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# Performance of Western Balkan economies regarding the European Pillar of Social Rights

## Updated review on North Macedonia

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March 2020



EUROPEAN CENTRE FOR SOCIAL WELFARE POLICY AND RESEARCH

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European Centre for Social Welfare Policy and Research  
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## **Abbreviations**

- ALMP - Active labour market policies
- AROP - At-risk of poverty
- AROPE - At-risk of poverty or social exclusion
- CCT - Conditional cash transfers
- DALY - Disability-adjusted life years
- ERP - Economic Reform Programme
- ESA – Employment Service Agency
- GCA - General Collective Agreement
- GMI - Guaranteed Minimum Income
- ILO – International Labour Organisation
- IPH - Institute for Public Health
- LFS – Labour Force Survey
- LTU - Long-term unemployed
- LWI - Low work intensity
- MKD – Macedonian Denar
- MOSHA - Macedonian Occupational Safety and Health Organisation
- MICS – Multi-Indicator Cluster Survey
- NEET – Not in education, employment or training
- NCD - Non-communicable disease
- PDIF - Pension and Disability Insurance Fund
- PPS - Purchasing Power Standard
- PPP - Purchasing Power Parity
- SFA - Social financial assistance
- SMD - Severe material deprivation
- SSO - State Statistical Office
- SWC - Social Work Centre
- SWTS - School-to-work transition survey

## Executive summary

**There is evidence of progress across all the areas of the European Pillar of Social Rights, although North Macedonia is still lagging behind its EU peers in most areas.** Poverty remains a persistent problem in North Macedonia. High unemployment, inadequate social protection, as well as the low quality of social services are some of the main factors behind the high poverty levels. The economy needs to make further progress in addressing inequality and inequality of opportunities as regards gender, Roma, people with disabilities, etc. There is a relatively good legislative and institutional framework in place, however implementation is lagging behind. The government introduced substantial changes to the social protection system in 2019, with the aim of reducing poverty and inequality, and increasing inclusion of vulnerable citizens into society and the labour market.

**Despite the progress in terms of equal opportunities and access to the labour market, there is still a considerable gap with EU Member States, and much more needs to be done to improve the situation of disadvantaged citizens and Roma.** There has been a continuous improvement in most educational indicators in North Macedonia, and the economy is closing the gap to the EU-28. Still in 2019, very few adults in the economy were involved in lifelong learning (2.6% of the population aged 25-64) and 24.1% of young people were not in education, employment or training (NEETs) in 2018. However, the quality of education is of special concern. Roma and citizens from disadvantaged backgrounds have difficulties in accessing education and underperform in education. Gender gaps in the labour market are high, with the activity rate gap in 2018 being 26.1 percentage points and the employment rate gap being 21.4 percentage points. However, there are some converging trends. As of March 2020, the legislation and institutional framework on gender equality (and inequality, in general) is in place and some changes are currently on the way to strengthen the prevention of discrimination on different grounds. Few unemployed receive active support to employment and the financing of activation measures is relatively low, at about 0.2% of GDP. North Macedonia is the first economy in the region to establish a Youth Guarantee programme.

**In the area of fair working conditions, further advances are needed regarding the reduction of informality, promotion of health and safety at work and creating conditions for better balance between work and family.** Labour legislation in North Macedonia provides a fair and equal treatment of workers with temporary contracts. The employment of workers in North Macedonia could be considered secure (in terms of its duration) and the transitions from temporary to permanent employment are faster than in the EU, but the labour market dynamics is low resulting in high long-term unemployment. Labour Law provides relatively good protection of workers in case of dismissals; however, implementation of the legislation is in many cases lagging behind. Informality is high (18.6% of total employment in 2018), although there is a continuous declining trend. As of March 2020 the Ministry of Labour and Social Policy has been in the process of preparing a new Labour Law which has not yet been shared with the public. Collective bargaining is still weak and practically subordinated to the labour legislation. In 2017 the newly elected

government embarked on a policy of wage increases as a new paradigm for boosting economic growth, through private consumption. Such policy change involves an increase of the minimum wage (MW), financial support to employers to increase the wages close to the MW, increases of wages in public administration, but also higher social assistance support. Women in North Macedonia face difficulties in balancing work and life/family which is related to the traditional division of labour within households, non-availability of formal child and elderly care institutions, low access to part-time and flexible employment, etc. Women's rights in the labour market are generally protected with regard to maternity leave, however the legislation regarding paternity leave is not well developed. There is room for improvement in the area of health and safety at work, in terms of legislative framework, implementation, institutional capacity, etc. North Macedonia does not have an established system of reporting related to injuries and accidents at work.

