In the 2000/2001 school year, the reform of general secondary education was started. The intention is to make learning more interactive; reduce the emphasis on memorisation of facts and places and focus more on the development of skills and abilities; increase flexibility and choice in the curriculum; and develop reliable standards for assessment and certification. The Bureau for Development of Education has completed the development of new curricula for all four years of education.

The new gymnasium curriculum comprises a mix of compulsory and optional subjects. In years 1 and 2, the choice is relatively restricted (two to three hours and three to five hours per week respectively), but increases in years 3 and 4 (eight hours and ten hours respectively). The compulsory subjects taken in all years are: mother tongue, Macedonian language (for students of other nationalities); mathematics, first European language, and second foreign language. History, biology, physics and chemistry are compulsory for the first three years, and geography for the first two years, while sociology, philosophy and informatics are studied for one year each. Students choose their optional subjects from one of three fields: literature and art; humanities and social sciences; or natural sciences and mathematics. Schools normally organise their teaching programmes for at least two of the optional lists. In addition there are 'compulsory optional programmes' for sports and music education (i.e. they must be undertaken but there is a choice of activity).

The Matura Concept was finalised and accepted by the government in June 2004. It is planned that all students completing secondary education (general secondary and four years IVET programmes) have to sit the Matura. Students completing vocational education may opt to sit the Matura (if they are interested in going on to university) or 'final examinations'. Matura requirements are the same for general and vocational education students.

Assessment

The reform of secondary education has been driven by curriculum modernisation but it has also generated a number of other positive factors such as the creation of a more change-oriented culture, the rationalisation of VET profiles, enhanced expertise at school and national levels, more interactive and practical teaching and learning methods, and some better-resourced schools. Teachers and students universally support the principles of the new curriculum and the reform itself. There has already been some success in making learning more interactive, with both students and teachers reporting a higher level of interest and in some cases achievement (World Bank, 2001). Tangible outcomes on a large or system scale are still to be seen as the implementation of new curricula approaches is generalised.

In 2001, FYR Macedonia adopted a Law on Local Self-Government, which states that municipalities shall be competent for 'Education – establishing, and financing, and administering of primary and secondary schools, in cooperation with the central government, in accordance with the law; organising of transport of students and their accommodation in dormitories'. This legislation is a major step toward the decentralisation of schools management by giving more power to local authorities, but falls short of providing a clear mandate.

The statements 'in cooperation with the central government' and 'in accordance with the law' provide a device that could allow the central government to maintain controls. Although a policy agenda for decentralisation has been adopted, its implementation is not yet clear. Further, this momentum is complicated due to several types of ongoing reform across the sector of secondary education:

- reform of the curricula of general secondary education;

- support of the VET secondary education reform;
- piloting the new Matura examinations;
- drafting legislation that will support decentralised secondary education.

Following a new strategic document in the field of education, 'National Strategy for the Development of Education in the Republic of Macedonia (FYR) 2005–2015' developed in November, 2004 – preceded by two other policy documents for education and VET in the country[20] – a road map of how to ensure coherent and systemic reform towards decentralisation in education has to be further developed. In addition, it should be noted that a number of international and bilateral donors with substantial investments are active in the country's education system. The EU has been supporting VET reform since 1998 with its PHARE and CARDs programmes (€6 million), and higher education with the TEMPUS programme (€21 million). The World Bank (€5 million) and the Netherlands Government (€10 million) have recently launched a wider education modernisation project (on primary and secondary education). USAID provides support to higher education as well as VET, GTZ Germany (€2 million) is piloting apprenticeships in VET (three-year technical education), and Kulturkontakt Austria introduced the concept of virtual businesses in schools. The Open Society Association initiated the drafting of a National Programme for Educational Development 2005–2015. Last but not least, a Chinese donation equipped almost all schools with computers in 2003/04.

Following the above policy environment and the government's developmental approach to support the decentralisation process, it is important to note that in the attempt to strengthen the human capital in the country, '*Macedonia (FYR) is caught in a riptide between many, not always coherent donor initiatives and a lack of own clear policies. The country needs to define own policies. In such a situation it seems crucial for the Ministry of Education and Science to act proactively as much as possible. The more the dilemmas of the ministry's sector are solved and developed through coherent institutional and policy arrangements, the more the ministry can influence and create a favourable environment for the implementation of its strategies'* (Vantuch et al., 2004). The substantial efforts to reform the education sector are expected to have a major impact on labour market conditions, but the results are yet to be seen.

3.5 ENSURING EFFECTIVE IMPLEMENTATION OF REFORMS THROUGH BETTER GOVERNANCE

The preceding sections have identified a range of actions that will be required if FYR Macedonia is to address its major problems of labour market failure, and create the conditions for growth in employment and reductions in unemployment.

But there are no 'quick fixes' for problems as severe as those of the Macedonian labour market. None of the actions identified here can be implemented overnight. All will require sustained and consistent commitment from both the government and from public service management over a

[20] 'Strategic planning of VET Reform in the Republic of Macedonia (FYR) (1998–2010)' developed in 1999 under PHARE VET reform (1998–2000) and 'Education Development Strategy 2001–2010' developed in 2001 by MoES.

number of years. Equally, they will require ongoing support from civil society and from representatives of both workers and the business community. It is worthwhile, therefore, to give some consideration to what steps might be taken to ensure effective and sustained implementation of reform.

First, an essential condition for a sustained reform programme is that it should have broad support at the political level and among the wider population of the country. Only then will the measures taken be 'robust' – in the sense that the underlying thrust of the reforms is likely to continue even with the inevitable changes of political administration that are part of the life of a democratic country. This kind of broad support can be achieved only if there is an active and wide-ranging dialogue on the labour market and wider economic reform. This dialogue should be informed by a coherent analysis, prepared in advance, of the current situation, of the reforms that are seen to be required, and of the likely direction of development in the economy and in employment if these reforms are not implemented. The objective should be to produce a national consensus in favour of a specific programme of reforms.

The National Economic and Social Council (NESC) has a broad remit covering the overall range of government economic and social policies. The kind of dialogue the NESC promotes at this broader level should be mirrored, in the narrower field of employment policy, through the Joint Ministerial Committee established to monitor and guide implementation of NAPE, as this committee includes representation from the social partners.

To date, it may be noted that FYR Macedonia has not developed social partner representative bodies with a strong input into policy. In part this reflects the underlying realities – such bodies find it difficult to represent employers or employees other than in the formal sector, which is relatively weak in the country. But it may also have reflected unwillingness on the part of central government to open itself up to outside interference in policy processes. The revitalisation of the NESC is one indication that such an openness is developing; social partner representation in the Joint Ministerial Committee is another. *It will be important for the social partners to grasp these opportunities by making reasoned and constructive inputs to these fora, and by recognising the need for occasional compromise in the broader national interest.*

Consistency in policy formulation needs to be mirrored in consistency in implementation, and this in turn depends on the quality of the public administration. Here, substantial work is under way across a range of government ministries and their constituent agencies. In the area most relevant to the subject matter of this review, the MoLSP, a functional analysis of the various departments and activities of the ministry has been completed, and a strategic plan for the coming years is at an advanced stage of preparation.

One element of the plan involves improved staffing of the policy-making functions of the Labour Department. To date, this department has not been adequately staffed to cope with the work of:

- developing strategy for the ministry and managing its interface with the main implementing agency, the ESA;

- analysing the employment impact of the policies of other ministries (e.g. Finance, Economy) that could be used as a basis for influencing overall government policy in a more 'employment-friendly' direction.

There are currently only four permanent and two contracted members of staff within the Labour Department). Policy assessment and development has tended to be concentrated, rather, in the offices of the main political heads of the ministry (minister, deputy minister or state secretary), rather than in the relevant functional department. However, staffing in these offices has a high level of turnover, reflecting each successive change in the political configuration of the government. This reduces the ministry's capacity for consistency in policy administration over time – its 'institutional memory'. The strategic plan proposes the employment of four additional advisers allocated to the Labour Department. *It is important that the improved resourcing of the department by more permanent staff, as envisaged in the MoLSP strategic plan, should be implemented.*

Finally, as noted above, it will be important to continue upgrading the capacity of the ESA. This process should be aided in the near term by a reduction in the number of those registering with the bureau purely for health insurance purposes. *The ESA, together with the MoLSP, should already be making firm estimates of the amount of staff and other resources that will be released as a result of this reduction, and developing clear plans on how to deploy these resources to other core tasks of the bureau.* More generally, as part of the next update of NAPE, it would be desirable to quantify the planned financing and activity levels across ESA's various programme interventions, and to specify output targets for these programmes.

4. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

4.1 EMPLOYMENT POLICIES AS PART OF OVERALL POLICY AGENDA

Until recently, Macedonia had no coherent statement of government employment policy. First steps have now been taken to rectify this deficiency, in the form of the National Action Plan for Employment 2004–2005 (NAPE). While this is a positive development, there is room for further improvements in the employment planning process.

- NAPE contains few specific resourcing commitments, outcome targets, or overall financial plans for the services and policies it covers.
- There is insufficient analysis of the importance of specific regulatory and fiscal issues and their impact on employment and the labour market.
- It is not certain that the government's political commitment to employment planning has been sufficiently clearly signalled to ministries and agencies to ensure full implementation of NAPE.

Steps should be taken to address these issues as the NAPE process develops over the coming years.

4.2 INCREASING ADAPTABILITY OF WORKERS AND ENTERPRISES

Raising the demand for labour has to be the primary objective of policy in a country with an employment rate as low as that in FYR Macedonia. This in turn will be achieved only through the creation and expansion of dynamic and adaptable private-sector businesses that can compete in the home and foreign markets. Section 3.2 reviewed how government policy can contribute to such development under a number of headings.

Various important positive factors emerge from this examination of the environment for flexible and adaptable businesses in FYR Macedonia. The system of financial incentives for business investment has been assessed as quite competitive by comparison with those in other countries in the region. Credit access for small businesses has improved over the last few years, and steps are being taken to further improve this, particularly in the area of provision of collateral guarantees. The availability of advisory services is increasing over time, and the fact that previously donor-funded services have managed to become self-financing is an encouraging sign. Finally, no undue rigidities seem to arise in relation to companies' deployment of human resources as a result of labour regulation.

The main negative factors relate to the operation of the taxation and social contribution systems. The burden on labour costs imposed by the operation of these systems is relatively high, creating disincentives to the creation of formal jobs. In addition, the systems tend to particularly discourage flexible forms of work such as part-time and self-employment.

There is therefore an urgent need to address the disincentives to formal business and employment that are created by the tax and contribution systems. Priority should be given to

widening the tax base and using the proceeds of increased enforcement to reduce taxation rates – and particularly social contributions; reviewing the 'minimum reference income' for social contributions, and opening up access to the social contribution system for the self-employed; and revising the basis of calculation to bring it more into line with other countries, emphasising the concept of the gross wage rather than the net wage, thus bringing greater transparency to the wage-setting system.

4.3 ATTRACTING MORE PEOPLE TO ENTER AND REMAIN IN THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

Government can help to support a high level of labour market participation in a number of ways – through the quality of the public employment service and the targeting of its work; through ensuring that 'passive' welfare payments for the unemployed and inactive do not create work disincentives; and through specific active labour market programmes aimed at unemployed people.

Relative to the size of the labour force, staffing of the ESA compares reasonably well with that in other countries; if measured relative to the high level of unemployment, however, its staffing is relatively low and its potential workload is relatively very high. However, a large majority of those who register with the bureau do so solely for access to health insurance or other benefits – they are not actually seeking work, but are either inactive or employed in the informal economy. Inflows of new registrants, and outflows of people leaving the register, are small. At the same time, few vacancies are notified by employers to the ESA.

In these circumstances, the extent to which the ESA can offer real advice, guidance or employment opportunities to jobseekers is strictly limited. Contact with registrants is infrequent, and most visits to ESA offices are made by people registering purely for benefit/insurance/social assistance purposes; inevitably these visits involve only a perfunctory interview.

The most critical starting point for any general move towards a more active policy stance for the ESA must therefore be a review of the system of unemployment compensation/registration, including the way it interacts with the tax and contribution systems. Perhaps the most urgent short-term reform of the role of the ESA is the reorganisation of the health insurance system to remove the incentive for large numbers of non-jobseekers to register as unemployed. This would free up ESA resources to be devoted to a more active approach with its remaining clients. Over the medium term, the changes needed to reduce the overall employment-depressing impact of the tax and contribution systems are also vital.

A more active approach by the ESA should primarily take the form of promoting and monitoring active job-search among targeted groups of registrants – particularly those in receipt of unemployment benefits and those social assistance recipients whose benefit is (or should be) conditional on their being available for and seeking work. Consideration might be given to developing active programme measures at a later stage – but only after the necessary reforms have reduced the scale of registration with the ESA to manageable proportions and it can

develop the necessary interaction with (and information on) clients that will allow it to form informed judgements about the types of intervention clients require.

Subject to achieving these improvements in the environment in which the ESA operates, it is recommended that the current broad direction of change in its organisation and resources should continue. This should include developing more precise targets, deadlines, and resource commitments to the various activities of the agency.

4.4 INVESTING MORE EFFECTIVELY IN HUMAN CAPITAL AND LIFELONG LEARNING

Despite efforts to date to raise quality and participation there is scope for further improvement of the education and training system for both youth and adults across the board. At present the education system in FYR Macedonia is undergoing substantial reform, while facing the challenge of decentralisation. Tangible results are still to come and reform of initial vocational education needs to be completed with a view to setting up appropriate support structures, to improving labour market relevance and the overall quality of education. Information on skills needs is largely absent but also difficult to obtain due to the large informal sector and volatile economy. However, there is a need for higher level qualifications and it is expected that this need will increase in the future. Much more attention therefore needs to be paid to higher VET (post-secondary and tertiary) as well as adult learning, which shows the biggest gap in the education system. Currently, an adult learning or wider HRD strategy is lacking in the country.

4.5 ENSURING EFFECTIVE IMPLEMENTATION OF REFORMS THROUGH BETTER GOVERNANCE

An essential condition for a sustained reform programme is that it should have broad support at the political level and among the wider population of the country. This type of broad support can be achieved only if there is an active and wide-ranging dialogue on the labour market and wider economic reform. This dialogue should, in the first instance, be promoted through the vehicle of the recently revived National Economic and Social Council; but every opportunity should be taken to seek broader participation by sectors of society not represented in the Council, including for example the parties of the political opposition. The objective should be to produce a national consensus in favour of a specific programme of reforms.

The type of dialogue the NESC promotes at this broader level should be mirrored, in the narrower field of employment policy, through the Joint Ministerial Committee established to monitor and guide implementation of NAPE, as this committee includes representation of the social partners.

It is important that the social partners should grasp these opportunities by making reasoned and constructive inputs to these fora, and by recognising the need for occasional compromise in the broader national interest.

In terms of the internal governance in the employment policy field, it is important that the improved resources of the Labour Department by more permanent staff, as envisaged in the MoLSP strategic plan, should be implemented. Similarly the ESA, together with the MoLSP,

should already be making firm estimates of the amount of staff and other resources that will be released as a result of reforms in unemployment compensation/registration, and developing clear plans on how to deploy these resources to other core tasks of the bureau. More generally, as part of the next update of NAPE, it would be desirable to quantify the planned financing and activity levels across the ESA's various programme interventions, and to specify output targets for these programmes.

ANNEXES

ANNEX 1: LABOUR MARKET DATA

Introduction

The most-quoted labour market data for FYR Macedonia, as is typical for most countries, are those from the annual Labour Force Survey (LFS) carried out by the State Statistical Office.

The latest available LFS data relate to April 2003. The main features of the results include:

- The working-age population (15–64) was 1.389 million, or 68.7% of the total population.
- The labour force was estimated at 861,000. For the working-age population, labour force participation was 61.3%, compared with 70.0% in the EU15 and 65.5% in the new member states (NMS).
- Employment was estimated at 545,000. For the working-age population, the employment rate was 38.5%. This compares with 64.3% in the EU15 and 55.9% in the NMS.
- The employment rate for men is 45.6%, well below the EU15 (72.6%) and NMS (61.7%). The female rate, at 31.3%, is also well below both the EU15 (56.0%) and NMS (50.2%).
- The unemployment rate was estimated at 37%, extremely high in comparison with the rate in the EU15 and NMS – the average for the EU25 is less than 10%, and the highest rate in the enlarged EU is Poland at 19%.