**Social protection and inclusion should be strengthened especially with regards to poverty reduction, access and enrolment in pre-school education, public health provision and the availability and quality of social care.** The poverty rate in the economy is relatively high, and there is a need to increase the coverage and effectiveness of the social assistance system. Pensions in North Macedonia have an important role in reducing poverty, which is not the case with social transfers. The pension deficit is continuously increasing and as a result the government slightly increased the contribution rate (from 18% in 2018 to 18.4% in 2019), though this is undermined by the *ad hoc* increase of pensions in 2020. A large reform of the social assistance system commenced in mid-2019, with the introduction of a Guaranteed Minimum Income (GMI) which is expected to bring further reduction in poverty (through higher coverage and amount of the benefit relative to SFA). Few children in North Macedonia attend preschool education which is a result of low demand (due to culture and the availability of informal childcare options) and limited supply. Government plans expansion of the capacity of formal childcare. Moreover, there are plans to substantially strengthen the child protection role through expansion of the current child allowance and the new, educational allowance for children from poor families. The public spending on health is low, and is declining continuously. Air pollution became a very important issue, with large current and future costs in terms of lost productivity and government spending. Support to children and adults with disabilities and the elderly is very limited and mainly provided as residential institutional care of poor quality. The government is planning to speed up the process of deinstitutionalisation and introduction of pluralism in the provision of care for people with disabilities, mainly in favour of community-based social care.

**The main challenges for the economy are poverty reduction and social inclusion of vulnerable groups (mainly people with disabilities and Roma).** Specifically, the economy needs to strengthen its social protection role and to ensure equal access and opportunities for all citizens. The focus should be on outputs and outcomes of the actions and policies, rather than the inputs. The planned reforms and processes that should start or intensify from 2019 onwards are a step in the right direction, but experience shows that the implementation is often constrained by limited human resources (and capacity of institutions) and limited budget resources. Appropriate monitoring and evaluation mechanisms should also be put in place so as to improve the effectiveness and efficiency of policies and programmes.

# 1 Introduction

**North Macedonia faces a number of challenges with regards to social policies and social rights.** Indeed, a recent assessment of the progress made by North Macedonia notes that the economy remained only moderately prepared in the area of social and employment policy (European Commission, 2019). According to the report, although some progress was made, the main remaining challenges were: involvement of social partners in social dialogue; labour market participation of females and gender gaps; inclusion of Roma and people with disabilities; low capacity of government institutions for the implementation of national policy for social protection; social protection of children with disabilities; deinstitutionalisation of social services; implementation of non-discrimination policy; and enforcement and administrative capacity in the area of health and safety at work. This assessment is largely confirmed by this report, which provides an assessment of the performance of North Macedonia regarding the European Pillar of Social Rights.

**Poverty remains a persistent problem in North Macedonia, with a high poverty rate of 21.9% in 2018.** The efforts of the government to promote poverty reduction and social inclusion have so far been largely ineffective. In particular, social transfers, apart from pensions, are not providing substantial protection against poverty. Spending on social protection, employment support to unemployed on education and health are relatively low compared to the EU-28. The expenditures on health declined in recent years and there is a large under-financing and neglect of prevention services (primary health care). These, along with the current burning issue of high air pollution, lead to large health costs, personal losses and economic costs (lost productivity) in the medium and long run.

**The educational attainment of the population has significantly improved since mid-2000s, however there are issues with the quality and access to education.** Roma and citizens from disadvantaged background have difficulties in accessing education and underperform in education. Disparities in educational outcomes and human capital accumulation start from an early age and then reinforce later in life. The labour market performance is weak, resulting in high unemployment and high informality. Gender gaps in the labour market, i.e. activity and employment, are relatively high.

**The government undertakes several policies and measures to improve the position of Roma, in all areas, such as housing, early childhood education, labour market, etc.** Still, the programmes are generally of small scale and with limited effects. Regarding people with disabilities, as of 2020 a large reform is underway aiming at personalisation of support and care, flexible services that adapt to the needs of the beneficiaries, as well as deinstitutionalisation and introduction of pluralism in the provision of care for people with disabilities, mainly in favour of community-based social care.

**The current government has started several reforms aimed at alleviating poverty and social inclusion of disadvantaged groups of citizens.** While the government is strongly focused on those reforms, there is competing demand for the limited financial and human resources needed to fulfil all the intended goals and plans.

**There are no large-scale social monitoring initiatives coming from academia, social partners, civil society organisations or elsewhere.** The main pressure towards raising awareness on these issues comes from the EU and donors, such as the ILO, UN Women (and in general UNDP), World Bank, etc. The recent focus in the public debate is mainly on issues of poverty, inequality and the need for promoting human capital.

**While Eurostat serves the role of data provider for the Social Scoreboard, the corresponding data for North Macedonia are relatively readily available from Eurostat.** It is mainly spending data and health data which are not available from Eurostat. In the report, some approximations for the data are used, but effort has been made to ensure that those data are at least comparable within the Western Balkans region. Additional data sources include World Bank, ILO, and WHO databases.

## 2 North Macedonia's performance in the 20 principles of the European Pillar of Social Rights

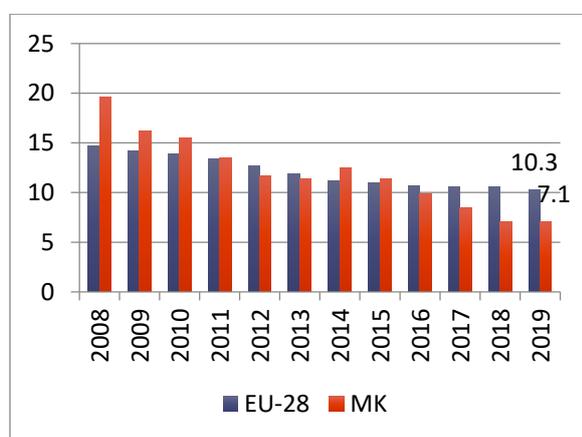
### 2.1 Equal opportunities and access to the labour market

#### 2.1.1 Education, training and lifelong learning

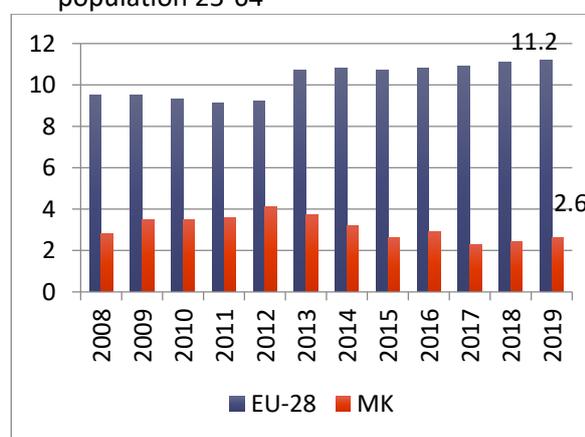
**Educational indicators in North Macedonia show improvement, although with a large gap in terms of lifelong learning.** Figure 1 shows the Scoreboard indicators which are used to assess the educational and training outcomes. Data in panel (a) show that North Macedonia has achieved large progress in reducing the share of early school leavers since 2006. In 2019, only 7.1% of young individuals aged 18-24 have not acquired at least upper secondary education which is lower than the EU-28 average. In 2006, there was a large gender gap: the share of early school leavers among females was 6 percentage points (p.p.) higher than for males. The gender gap decreased to 2.3 p.p. in 2019. On the other hand, very few adults in the economy participate in lifelong learning, only 2.6% of the population aged 25-64 were engaged in some form of learning in 2019 which is significantly below the EU-28 average. The situation is the same for both genders.

Figure 1. Headline educational indicators

a) Early school leavers (age group 18-24), in %



b) Adult participation in learning, % of population 25-64



Source: Eurostat database

**Young Macedonians are acquiring very little knowledge in schools.** Despite the progress in terms of quantity of education, the economy fares quite poorly in the quality of education and outcomes as assessed by the performance of young individuals on international tests. For instance, the 2018 PISA showed that 61% of 15-years olds in the economy had a performance of below level 2 in math compared to the OECD average of 24%.<sup>1</sup> The mean score of young people in

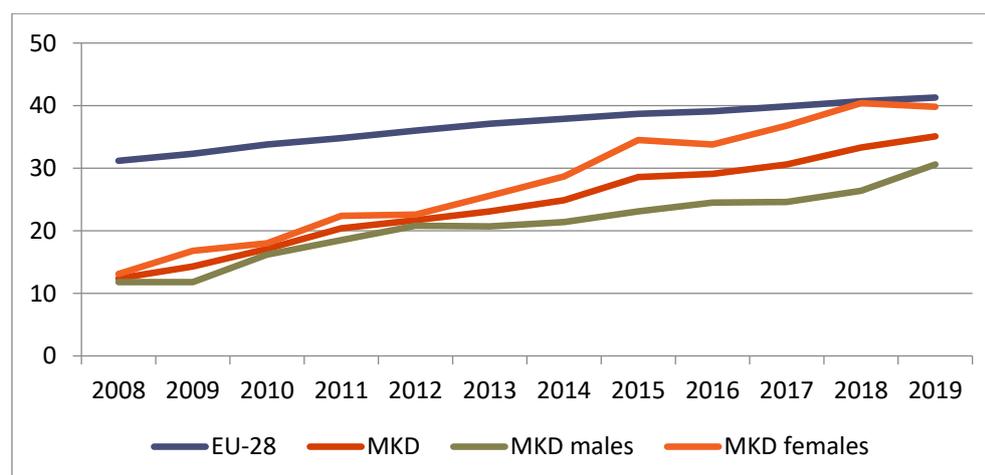
<sup>1</sup> These data can be found at: <https://ec.europa.eu/eurostat/web/european-pillar-of-social-rights/indicators/main-tables>. They are part of the European pillar of social rights' data provided by sources other than the Eurostat.

the economy was 394 (median of 394), well below the OECD average of 489 (median of 492). Results by quintiles show that on both ends of the distribution, pupils from North Macedonia underperform, though the relative results are actually much worse in the lower end of the distribution, i.e. below the median. Similar conclusions can be drawn by assessing the achievements in science: the average score in North Macedonia was 413 (49% of youth performing below level 2), below the OECD average of 489 (where 22% had a score below level 2). The PISA results for 2015 showed that 7% of variation in the performance is explained by socio-economic background, showing that pupils with disadvantaged background fare worse than their peers, everything else being equal. Data also show that the inclusiveness in society and education is low, given that there are only 4% of resilient students (defined as students who displayed high levels of academic achievement despite the fact that they came from disadvantaged backgrounds). Besides the quality of education, another major challenge for the economy is to better align the education and labour market needs; this is true for both the secondary vocational education (VET) and tertiary education (European Commission, 2019; Ministry of Finance of Republic of North Macedonia, 2018).