From discussions during the field visit in October 2004, it became clear that there is widespread scepticism in FYR Macedonia itself about the accuracy of official labour market data for the country. Doubts about the data were expressed by local officials and experts, as well as by representatives of international agencies. Clearly, the question of data reliability is important for any assessment of the underlying situation in the labour market and of appropriate policy responses. It is worthwhile, therefore, to consider the nature of the doubts that are being raised, and to form a view of the extent to which the published data can in fact be used for a review of this kind.

‘Implausibility’

The basic criticism of the data is that the reported level of unemployment is much higher than is credible and that, conversely, the reported level of employment is lower than is credible. In some cases, this view is based simply on the grounds of ‘implausibility’ – by asserting that if unemployment were in fact as high as suggested by the data then the observed level of poverty and of social unrest would be extremely high.

One way of assessing this type of criticism is to look at experience elsewhere. As noted above, Macedonian employment is extremely low and unemployment extremely high relative to the levels for the EU overall or for individual member states. However, there are *regions* within the EU with comparable labour market situations based on LFS data. Thus:

- while the average employment rate in the EU25 is about 63%, there are some 17 NUTS 2 regions in the EU where the employment rate is below 50%;
- while the average activity rate in the EU 25 is about 69%, there are some 20 NUTS 2 regions where the activity rate is below 60%;
- while the average unemployment rate in the EU25 is about 9%, there are some 19 NUTS 2 regions where the unemployment rate is above 20%.

In all, almost 40 EU regions meet one or other of these three threshold criteria. Nor are they particularly small regions that might be seen as possible statistical anomalies – in Italy, for example, the regions of Calabria, Campania and Sicilia, each with an employment rate of about 42%, have a combined population of 13 million people.

While FYR Macedonia is therefore an outlier in terms of its low employment and high unemployment, the levels involved are not so dramatically removed from those seen in a significant number of EU regions as to make the reported levels implausible per se.

Other sources of doubt

The main specific reasons put forward for the proposition that the official LFS data understate employment and overstate unemployment are concerned with the scale of the informal economy. In support of this view, it is pointed out that the current stage of economic development in FYR Macedonia is characterised by a significant level of informal types of work in both agriculture and in family businesses. Over and above this underlying tendency, the extent to which the policy and regulatory environment encourages informal employment is discussed in Chapter 3.

Is it reasonable, however, to assume that this inevitably leads to understatement of employment in the official LFS figures? After all, the questions on employment in the LFS are similar to those used in other countries, and this form of questioning tends, in general, to lead to the identification of informal jobs as constituting ‘employment’ in LFS results. Against this, however, in a transitional society such as FYR Macedonia the level of trust in the authorities, and thus the willingness to acknowledge informal work, may be lower than in Western European countries. Moreover, from discussions during field visits it appears that – again, perhaps because of the short time since the transition – much of the population honestly recognises only full-time conventional employment as constituting a ‘job’. Both these factors would tend to see the overall level of employment understated in the LFS results by comparison with the results for other countries.

A second aspect of the measurement of labour market status in the LFS is the allocation of those without jobs into one of two categories:

1. the unemployed (who are available for and seeking work); and

2. the inactive (the remainder of the non-working population).

Typically, across the EU, only a very small proportion of those without jobs are self-described as 'unemployed' – for the EU15, for example, this proportion is about 16%. By contrast, in FYR Macedonia in 2003, among those aged 15–64 who were not working, fully 37% were reported as being unemployed. This is consistent with a pattern where people who are genuinely inactive may tend to identify themselves as unemployed in surveys because they have to register as unemployed if they are to be covered for health insurance.

A final feature of the Macedonian situation that may influence the reported levels of employment and unemployment is the fact that a significant number of people have emigrated to Western European countries for employment. Particularly in the Albanian community, this phenomenon often takes the form of classic 'guest-worker' migration, where the head of the household works abroad while the rest of the family stays at home. There is some suggestion that, in the official data, the absent heads of households tend to be included in the population figures (based on the 'normally resident' principle), but that their jobs abroad are not included in the employment figures. This would tend to depress the measured employment rate in the areas affected.

Overall assessment

On balance there is reason to believe that, because of certain features of FYR Macedonia's stage of development as well as of the policy environment, official data from the LFS tend to overstate the level of unemployment. This 'excess unemployment' would appear to involve understatement of both the level of employment and the level of inactivity in the working-age population.

However, it is possible to overstate the importance of distortions in the official data, and thus downplay the scale of the labour market challenges facing the country. Even if alternative data sources are used, the level of unemployment remains extremely high. For example, the World Bank has noted that 'unemployment based on self-reporting in the Household Budget Survey (HBS) is significantly below the LFS calculation, with a rate of 23 per cent for 2000[21]'. This compares with the LFS rate of 32% in that year.

Given that, unlike the LFS, a Household Budget Survey is not specifically designed to collect labour market data, it is difficult to know how much weight to put on the HBS estimates. However, if the 'HBS/LFS gap' were accepted in full as representing a distortion in the LFS data, this would still suggest that the underlying unemployment rate in 2003 was not much below

[21] World Bank. *Macedonia – Country Economic Memorandum: Tackling Unemployment*. Report No. 26681-MK. Washington, D.C., 2003*b*., p.39, Box 3.1

30%, and the underlying employment rate no higher than 42%. Even these adjustments, therefore, would leave unemployment at the extreme upper end, and employment at the extreme lower end, of the range of experience across the countries and regions of Europe.

ANNEX 2: EDUCATION SYSTEM AND TRAINING PROGRAMMES

The education system is divided into four main sectors: preschool care and education (from 6 months to 7 years of age); primary education (eight years); secondary education (two, three or four years) and higher, i.e. university education (between two and six years depending on the programme).

There are two types of secondary education: general secondary (gymnasia), and initial vocational education and training. **General secondary education** may be continued, as it is not compulsory, in general secondary schools for four years after completing eight years of primary education. **Initial vocational education and training** (IVET) starts after primary education, i.e. parallel with general secondary education and may last two, three or four years. **Two-year VET programmes** are usually organised according to the situation in the labour market, however, although they formally exist in the schools, with the introduction of PHARE VET reform they began to be phased out in favour of three- and four-year VET programmes. **Three-year VET programmes** exist in most vocational schools. For some profiles, vocational education and training covers 45% of the available time and general education 55%. After completing this type of education and fulfilling the conditions prescribed by the curriculum in the appropriate vocation, students may enrol in the four-year programme. **Four-year VET programmes** are the most attractive for vocational education and training. The curriculum covers general education subjects, vocational – theoretical and practical training (35–40% relates to general education, 60–65% to vocational education and only around 10% to practical training). Students complete secondary education (general secondary education and four-year VET programmes) with the Matura examination, qualifying for entrance to higher education institutions.

The Constitution of the Republic of Macedonia guarantees the right to free primary and secondary education. Higher education is partially financed by the state, but university students also participate in financing.

Primary education is organised into 1007 elementary schools. The total number of students in elementary education is 244,740 and the total number of teachers 13,356. Secondary education is organised into 95 secondary schools, four of which are private. There are 22 secondary schools that provide general education, 46 vocational schools (including schools of music, an art school and a school for physical education), 23 schools that offer both general and vocational education and training and four schools for students with special educational needs. A total of 92,554 secondary students attended classes delivered by 5,575 teachers. There are 29 university faculties that organise classes for a total of 43,587 students delivered by 1,501 professors and teaching assistants[22].

[22] Data in this paragraph are from various State Statistical Office publications for the education sector, reference school year 2001/02.