**In 2018, 24.1% of young people in North Macedonia are neither in employment nor in education or training (NEETs).** This share is much higher than that of the EU-28 average of 10.5%. A 2012 EUROFOUND study estimated that in 2011, the annual loss of the Member States due to labour market disengagement among young people (i.e. the NEETs) was 1.2% of GDP. The economy made large progress in reducing the NEETs rate between 2006 and 2010 (from 41.3% to 25.5%, respectively) but no progress was achieved afterwards. The share of NEETs is very similar for both genders, although the composition of the NEETs is very different (see below). The School-to-work transition survey (SWTS) of the ILO found that about one third (32%) of young people in the economy in 2014 were NEETs (Mojsoska-Blazevski, 2016). Most of the NEETs are unemployed youth, whilst one-third are inactive young persons who are quite distanced from the labour market (and education). While as much as 80.7% of male NEETs fall into the category due to unemployment, only 46% of female NEETs are unemployed. Female NEETs are more likely to fall into the subcategory of inactive non-students.

**Further progress is needed for the economy to reach the EU average share of young people aged 30-34 with completed tertiary education.** Despite the large progress made in the economy in terms of the share of young people aged 30-34 with completed tertiary education, this share is still much lower than in the EU (see Figure 2). Females are at an advantage in terms of this indicator: 39.8% of females aged 30-34 completed tertiary education, while this was the case for merely 30.6% of males, in 2019.

Figure 2. Tertiary education attainment of population aged 30-34 (in %)



Source: Eurostat database: European pillar of social rights

## 2.1.2 Gender equality

**There are large and persistent gaps in labour market participation between men and women.**

While no gender difference can be observed when it comes to unemployment incidence, females in North Macedonia are much less likely than males to be employed and active in the labour market. In particular, the gender employment gap for the population 20-64 in 2018 was 21.4 p.p. almost double the EU-average (11.6 p.p.). The gender employment gap is closely related to educational attainment. At the low education levels (primary education and less) males have a 2.8 times higher employment rate than females (58.8% vs. 21.2%, respectively). The gap narrows to 6.9 p.p. (78.6% vs. 71.7%, respectively) at tertiary education (note that females are more likely to complete tertiary education). The gender gaps in employment in the economy are driven mainly by gaps in labour force participation and the very low labour force participation of women (Mojsoska-Blazevski, 2018). LFS data show that employed women are, on average, better educated than employed men. Although this can be regarded as a positive trend, it may also signal some barriers to employment for women with lower levels of education (Mojsoska-Blazevski, 2018). For example, women are much more likely to work as unpaid family workers—9.1% of women compared to 3.1% of men—and are much less likely to be self-employed. Moreover, unpaid family workers make up roughly one quarter of employed poor women. The study of Petreski et al. (2015) found that mothers (particularly those with small children up to the age of 6) are much less likely to be employed relative to women without children, which is a sign of vulnerability of mothers in the economy.

**Roughly thirty-five percent of the population aged 15-64 in North Macedonia is inactive with inactivity much higher among females.<sup>2</sup>** In particular, 47.8% of working-age women are not participating in the labour market, so that the gender activity gap is as high as 26.1 p.p. While males in the economy have similar activity rates as their EU peers on average, females fare very

<sup>2</sup> LFS data from Eurostat, available at: <https://ec.europa.eu/eurostat/data/database>

poorly in comparison to their counterparts in the EU Member States. Completed education is a key explanatory factor here. More specifically, the high inactivity among low educated women is the major reason behind the low overall activity in the economy and the very low activity of females. Only 22.1% of females with completed primary education or less participate in the labour market. At the level of tertiary education, the activity rates of both genders in North Macedonia are higher than the EU average, although there is still a gap of 2.9 p.p. The gender participation gap among young persons is relatively low but becomes more pronounced for older workers.

**Most of the inactive persons of both genders report that they do not want to work, but the inactivity of females is mainly related to family responsibilities.** LFS data from 2018 show that 14.5% of inactive women in North Macedonia reported that they would like to work but are not seeking employment, which was the case for 24.8% of men in the economy and for 16.3% of women in the EU-28. A large share of inactive women reported that they do not seek employment due to family/caring responsibilities (53.5%), twice the share of women citing this reason in the EU-28 (25.6%). In addition, 43% of women in the economy also reported “other family and personal responsibilities” as a reason (10.6% in the EU).

**The traditional division of labour and of roles within households are important reasons for women’s low labour market activity.** Studies show that the traditional division of household labour in which the burden of care for the household and its dependents automatically falls on women is an important impediment to women’s higher labour market activity (Mojsoska-Blazevski, 2018). The competing demand for women’s time is further exacerbated by an insufficient supply of childcare and elderly care services (as explained later in the report). Mojsoska-Blazevski et al. (2017) found that the main reasons for women’s inactivity are household duties and the stereotypes about gender roles in the family and society. These findings suggest that traditional views on gender roles act as an important barrier to the labour market activity of inactive women. Another important reason cited by the participants in this study was the need to care for children and the elderly, followed by poor health and discouragement (the woman has either lost hope of finding a job or believes that she is not sufficiently qualified). The authors argue that all of these factors are inter-related and together have a significant effect on inactivity.