ANNEX 3: INITIAL VOCATIONAL EDUCATION AND TRAINING

In FYR Macedonia, IVET starts after primary education and is parallel to general secondary education (for a detailed description of the education system see Annex 2). It covers 25 occupational clusters corresponding to 238 educational profiles, of which 42 (downsized from 80) require four years' education, 90 three years and 50 two years. At upper secondary level, most students are enrolled in VET (61% in 2004/05), but at a steadily decreasing level (64% in 1999/2000). VET entry has decreased significantly during the last decade (80% in 1991/92), and VET participation in FYR Macedonia is lower than, for example, in Slovenia, Croatia, Serbia and Bosnia and Herzegovina (all over 70%). The Law for Secondary Education (1995) treats IVET as a pathway through the secondary education system. It makes no reference to the essential links between the vocational system and the labour market, and makes no provision for dialogue among the various actors involved in the supply and demand sides of the market. By allowing VET to come to an end at the age of 18 with an ISCED 3 qualification, the law does not allow for the development of an effective lifelong learning[23] concept, which can provide opportunity for skills upgrade.

The 1995 law prescribes the grading system (5–1, with 5 being the highest). Left completely to teachers over many years, this approach to grading has proved to have far-reaching negative consequences. One clear indication of this is evidence of 'grade inflation' since the mid-1990s and particularly in recent years. For example, in 1994/95, 35% of fourth-year secondary students received a final grade of 'Excellent'. By 1998/99, this had risen to above 42% and the following year it stood at 45% (World Bank, 2001). Variations in quality endorsed with the same certificate does not make for transparency and provokes criticism from employers of the knowledge and skills of the graduates (Macedonian National Observatory, 2002).

[23] The EU policy towards lifelong learning is elaborated in *A Memorandum on Lifelong Learning* (2000), the communication *Making a European Area of Lifelong Learning a Reality* (2001), and followed up by the Copenhagen process of Enhanced European Cooperation in VET and the process on the Future Objectives of Education and Training Systems in Europe.

ANNEX 4: TAXATION

In FYR Macedonia, the published basis for assessment for income tax is the net wage rather than the gross wage. A certain amount of the net wage is non-taxable. This personal tax-free allowance is currently set at MKD2770 per month for each tax payer. While the actual tax calculations are complex, their effect is to tax the first MKD30,000 of a notional 'gross wage' at 15%, and the remainder at 18%.[24] This notional gross wage is then used as the basis of assessment of social contributions, which are paid by the employer. The social contribution is calculated at a combined rate of 32%[25] to include coverage for retirement pension, healthcare, and unemployment benefits.

Several features of this system are noteworthy. First, the tax wedge is relatively high by international standards.

- For a worker earning the average wage in August 2004,[26] for example, tax and social contributions represented just over 40% of the total labour cost to his/her employer. In FYR Macedonia, unlike most OECD countries, the tax/contribution 'take' does not vary regardless of marital status or of whether the taxpayer has adult or child dependants. Across the OECD, for a worker on the average wage, the average tax wedge is 36.5% for a single person, and 27% for a married worker with two children whose spouse has no income. For the latter group, the tax wedge in FYR Macedonia is higher than in all but two OECD countries (Poland and Turkey).
- The Macedonian wedge is only slightly reduced at lower earnings levels, exceeding 39% even for a worker earning only two-thirds of the average wage (at even lower wages than this, the wedge actually increases, as shown in Figure 3; this is because the minimum reference wage for social contributions is 65% of the current average net wage). By contrast, across the OECD, the wedge reduces more rapidly as earnings fall – to an average of 32.7%, for example, for a single worker on two-thirds average earnings.
- The Macedonian tax wedge also appears to be relatively high where both members of a couple are working – 40% for the typical couple used in cross-country comparisons,[27] compared with the OECD average of 31%.

Thus, by international standards, the combination of taxation and social contributions does create a sizeable gap between the cost of employees as perceived by employers, on the one hand, and the actual net wages received by the workers on the other. This is a substantial

[24] A third higher rate of 24% is to be introduced in the near future, and will apply to earnings over MKD60,000.

[25] This is calculated as 32% of total labour cost – i.e. approximately 47% of the notional gross wage.

[26] In August 2005, the average net monthly wage was MKD12,443 and average overall labour cost was MKD21,036, equivalent to approximately €204 and €345 respectively.

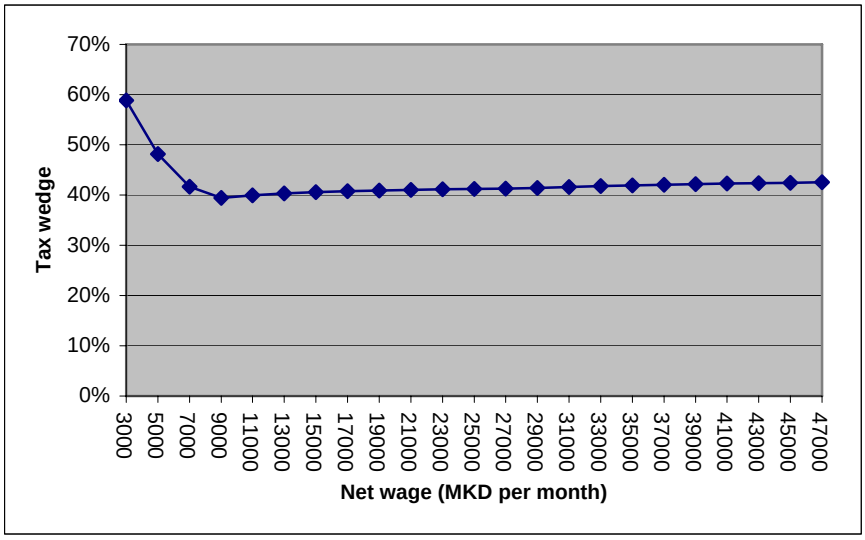
[27] A couple where the first earner is on 100% of the average wage in the country, and the second is on 67%.

disincentive to the creation of jobs by employers, and for potential employees to take up those jobs.

An indication of the scale of the burden of social contributions, in particular, can be had from looking at their aggregate scale relative to GDP. For FYR Macedonia in recent years, social contributions have been equivalent to 11% of GDP. This is almost identical to the average share of social contributions in GDP for ten CEECs for which data have been collected by the World Bank.[28] However, the employment rate in these countries averages just under 60%, compared with under 40% in FYR Macedonia. The burden of social contributions on the actual employed population in FYR Macedonia is thus about one-and-a-half times the typical burden across Central and Eastern Europe.

Moreover, the system seems to bear relatively more severely, by comparison with other countries, on those in low-paid jobs and on workers with dependants. Given that tax calculations are carried out on a monthly basis, the high tax wedge at low wage levels is a particular disincentive to part-time working in the formal sector.

Figure 3: Tax wedge in FYR Macedonia



The data quoted above relate to the average tax wedge at each income level. Perhaps equally important is the marginal wedge – i.e. the tax/contribution 'take' out of any increase in wages paid to a worker. Over most of the pay range, the marginal wedge is 42% of the increment to gross labour cost. This means that, to pay a worker an extra MKD100, the employer incurs a total cost of MKD173. Even in the formal sector, this encourages employers and employees to come to an arrangement where at least part of the wage payment is 'off the books', and it appears that such arrangements are widespread.

[28] Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia. See World Bank (2003*b*, Table 2.4).

Second, quite apart from the size of the tax wedge, the structure and presentation of the system seem designed to reinforce the differing perceptions of employees and potential employers about the real costs of employing labour ('net wage' and 'gross labour cost', respectively). This is because the entire focus of the system is on the net wage as the basis of assessment. From the study visits, it was apparent that almost no workers, and few employers, were even conscious of the concept of a gross wage[29]. Negotiation or agreement on wages is explicitly in terms of the net wage, and the employer is seen as having responsibility not only for social contributions, but for personal income tax as well. This means that, if government increases *either* of these taxes/contributions, the full impact will feed through to increased gross labour costs.

Third, there have been complaints that the main focus of the authorities in implementing the system is on raising revenue as effectively as possible from the relatively small number of medium-to-large employers in the private sector and that, outside this group of employers, enforcement is limited and evasion is widespread (OECD/EBRD, 2003*a*, pp. 39–42). This view is supported by the very design of the system, which seems to put barriers in the way of compliance by smaller less formal employers, or self-employed people, who might wish to become more formal. For example, the concept of the net wage has no meaning for a self-employed person receiving a series of separate gross payments from a wide range of clients. Making compliance difficult in this way tends to encourage evasion. In addition, self-employed persons cannot register to make social contributions; the only way they can retain health-care coverage, therefore, is to register as unemployed and conceal their self-employment activity.[30]

More broadly, there appears to be no concerted effort to identify and tax not just self-employed income, but also other forms of non-labour personal income (e.g. income from renting out property). This reinforces the view that the tax and contribution systems concentrate primarily on the taxation of labour and corporate income in the formal sector, simply because these are the easiest 'targets' for revenue-raising purposes – a major barrier to the growth of output, and employment, in that sector.