**The economy is doing comparatively well in the gender pay gap.** Based on Eurostat data, the gender pay gap in unadjusted form in 2014 (latest available data for the economy) was 9.1 p.p., which is much lower than the EU-28 average of 16.6 p.p. Contrary to the situation in the EU, the adjusted pay gap, which takes into account the personal labour market characteristics, is higher than the unadjusted gap in North Macedonia. This is due to the better average educational attainment of employed women relative to employed men. Available studies estimate the adjusted gender wage gap in North Macedonia to be approximately 17–20 % (Petreski et al., 2014; Petreski and Mojsoska-Blazevski, 2015). Petreski and Mojsoska-Blazevski (2019) find that the gender pay gap is highest in the textile industry which is the sector where women are over-represented relative to men. The study of Petreski and Mojsoska-Blazevski (2015) finds that there is no wage penalty for working mothers in the labour market of North Macedonia. Contrary to the expectations, the study found that mothers (defined as women aged 25-45, with a child aged up

to 6 years) earned 6% more than women without children under the age of six in 2014. Still, mothers earned 7.8% less than fathers. The studies generally find that the gender wage gap in North Macedonia can be attributed to: i) self-selection of females into inactivity; ii) discrimination (different returns for the same characteristics); and iii) the effects of men's and women's unobservable characteristics that are rewarded by employers (Mojsoska-Blazevski, 2018). On the other hand, worker and job characteristics do not appear to play an important role in explaining the gender wage gap.

**There is no difference in the part-time employment between women and men, but generally few employed persons work part-time.** The part-time employment gap in North Macedonia is only 0.1 p.p. relative to the average EU gap of 22.8 p.p. in 2018. However, this is explained by a low part-time work incidence among both genders. Few women in North Macedonia work part-time with the main reason reported for part-time work being the lack of full-time jobs, followed by “other family or personal responsibilities” and “looking after children and incapacitated adults.”

**The legislation and institutional framework on gender equality (and inequality, in general) is in place and some changes are on the way.** The economy has started to establish an institutional framework for ensuring gender equality only in recent years. The EC (2018) states that the existing laws on gender equality are largely in line with the EU acquis, but the main challenge is implementation. The Law on Equal Opportunities for Women and Men (Official Gazette No. 6/2012 and 166/2014) aims at ensuring equal opportunities and equal treatment of both genders. It rules the jurisdictions, tasks and obligations of the parties responsible for ensuring equal opportunities, the procedure for identifying unequal treatment of women and men and the rights and duties of the Advocate/Attorney for Equal Opportunities for women and men. The Law on Prevention of and Protection against Discrimination, which covers discrimination based on sex (Official Gazette No. 50/2010, and most recent changes in No. 21/2018) lays the ground for the establishment of an independent seven-member non-professional Antidiscrimination Commission. The competences of the Commission partly overlap with those of the Ombudsman, as well as those of the Advocate/Attorney for Equal Opportunities. There is a gender equality unit in the Ministry of Labour and Social Policy but it is understaffed. We can conclude that the legislation and the institutions responsible for gender equality (and, in general, equality) are relatively new and are still in the initial stages. The statutory rights of women in the labour market are guaranteed and generally protected, although there are still areas where improvements are needed, for instance, in the area of paternity leave and equal pay. The government has approved a new draft Law on Prevention of and Protection against Discrimination, which has been adopted by the Parliament. The draft Law, for the first time, includes references to gender identity and sexual orientation, and also includes new terminology and bases of discrimination (for instance, segregation as a form of discrimination). There are also changes in the Antidiscrimination Commission, which is renamed the ‘Commission for prevention and protection from discrimination’.

**The government intensified its efforts for protecting victims of domestic violence.** In addition to the 4 regional centres for victims of domestic violence, three new crisis centres were opened for rape victims, as well as a new shelter for victims of sexual harassment and violence during 2017

and 2018. However, further efforts are needed to assist women victims of domestic and gender-based violence (European Commission, 2018).

### **2.1.3 Equal opportunities**

**Poverty and exclusion remain high among Roma and people with disabilities and the implementation of Roma inclusion policies is slow.** Roma face challenges in many different areas of life: among others, many of them are without proper documentation (i.e. no IDs); there are many Roma children living on the streets; they face high unemployment; large number of Roma families live in poverty; many Roma are homeless; there is widespread stereotyping and discrimination against Roma. A recent study of the Roma in North Macedonia (Mojsoska-Blazevski et al., 2018) shows that there are very large discrepancies between Roma and Non-Roma living in settlements close to Roma. For instance, while the NEETs rate of non-Roma in 2017 was 32.8%, as many as 73.6% of young Roma were NEETs (although the gap declined by 9 p.p. compared to 2011). Regarding the labour market indicators, the study shows that the relative position of Roma is extremely weak, and worsened between 2011 and 2017. In particular, Roma have lower activity rate (44 % in 2017) compared to Non-Roma living in their close proximity (49 %). The activity rate of Roma declined since 2011 when it stood at 49% (although the same trend is observed for Non-Roma). Of the Roma working-age population, only 22% was employed in 2017, relative to a 40% employment rate of the Non-Roma. The employment rate of Roma stagnated between 2011 and 2017 despite the improving labour market in the economy. The unemployment rate of Roma is more than twice as high as that of Non-Roma (49% and 19% respectively). Roma females are in an especially difficult position. Their employment rate is only 13% with an unemployment rate of 58%. These large differences in educational and labour market outcomes for Roma and Non-Roma stem from their limited access to education and other services, and are linked to widespread discrimination.

**The government undertakes several policies and measures to improve the position of Roma, but the programmes are generally of small scale and with limited effects.** The Employment and Social Reform Programme 2020 identified the following challenges and strategic priorities for improving the inclusion and living conditions for Roma:

- improving the conditions and opportunities for employment and reducing unemployment within the Roma community;
- improving the educational attainment of Roma;
- decreasing the gap in the quality of housing between the Roma and Non-Roma communities in North Macedonia;
- continuous improvement of the health status of Roma;
- promotion and development of Roma culture, language and tradition.

Currently, there are several support schemes/policies in place for Roma. In the labour market, they can participate in the general active measures, in addition to specific measures which specifically target Roma. For instance, there is a Roma mentoring programme which aims to

provide better information to unemployed Roma about employment and training possibilities provided by the Employment Service Agency (ESA). The ESA is an integrated employment service offering job brokerage, unemployment benefits and active labour market policies (ALMPs). The goal is to include unemployed Roma in some form of active programmes and/or subsidised employment. Mentors are working directly with Roma in their communities. The plan for 2020 is to include 500 Roma in this programme (i.e. that mentors reach 500 Roma). With the support of the Roma Education Fund (Budapest), a project is implemented in 19 municipalities aimed at increasing the enrolment of Roma children aged 3-6 years old in preschool education. This programme is also implemented through 21 mediators, who work in the field, in municipalities. So far, data show limited progress in the enrolment of Roma children despite incentives.<sup>3</sup> Mediators are remunerated per successful outcome of their engagement, i.e. per child enrolled in preschool. One of the major problems for Roma is access to housing. In the past year, the government built 15 apartments within the existing shelter in Vizbegovo (near Skopje) and accommodated about 100 Roma (of which 66 are children).<sup>4</sup> Prior to this, they were homeless, living in an improvised settlement without access to essential services. The government announced further infrastructure projects in the municipalities with dominant Roma populations (such as Bitola, Delcevo, Kumanovo, etc.). Moreover, a sustainable improvement in their living standard has to be achieved by better access to social services and to employment opportunities. Roma also have access to social housing (see point 19 of this report).

## **2.1.4 Active support to employment**

**North Macedonia spends little on active labour market measures (ALMPs), involving few unemployed people.** Figure 3 shows that in 2018, the economy spent 0.15% of GDP on active measures (including services) which is considerably lower compared with the spending in EU Member States. This spending, although planned to increase in 2019 and 2020 to 0.19% of GDP, is still lower than in 2009 when the government increased the spending as part of the anti-crises policy package. The planned expenditures for ALMPs in 2020 are approximately EUR 23.2 million targeting 11 761 unemployed (others could benefit from services of ESA).<sup>5</sup> No specific funds are dedicated to Youth Guarantee programmes. The coverage of the unemployed is 11.6% of the registered unemployed persons that look for a job. Some progress in terms of the effectiveness of ALMPs was achieved in recent years (Petreski and Mojsoska-Blazhevski, 2015). However, the effectiveness of the programmes is still limited by the low demand for workers in the economy and the low capacity of ESA (both financial and human).

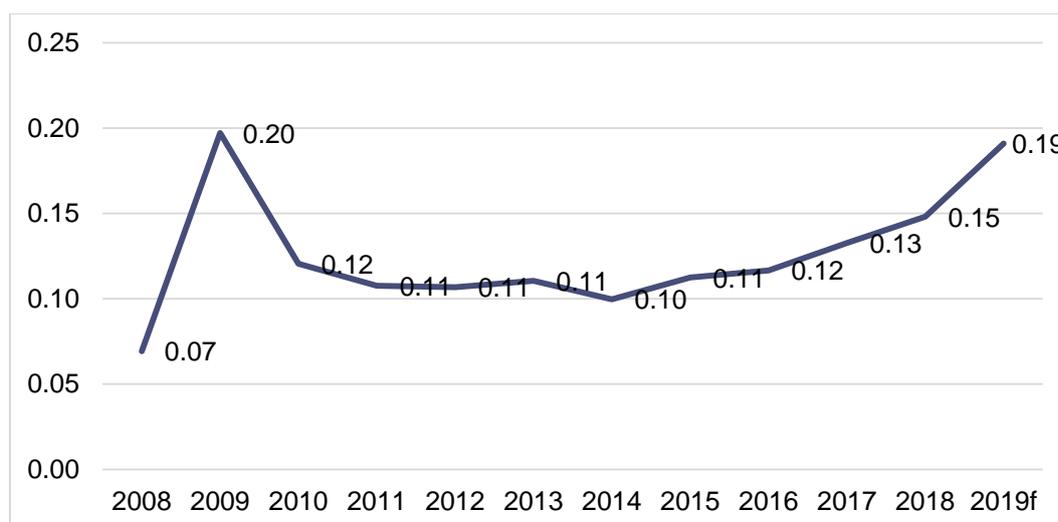
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<sup>3</sup>While the number of enrolled children in September increased from 487 in 2014 to 506 in 2017, the average number of children attending the preschool during the year decreased from 560 in 2014 to 510 in 2017 (<http://www.mtsp.gov.mk/inkluzija-na-deca-romi-vo-detski-gradinki.nspix>).