[29] This is reflected even in the presentation of official statistics. Most countries publish earnings statistics based on the gross wage, and this is the usual basis for cross-country comparison. FYR Macedonia, unusually, publishes monthly statistics on the net wage. It also publishes data on average total labour costs (although these are referred to in the official report as 'gross wages'. No data are published on the level of the gross wage as this term is conventionally understood internationally.

[30] This poses separate problems for the day-to-day work of the ESA.

ANNEX 5: STATISTICAL DATA

MACROECONOMIC SITUATION

GDP growth/GDP per capita growth, annual inflation rate

	1999	2000	2001	2002	2003	2004
Real GDP growth, annual (%)	4.3	4.5	–4.5	0.9	3.2	2.9
GDP/capita, annual real growth (%)	3.8	4.1	–4.9	0.5	24.5	m.*
Annual inflation rate (%), year to year changes	–0.7	5.8	5.5	1.8	1.2	–0.4

Source: State Statistical Office.

Public finances

Debts (% of GDP)	1999	2000	2001	2002	2003	2004
Total	43.5	59.4	59.6	61.8	62.7	52.5
External	41.7	41.2	42.2	45.4	45.7	38.9
Internal	1.8	18.2	17.3	16.4	17.0	13.6

Sources: National Bank of the Republic of Macedonia; Ministry of Finance.

Budget balance: in local currency; share in GDP

	1999	2000	2001	2002	2003	2004
Budget balance						
Local currency (denar million)	62	6 285	–12 490	7 343	–2 551	371
% of GDP	0.0	2.7	–5.3	3.0	–1.0	0.1
Trade						
Export (€ million)		1 435	1 293	1 184	1 208	1 344
Export (% of GDP)	32.4	36.8	33.6	29.5	29.0	31.9
Export (% to EU)	45.3	42.8	48.9	51.1	54.7	56.4
Import (€ million)		2 272	1 891	2 118	2 038	2 244
Import (% of GDP)	45.9	56.0	48.9	50.9	47.1	53.3
Import (% from EU)	40.7	38.2	42.5	44.9	43.7	47.2
Investment/aid (% of GDP)						
Total investment	19.7	22.3	19.1	20.7	20.9	m.*
Foreign direct investment	0.9	4.9	12.8	2.1	2.0	2.8
Foreign aid	2.9	5.8	8.2	11.2	8.2	m.*

Sources: State Statistical Office; Ministry of Finance. *m: *missing*

Productivity (GDP per LFS employed)

	1999	2000	2001	2002	2003	2004
Productivity, GDP per LFS employed (€ PPP*)						
Total	6 953	7 182	6 495	6 834	8 493	9 197

*purchasing power parity

Source: Own calculations based on unpublished data.

ECONOMIC RESTRUCTURING

	1999	2000	2001	2002	2003	2004
Distribution of GDP (%)						
Agriculture	11.1	10.1	9.8	9.3	9.2	9.6
Industry	22.8	22.5	21.8	24.0	24.3	29.3
Services	52.0	50.9	51.9	52.1	52.0	49.1

Source: State Statistical Office.

SME DEVELOPMENT AND INFORMAL ECONOMY

Share of SMEs in GDP

	1999	2000	2001	2002	2003
SME production, % of total GDP	83.6	81.2	81.0	78.7	m.

Overall number of SMEs by size and sectors

	2000	2001	2002
Total number of small/micro (0–49)	52 223	54 321	52 979
Total number of medium (50–249)	533	532	354
Total number of large (250+)	472	511	810
Agriculture	962	1 027	861
Total number of small/micro (0–49)	902	971	798
Total number of medium (50–249)	51	49	41
Total number of large (250+)	9	7	22
Industry	8 021	7 952	9 025
Total number of small/micro (0–49)	7 729	7 648	8 729
Total number of medium (50–249)	219	224	131
Total number of large (250+)	73	80	165
Services	44 245	46 385	44 257
Total number of small/micro (0–49)	43 592	45 702	43 452
Total number of medium (50–249)	263	259	182
Total number of large (250+)	390	424	623

Source: Ministry of Economy.

POVERTY

	1999	2000				
GINI index (0 = perfect equality; 100 = perfect inequality)	32.5	34.7				
Population below poverty line (%)						
National poverty line[1]	23.3	22.3	22.7	30.2	30.2	29.6

(1) The national poverty line is typically expressed in relative terms, such as the EU standard; less than 60% of median income.

(2) The absolute poverty line should be specified, i.e. $1 or $2 a day?

Source: State Statistical Office.

POPULATION AND LABOUR FORCE

Working-age population by age group

Total

	1999	2000	2001	2002	2003	2004
15–64	1 336 958	1 346 921	1 369 327	1 359 203	1 388 600	1 404 606
15–19	170 776	164 941	166 351	165 957	166 500	165 470
20–24	152 730	158 546	163 886	158 016	165 500	164 088
25–29	147 250	149 738	156 341	139 181	159 800	155 474
30–34	140 782	146 187	150 097	137 353	151 400	148 309
35–39	142 022	145 648	148 246	138 088	150 100	150 817
40–44	148 628	144 441	146 357	145 476	147 300	147 519
45–49	136 677	137 408	138 100	144 985	142 600	144 748
50–54	108 885	114 272	117 140	127 580	123 200	131 187
55–59	96 848	95 197	93 306	101 600	94 600	106 245
60–64	92 360	90 543	89 503	100 967	87 600	90 749

Men

	1999	2000	2001	2002	2003	2004
15–64	673 707	674 177	688 801	688 917	705 100	711 808
15–19	87 081	84 277	85 233	86 298	86 000	84 921
20–24	77 931	80 566	83 765	84 860	85 500	84 471
25–29	76 696	75 724	79 724	72 133	82 100	79 766
30–34	70 321	73 623	76 291	69 457	77 600	75 484
35–39	69 204	73 277	74 962	68 669	76 700	76 621
40–44	77 413	73 148	74 353	74 373	75 400	75 089
45–49	67 421	68 934	69 694	72 169	72 900	74 193
50–54	54 214	55 613	57 135	62 354	60 700	65 634
55–59	48 876	45 960	45 045	50 373	46 100	51 776
60–64	44 550	43 055	42 599	48 231	42 100	43 853

Women

	1999	2000	2001	2002	2003	2004
15–64	663 250	672 744	680 528	670 285	683 500	692 800
15–19	83 695	80 664	81 118	79 659	80 500	80 549
20–24	74 799	77 979	80 121	73 156	80 000	79 617
25–29	70 554	74 014	76 617	67 048	77 700	75 708
30–34	70 461	72 564	73 806	67 896	73 800	72 825
35–39	72 818	72 371	73 285	69 418	73 300	74 196
40–44	71 215	71 293	72 004	71 103	72 000	72 430
45–49	69 255	68 474	68 407	72 816	69 700	70 556
50–54	54 671	58 660	60 005	65 226	62 500	65 553
55–59	47 972	49 237	48 261	51 227	48 500	54 470
60–64	47 810	47 488	46 904	52 736	45 500	46 896

Working-age population by educational attainment

Total

	1999	2000	2001	2002	2003	2004
Lower secondary or less	798 371	803 358	780 245	804 549	780 100	760 807
Upper secondary	572 019	583 044	626 463	603 384	633 100	669 877
Tertiary	146 617	147 031	147 712	159 021	166 100	163 873

Men

	1999	2000	2001	2002	2003	2004
Lower secondary or less	350 338	345 771	341 322	353 580	342 700	333 355
Upper secondary	324 144	331 885	353 201	345 863	359 500	378 094
Tertiary	82 737	81 069	77 537	88 746	89 600	86 685

Women

	1999	2000	2001	2002	2003	2004
Lower secondary or less	448 033	457 587	438 923	450 969	437 400	427 452
Upper secondary	247 875	251 159	273 262	257 521	273 600	291 784
Tertiary	63 880	65 962	70 175	70 275	76 500	77 187

*Data refer to population over 15 years of age (do not include category other types of education for 1999 and 2000).