<sup>4</sup>Financially supported by the International Organization for Migration-IOM and Open Society Institute (OSI).

<sup>5</sup>The Operational Plan is published at: <http://av.gov.mk/content/%D0%9E%D0%9F/OP-2020.pdf>

Figure 3. Spending on ALMPs as a share of GDP



Source: Author's own calculations based on data from the Employment Service Agency, [www.avrm.gov.mk](http://www.avrm.gov.mk)

**In 2018 the government piloted the introduction of the Youth Guarantee (based on the EU experience).** The Guarantee envisages that each young person under the age of 29 will be given an adequate job offer, an opportunity to continue education or be included in some of the internship or training measures for preparation for employment, within 4 months after completion of education or registration as an unemployed person in ESA. The pilot involved three employment centres (out of 30 centres), and the number of participants amounted to 526, out of which 41% successfully completed this programme. The programme is universal starting from 2019, with special emphasis on 3 regions (Polog, Northeast and Southwest), where the number of young people that belong to the NEET category is the largest. As of August 2019, the total number of unemployed persons included in the Youth Guarantee was 16 624, out of which 33% successfully completed it. More than 10 thousand young people will be involved in the Youth Guarantees annually, with an estimated rate of 30% of those who would successfully complete the programme. The planned annual cost is between EUR 4 and 5 million<sup>6</sup> (Economic Reform Programme 2020-2022).

**In addition, the government adopted a new Law on Internships which is submitted to the Parliament.** This is the first attempt to establish legislation on internships. The Law defines an intern, regulates the minimum and maximum period for internships, the rights and obligations of both sides (employers and interns), the level of the allowance of the interns, etc. The ESA will be in charge of establishing and maintaining a register of all internship contracts.

At the end of 2019, the government introduced the so-called Youth Allowance which is planned to be implemented in 2020-2022. This measure is intended to support the employment of young individuals up to 23 years of age with secondary educational attainment in the manufacturing industry.

<sup>6</sup> In addition, for the period 2020-2022, this measure will be financially supported by the IPA 2018 - Sector Budget Support in 3 regions (Polog, Northeast and Southwest) in total amount of EUR 6.2 million.

The youth allowance may be used if one of the following conditions is met: the young person (i) is covered by compulsory social insurance on the basis of employment or being self-employed in the manufacturing industry, (ii) is employed in a private employment agency and is outsourced to an employer operating in manufacturing, or (iii) is covered by compulsory social insurance as a farmer.

The allowance is in the amount of MKD 3 000 (approximately EUR 50) per month. According to the Operational Plan for 2020, 4 000 young individuals would benefit from this measure, with a budget of MKD 160 million (EUR 2.6 million).

## 2.2 Fair working conditions

### 2.2.1 Secure and adaptable employment

**Labour legislation provides a right to fair and equal treatment of workers with temporary contracts.** The share of workers with temporary contracts in North Macedonia in 2018 was 15.1%, which is similar to the EU average (14.1%). Males are slightly more likely to be engaged through temporary contract than females (16.6% and 12.9% respectively).<sup>7</sup> When considering employees by the European socio-economic group, workers in the category “skilled industrial employees” and “lower status employees” are most likely to be engaged on temporary contracts (42% and 30.7% of the total, respectively). About a third (34.7%) of young workers are employed on temporary contracts, which is lower than the EU average of 43.5% in 2018.<sup>8</sup> According to the national legislation (Labour Law, Article 46)<sup>9</sup> the maximum duration of a temporary work contract is 5 years if a worker performs the same duties with the same employer. Temporary work contracts can also be used for replacing workers who are temporarily absent from work (for instance, female workers who are on maternity leave). In the past, the maximum duration of temporary contracts was extended several times as part of the overall measures for increasing labour market flexibility.<sup>10</sup> The Labour Law explicitly states that temporary employees should be treated equally to other workers, except when such differential treatment is based on objective reasons.<sup>11</sup> The probation period (or the so-called trial work) can last up to six months (Article 60 of the Labour Law). In the case of trial work, the worker and employer sign a written work contract defining the rights and obligations of both parties, including the wage and the duration of the contract. The worker who is on probation should give a notice of three days in case s/he wants to terminate the contract. The employer can terminate the work relationship after the probation

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<sup>7</sup> Eurostat database, available at <https://ec.europa.eu/eurostat/data/database>.

<sup>8</sup> This difference may though reflect high informal employment of youth in North Macedonia (30 % in 2017).

<sup>9</sup> The authorities are preparing a new Labour Law. There are still no public information on the major changes that will be made in the labour legislation. The draft Law has been commented by the World Bank. The authorities have requested a TAIEX support from the EU Delegation in North Macedonia.