Source: State Statistical Office Labour Force Survey, various years.

Number of pensioners compared with total number of employed

	1999	2000	2001	2002	2003	2004
Pensioners	235 839	241 221	247 200	249 421	254 267	260 075
Employed	537 757	542 920	583 204	549 493	535 200	516 269
Pensioners/employed	0.439	0.444	0.424	0.454	0.475	0.504

Sources: State Statistical Office Labour Force Survey and *Statistical Yearbook*, various years.

Urban/rural distribution (population 15+)

Year	Urban	Rural
1999	m.*	m*.
2000	m*.	m*.
2001	973 263	581 157
2002	973 369	595 585
2003	987 000	592 400
2004	984 655	609 902

Source: State Statistical Office Labour Force Survey, various years (no regional data as FYR Macedonia does not recognise regions in territorial organisation).

Migration flows

	1999	2000	2001	2002	2003
Emigration (thousands)	127	165	312	81	112
Immigration (thousands)	460	560	727	534	1 671
Net emigration (thousands)	333	395	415	453	1 559
Net emigration, % of working-age population	0.000249	0.000293	0.000303	0.000333	0.001123

Source: State Statistical Office *Statistical Yearbook*, various years.

Growth rate of working-age population (15–64)

	1999	2000	2001	2002	2003	2004
Growth rate of working-age population (15–64)	0.998	1.007	1.017	0.993	1.022	1.012
New entrants to labour force (thousands)	–17.15	4.88	50.95	–37.68	36.18	16 006

Source: State Statistical Office Labour Force Survey, various years.

*m: *missing*

EMPLOYMENT DEVELOPMENTS AND STRUCTURAL SHIFTS AND CHANGES

Net employment growth

	1999	2000	2001	2002	2003	2004
Net employment growth (thousands)	6 847	5 163	30 284	–23 711	–14 247	–18 977
Net employment growth (% of all employed)	1.3	1.0	5.3	(–) 4 3	(–) 2 7	(–) 3.7

Sources: State Statistical Office; Labour Force Survey, various years.

Employment rate by age and gender (15–64)

Total

	1999	2000	2001	2002	2003	2004
15–64	40.2	40.3	42.6	40.4	38.5	36.8
15–19	6.2	6.9	8.3	6.6	5.1	3.9
20–24	23.6	23.6	26.8	23.5	19.1	19.2
25–29	35.8	36.7	41.8	38.2	37.3	36.6
30–34	50.0	49.3	51.1	51.8	45.2	45.8
35–39	58.9	59.0	59.6	57.7	54.4	51.2
40–44	65.2	62.8	64.2	62.3	59.0	56.0
45–49	60.0	60.9	62.8	60.2	59.4	55.6
50–54	51.3	50.8	54.3	52.7	50.2	49.4
55–59	35.2	35.1	36.1	34.0	36.9	31.1
60–64	16.9	16.8	19.0	17.5	19.3	16.9

Men

	1999	2000	2001	2002	2003	2004
15–64	49.4	49.7	50.6	48.6	45.6	44.4
15–19	6.9	7.9	8.7	7.4	5.8	4.3
20–24	27.8	29.2	29.5	28.2	22.5	22.9
25–29	43.1	47.0	50.4	45.4	43.2	43.9
30–34	60.1	59.6	60.3	58.8	51.3	55.5
35–39	69.0	68.8	68.9	67.3	62.3	60.3
40–44	75.8	73.2	73.9	72.3	67.6	63.6
45–49	73.4	72.7	72.6	71.9	69.2	65.5
50–54	66.2	65.0	65.8	68.0	62.3	59.9
55–59	52.0	52.9	50.0	47.7	49.2	42.6
60–64	27.6	25.1	30.0	26.8	28.9	27.3

Women

	1999	2000	2001	2002	2003	2004
15–64	30.9	30.9	34.5	32.0	31.3	28.9
15–19	5.5	5.8	7.9	5.8	4.5	3.5
20–24	19.2	17.9	24.0	18.0	15.5	15.3
25–29	27.7	26.2	32.9	30.5	31.1	29.0
30–34	40.0	38.8	41.5	44.7	38.8	35.7
35–39	49.2	49.2	50.0	48.2	46.0	41.8
40–44	53.7	52.1	54.3	51.9	50.1	48.1
45–49	46.9	49.1	52.8	48.5	49.1	45.2
50–54	36.5	37.4	43.3	38.1	38.5	38.8
55–59	18.2	18.5	23.1	20.7	25.3	20.1
60–64	7.0	9.3	9.0	9.0	10.6	7.1

Sources: State Statistical Office; Labour Force Survey, various years.

Employment rate by gender and educational attainment (15+)

Total

	1999	2000	2001	2002	2003	2004
Lower secondary or less	22.8	22.6	26.1	22.4	20.7	18.1
Upper secondary	46.6	46.9	47.4	46.2	43.9	41.5
Tertiary	66.2	64.5	65.1	64.4	63.6	65.5

Men

	1999	2000	2001	2002	2003	2004
Lower secondary or less	33.8	33.2	35.8	31.7	29.2	28.3
Upper secondary	51.0	52.0	52.0	50.6	47.6	45.2
Tertiary	65.7	64.5	66.4	62.7	62.8	64.0

Women

	1999	2000	2001	2002	2003	2004
Lower secondary or less	14.2	14.6	19.1	15.1	14.1	10.1
Upper secondary	40.7	40.1	41.5	40.2	39.1	36.9
Tertiary	66.9	64.5	63.6	66.5	64.4	67.1

Lower secondary or less means less than ISCED 2. Upper secondary here is equal to ISCED 3 and 4 for simplicity. Tertiary is ISCED 5 and 6.

Employment by economic sector and type (thousands)

	1999	2000	2001	2002	2003	2004
Public*	58.4	56.1	49.1	47.6	45.6	43.3
Private	41.6	43.9	50.9	52.4	54.4	56.7
Self-employed (% of all employed)	7.28	10.49	9.18	10.26	8.22	10.18
Part-time employed	22.8	37.4	38.3	43.4	30.6	27.86
Full-time employed	515.0	505.5	544.9	506.1	504.6	495.14

*Includes social, mixed, collective and state ownership.

Note: For private/public and self-employment, working-age population is defined as population aged over 15.

Sources: State Statistical Office; Labour Force Survey, various years.

Employment by activity (thousands)

	2001	2002	2003	2004
Agriculture, hunting and forestry	149 163	133 581	120 000	87 608
Fishing	303	712	200	442
Minerals and stone mining	9 314	6 937	2 500	2 813
Manufacturing	149 223	132 405	131 300	116 300
Electricity, gas and water supply	16 508	14 769	15 200	15 784
Construction	35 620	32 806	35 900	36 493
Wholesale and retail, repair of motor vehicles, motorcycles and goods for personal and household use	66 653	64 265	62 500	74 218
Hotels and restaurants	12 438	11 230	12 800	12 672
Transport, storage and communications	33 180	32 595	30 600	30 785
Financial intermediation	8 776	8 422	7 100	7 703
Real estate, renting and business activities	10 432	11 953	10 800	13 529
Public administration and defence, compulsory social security	33 937	32 956	34 700	39 700
Education	26 990	33 700	32 000	33 635
Health and social work	26 907	26 226	30 200	29 914
Other activities of communal, cultural, general and personal services	18 567	17 521	17 800	19 654
Private households with employed persons	–	319	–	156
Exterritorial organisations and bodies	1 296	945	1 500	1 589

n.a.: Not available because NACE classification of activities was introduced in 2002 and years prior to 2001 were not revised.

Note: Data refer to population aged over 15.

Sources: State Statistical Office; Labour Force Survey, various years.

Employment distribution by sector (%)

	1999	2000	2001	2002	2003	2004
Agriculture	21.7	22.3	25.0	23.9	22.1	17.4
Industry	36.3	36.1	34.9	33.3	33.9	32.2
Services	42.0	41.6	40.0	42.8	44.0	50.4

Sources: State Statistical Office; Labour Force Survey, various years.

EU employment targets for 2010 and other key employment indicators (%)

	EU25 (2004)	New EU10 (2002)	CCs (2004)	EU (2010)	SEE (2004)
Employment rate	63.3	55.9	BG 54.2 HR 54.9 RO 57.7 TR[**] 45.5	70	AL[*] 53.7 MK 38
Female employment rate	55.7	50.2	BG 50.6 HR 47.8 RO 52.1 TR[**] 25.2	Over 60	AL[*] 40.1 MK 30.4
Employment rate of older workers	40.2	30.5	BG 32.5 HR 29.9 RO 36.9 TR[**] 32.7	50	AL[*] 27.5 MK 27.7
Employment rate in agriculture (% of total)	5.2[**]	13	RO[**] 34.1 TR[**] 32.8		AL[*] 51 MK 20
Employment in services (% of total)	69.2[**]	55.3	RO[**] 34.9 TR[**] 43.3		AL[*] 36 MK 49
Unemployment rate	9.0	14.8	BG 11.9 HR[**] 14.3 RO 7.1 TR[**] 10.3		AL[*] 15 MK 35.8
Youth unemployment rate	18.3[**]	31.9	BG[**] 27 HR[**] 36 RO[**] 19		AL[*] 35.5 MK 61

Most recent year for which data are available: [*] 2001, [**] 2003.

Sources: Eurostat Structural Indicators; ETF Key Indicators database; OECD.

INACTIVITY, UNEMPLOYMENT AND SOCIAL EXCLUSION

Activity rate by age and gender

Total

	1999	2000	2001	2002	2003	2004
15–64	59.7	59.7	61.8	59.8	61.3	58.8
15–19	18.4	17.5	19.7	16.6	15.4	14.4
20–24	61.6	58.5	60.5	55.6	55.3	51.2
25–29	73.4	72.9	74.7	73.6	75.8	72.3
30–34	78.4	76.9	79.8	81.2	79.3	76.2
35–39	80.1	79.3	80.5	82.1	80.8	77.2
40–44	79.5	80.1	81.2	80.0	79.8	78.5
45–49	71.3	74.1	75.6	74.7	76.0	74.3
50–54	62.4	61.2	65.3	64.5	64.8	65.1
55–59	41.7	43.0	42.1	41.3	48.1	44.5
60–64	18.6	19.0	21.3	20.9	22.6	21.2

Men

	1999	2000	2001	2002	2003	2004
15–64	72.8	71.7	72.2	71.7	72.7	70.5
15–19	21.4	20.2	21.6	18.1	16.7	16.4
20–24	73.6	68.3	68.0	66.5	64.5	60.9
25–29	88.8	86.7	85.6	86.4	87.9	83.7
30–34	92.2	89.5	90.5	92.9	90.8	89.2
35–39	92.7	90.1	92.1	93.9	93.0	90.4
40–44	91.9	90.9	91.8	92.5	92.4	89.5
45–49	85.9	87.8	86.6	88.6	89.3	87.3
50–54	81.7	79.3	80.1	82.7	80.8	80.1
55–59	62.0	66.1	59.9	59.5	67.0	63.8
60–64	30.7	28.7	34.2	33.2	35.4	35.9

Women

	1999	2000	2001	2002	2003	2004
15–64	46.5	47.7	51.2	47.6	49.4	46.7
15–19	15.3	14.7	17.6	15.0	14.1	12.3
20–24	49.0	48.4	52.6	42.8	45.5	40.9
25–29	56.6	58.7	63.5	59.7	63.1	60.4
30–34	64.7	64.2	68.8	69.2	67.3	62.8
35–39	68.1	68.2	68.7	70.3	68.1	63.6
40–44	66.0	68.9	70.2	66.9	66.7	67.2
45–49	57.2	60.3	64.4	60.9	62.1	60.7
50–54	43.3	44.0	51.2	47.1	49.3	50.1
55–59	21.0	21.3	25.5	23.5	30.1	26.1
60–64	7.3	10.1	9.6	9.6	10.7	7.4

Activity rate by gender and educational attainment (15+)

Total

	1999	2000	2001	2002	2003	2004
Lower secondary or less	36.4	36.2	39.9	36.5	37.8	33.5
Upper secondary	69.8	69.5	69.3	67.8	68.8	66.5
Tertiary	79.2	78.4	79.1	76.7	78.9	80.1

Men

	1999	2000	2001	2002	2003	2004
Lower secondary or less	54.6	53.2	54.4	52.4	55.2	50.7
Upper secondary	42.2	73.1	74.0	72.6	72.8	71.5
Tertiary	76.5	76.5	77.1	74.1	76.2	78.2

Women

	1999	2000	2001	2002	2003	2004
Lower secondary or less	22.2	23.3	28.7	24.0	24.2	20.2
Upper secondary	63.8	64.8	63.3	61.5	63.4	60.2
Tertiary	82.7	80.9	81.2	79.9	81.7	82.3

Lower secondary or less means less than ISCED 2. Upper secondary here is equal to ISCED 3 and 4 for simplicity. Tertiary is ISCED 5 and 6.

Unemployment rate by age and gender

Total

	1999	2000	2001	2002	2003	2004
15–64	32.7	32.5	31.1	32.4	37.1	37.4
15–19	66.3	60.7	57.6	60.2	66.6	72.8
20–24	61.7	59.6	55.7	57.8	65.5	62.5
25–29	51.2	49.7	44.1	48.0	50.8	49.4
30–34	36.2	36.0	36.0	36.2	43.0	40.0
35–39	26.5	25.5	26.0	29.7	32.7	33.7
40–44	18.0	21.6	20.8	22.1	26.1	28.7
45–49	15.9	17.7	16.9	19.5	21.9	25.2
50–54	17.8	16.9	16.8	18.2	22.6	24.1
55–59	15.5	18.4	14.3	17.6	23.2	30.1
60–64	8.8	11.3	10.8	16.1	14.3	20.3

Men

	1999	2000	2001	2002	2003	2004
15–64	32.2	30.7	30.0	32.2	37.4	37.1
15–19	67.8	60.9	59.6	59.5	65.4	73.8
20–24	62.3	57.2	56.6	57.7	65.1	62.4
25–29	51.4	45.9	41.1	47.5	50.9	47.5
30–34	34.8	33.4	33.4	36.7	43.5	37.8
35–39	25.5	23.7	25.2	28.3	32.9	33.3
40–44	17.5	19.5	19.5	21.9	26.9	28.9
45–49	14.5	17.2	16.1	18.9	22.5	25.0
50–54	18.9	18.0	17.8	17.8	23.0	25.1
55–59	16.2	20.1	16.5	20.0	26.6	33.2
60–64	10.1	12.5	12.2	19.4	18.5	23.8

Women

	1999	2000	2001	2002	2003	2004
15–64	33.5	35.1	32.6	32.7	36.7	38.0
15–19	64.2	60.4	54.9	61.1	68.1	71.5
20–24	60.9	63.0	54.4	58.0	66.0	62.7
25–29	51.0	55.4	48.2	48.8	50.6	52.0
30–34	38.3	39.6	39.6	35.4	42.3	43.2
35–39	27.7	28.0	27.2	31.5	32.4	34.3
40–44	18.7	24.4	22.7	22.4	24.9	28.3
45–49	18.0	18.5	18.0	20.3	20.9	25.6
50–54	15.8	15.0	15.3	19.0	21.9	22.5
55–59	13.4	13.5	9.4	11.9	15.9	23.0
60–64	4.0	8.3	6.5	5.9	1.4	4.6

Unemployment rate in urban and rural areas

	2001	2002	2003	2004
Urban	33.7	32.7	36.6	37.9
Rural	26.4	31.8	37.9	36.4

Youth unemployment rate by educational attainment

	1999	2000	2001	2002	2003	2004
Youth 15–24						
Lower secondary	67.0	60.8	55.5	59.8	68.0	68.8
Upper secondary	60.3	59.4	57.1	57.5	64.8	62.4
vocational	64.0	57.7	58.5	56.4	64.5	67.4
Tertiary	55.4	55.4	45.0	51.5	48.0	67.9
Youth 15–19						
Lower secondary	63.3	58.7	51.5	55.7	63.0	68.0
Upper secondary	70.8	65.0	65.2	69.4	71.8	78.5
vocational	73.0	55.1	62.4	68.1	67.6	80.8
Tertiary	46.1	38.8	n.a.	n.a.	n.a.	n.a.
Youth 20–24						
Lower secondary	69.2	61.9	57.6	62.3	70.5	69.2
Upper secondary	58.1	58.5	55.1	55.6	63.6	59.2
vocational	61.9	58.3	57.5	53.6	63.8	63.6
Tertiary	55.9	57.1	48.1	51.5	48.0	67.9

*Includes only three-year vocational education because upper secondary enrolments cannot be distinguished into general, technical and vocational education.

Sources: State Statistical Office; Labour Force Survey, various years.

QUALIFICATION OF WORK FORCE AND SKILL MISMATCHES

Educational attainment of working-age population, 2002

Total	Lower secondary or less	Total Upper secondary, incl. ISCED 4	Tertiary ISCED 5B [1]	Tertiary ISCED 5A and 6	Total Tertiary
15–64	848 478	588 554	50 302	108 933	159 235
15–19	129 682	35 662	45	33	78
20–24	56 033	101 871	631	3 410	4 041
25–29	63 299	73 229	2 299	14 634	16 933
30–34	61 284	69 750	3 607	13 640	17 247
35–39	59 595	70 046	6 020	14 176	20 196
40–44	61 794	62 501	7 494	15 113	22 607
45–49	65 695	56 164	7 037	13 792	20 829
50–54	62 999	44 678	7 159	12 924	20 083
55–59	53 987	27 606	6 009	7 632	13 641
60–64	62 909	17 827	3 804	5 282	9 086

(1) Includes two- to three-year tertiary studies.

Source: State Statistical Office (2004), 2002 Census of Population.

Men	Lower secondary or less	Upper secondary, incl. ISCED 4	Total Tertiary	Tertiary ISCED 5B[1]	Tertiary ISCED 5A and 6
15–64	372 617	335 233	87 899	28 039	59 860
15–19	66 086	18 783	33	18	15
20–24	27 907	54 122	1 517	307	1 210
25–29	31 022	40 573	6 756	856	5 900
30–34	28 308	39 381	7 504	1 479	6 025
35–39	26 152	40 301	9 769	2 687	7 082
40–44	26 242	36 607	12 178	3 827	8 351
45–49	27 493	33 464	11 983	4 069	7 914
50–54	25 480	25 985	11 737	4 094	7 643
55–59	21 116	16 362	8 928	3 685	5 243
60–64	25 485	11 338	6 385	2 471	3 914

Women	Lower secondary or less	Tertiary			
		Total	Total	ISCED 5B [1]	ISCED 5A and 6
15–64	475 861	253 321	71 336	22 263	49 073
15–19	63 596	16 879	45	27	18
20–24	28 126	47 749	2 524	324	2 200
25–29	32 277	32 656	10 177	1 443	8 734
30–34	32 976	30 369	9 743	2 128	7 615
35–39	33 443	29 745	10 427	3 333	7 094
40–44	35 552	25 894	10 429	3 667	6 762
45–49	38 202	22 700	8 846	2 968	5 878
50–54	37 519	18 693	8 346	3 065	5 281
55–59	32 871	11 244	4 713	2 324	2 389
60–64	37 424	6 489	2 701	1 333	1 368

Participation rates and students by fields of study

	1999	2000	2001	2002	2003	2004
All levels[1]						
Primary	125 175	122 995	120 478	120 478	116 111	109 699
Lower secondary	127 037	126 380	124 262	124 262	121 470	117 555
Upper secondary[2]	89 775	90 990	92 554	95 352	95 352	95 268
– general	33 133	34 955	36 379	37 975	37 975	38 724
– vocational[2]	56 642	56 035	56 175	57 377	57 377	56 544
Tertiary	36 922	40 246	44 710	45 624	46 637	49 364

(1) Foreign students are included.

(2) Technical and vocational secondary education cannot be distinguished. General education includes art, music and ballet schools.

Students in higher education by broad field of study

	1999	2000	2001	2002	2003	2004
Mathematics and natural sciences	2 887	2 903	3 131	2 859	2 963	2 870
Technical sciences	8 912	9 012	10 169	9 614	9 143	9 099
Health	2 985	2 893	2 952	2 812	2 679	2 676
Biotechnology and agriculture	2 764	2 925	2 931	3 067	3 228	2 834
Humanities and social sciences	18 447	21 673	24 404	26 379	27 664	30 081
– of which graduates from	1999	2000	2001	2002	2003	2004
Mathematics, science and technology[1]	11 799	11 915	13 300	12 473	12 106	11 969

(1) Includes mathematics, natural and technical sciences.

Graduates from higher education by broad field of study

	1999	2000	2001	2002	2003	2004
Mathematics and natural sciences	205	248	236	246	280	304
Technical sciences	688	678	573	530	612	651
Health	292	323	295	287	306	385
Biotechnology and agriculture	168	142	132	147	213	250
Humanities and social sciences	1 935	1 947	1 944	2 084	2 767	3 121
Mathematics and natural sciences	205	248	236	246	280	304
Technical sciences	688	678	573	530	612	651
Health	292	323	295	287	306	385
– of which graduates from	1999	2000	2001	2002	2003	2004
Mathematics, science and technology[1]	893	926	809	776	892	955

(1) Includes mathematics, natural and technical sciences.

Source: State Statistical Office.

Enrolment rates 15+

	2000
15	80.0
16	73.9
17	71.1
18	46.5
19	24.1
20	20.9
21	18.7
22	15.2
23	11.1
24	7.9
25–64	m.*

Participation in lifelong learning, data from LFS

	1999	2000	2001	2002	2003	2004
25–64	n.a.	19 221	23 031	24 042	n.a.	n.a.

Source: Ministry of Education and Science.

*m.: *missing*

School drop-outs

	1999	2000	2001	2002
Early school leavers, of which:	1642.0	1584.0	1527.0	1503.0
– primary	203.0	306.0	242.0	181.0
– lower secondary	446.0	465.0	472.0	420.0
– upper secondary	993.0	813.0	813.0	902.0

Source: State Statistical Office.

ABBREVIATIONS AND ACRONYMS

BDE – Bureau for Development of Education

CARDS – Community Assistance for Reconstruction, Democratisation and Stabilisation

CEECs – Central and Eastern European Countries

CSW – Centre for Social Work

CVET – Continuing vocational education and training

DEM – German mark

EAR – European Agency for Reconstruction

EBRD – European Bank for Reconstruction and Development

ESA – Employment Service Agency

FDI – Foreign direct investment

FYR – Former Yugoslav Republic

GDP – Gross domestic product

GTZ – German Technical Cooperation Agency

ISCED – International Standard Classification of Education

IVET – Initial vocational education and training

LFS – Labour Force Survey

LTU – Long-term unemployment

MEBO – Management/employee buy-out

MEDF – Macedonian Enterprise Development Foundation

MoES – Ministry of Education and Science

MoLSP – Ministry of Labour and Social Policy

NAPE – National Action Plan for Employment

NEA – National Employment Agency

NES – National Employment Service

NESC – National Economic and Social Council

NGO – Non-governmental organisation

NMS – New member states

NUTS – Nomenclature of Territorial Units for Statistics

OECD – Organisation for Economic Co-operation and Development

PHARE – EU technical and economic assistance to CEECs

PHRD – Policy and human resources development

PIRLS – Progress in International Reading Literacy Study

PISA – Programme for International Student Assessment

RESC – Regional Enterprise Support Centre

SEE – South East Europe

Sida – Swedish Agency for International Development Cooperation

SME – Small and medium-sized enterprise

SOE – State-owned enterprise

TEMPUS – Trans-European Mobility Scheme for University Studies

TIMSS – Third International Mathematics and Science Study

UNDP – United Nations Development Programme

UNESCO – United Nations Educational, Scientific and Cultural Organization

USAID – United States Agency for International Development

VET – Vocational education and training

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