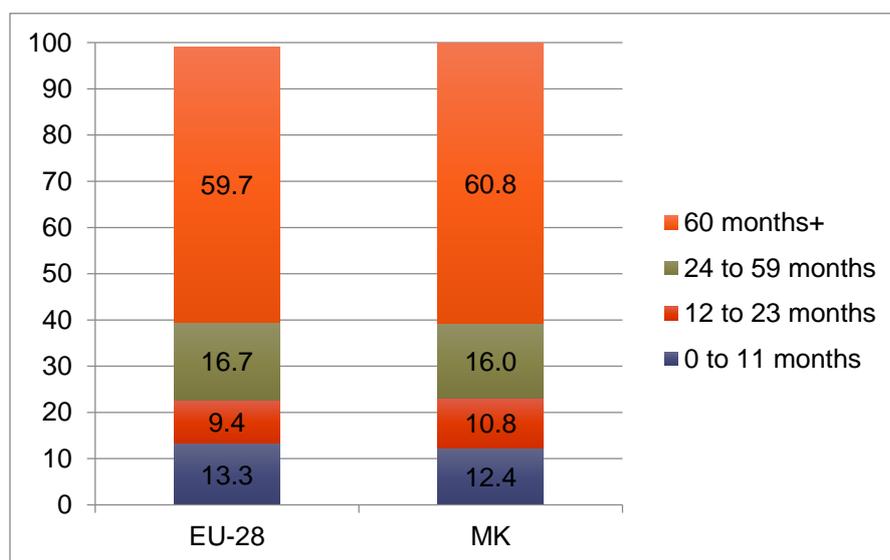
<sup>10</sup> Mainly related to the doing business rating or criteria for the assessment of the ease of doing business.

<sup>11</sup> The Law provides no information on what these objective reasons are.

period in case the worker underperforms on the job. There are no plans or public discussion about changes to the legislative framework for temporary work and/or probation work, although some changes may be implemented in the near future as part of the new labour law that is under preparation.

**The employment of workers can be considered secure (in terms of duration) and the transitions from temporary to permanent employment are faster than in the EU, but the labour market dynamics are low.** The dynamics of the labour market can be assessed by the duration of the employment contracts. Figure 4 shows a comparison between the structure of employment by duration in North Macedonia and the EU28. The structure is similar, with a slightly higher share of longer duration of employment (above 60 months) relative to the EU average. Temporary workers have a greater probability to transit to permanent work contracts relative to workers in the EU, on average. In particular, in 2018 the 3-year average of the transitions from temporary to permanent contracts was 51.5%, which is much higher compared to the EU average of 25.6%. Females in the economy face a slightly higher probability of transiting to permanent employment (54.2%).

Figure 4. Employment in current job by duration



Source: Eurostat database, Social Pillar scoreboard

**The low labour market dynamics leads to high long-term unemployment.** Indeed, many of the unemployed in North Macedonia are unemployed for more than a year, i.e. long-term unemployed (LTU). According to Eurostat data, the LTU rate in 2018 was 15.5%, more than five times the average rate of the EU. This shows that very few unemployed individuals exit unemployment for employment. National authorities do not publish data on labour market transitions either from the Labour Force Survey or from the administrative data on employment and unemployment (which are rich and high-quality data).

**Nationally there is no public discussion or studies related to atypical contracts.** There is only anecdotal evidence for the increasing use of some new forms of flexible and online jobs, especially among youth, however the national legislation does not recognise such work relationships as employment (and does not mention atypical work contracts). Moreover, the

inspection bodies (mainly the State Labour Inspectorate-SLI, but also the Public Revenue Office) are not prepared to detect such flexible employment relationships.

**The LFS data show that the share of so-called vulnerable employment in the total employment was 18.4% in 2018.**<sup>12</sup> According to the international standards, vulnerable employment includes employment such as unpaid family workers and self-employment out of necessity. Men are more likely to be in vulnerable employment (with a share of 20.1%) relative to women (15.8%). However, the composition of vulnerable employment is very different by gender: while the majority of vulnerable employment of men is self-employment (84.6%), 57.6% of the female vulnerable employment comes from contributing family workers. Moreover, LFS data show that 18.6% of the employed persons worked informally in 2018. Males are slightly more likely to be employed without a contract, 20.7% relative to 15.3% of females.

**Slightly more Macedonians are self-employed than the EU average, but self-employment is mainly related to existential reasons rather than a good business opportunity.** About 13% of the employed persons in 2018 were self-employed (Eurostat data).<sup>13</sup> This share is higher than the EU average of around 10 %. Still, much of the self-employment in the economy is actually related to an inability to finding a regular job elsewhere in the economy (i.e. is of subsistence nature) rather than to a profitable business opportunity. Wage employment contributes to 77.3% of total employment, whereas 5.5% of the employed workers are contributing family workers (relative to about 1% EU average).

## 2.2.2 Wages

**In 2017 the newly elected government embarked on a policy of wage increases as a new paradigm for boosting economic growth.** Such policy change involved an increase in the minimum wage (MW), temporary financial support to companies to increase wages around the median wage (wage-range above the new MW level), increases of wages in public administration, but also higher social assistance support (changes related to social assistance are explained in a later section of this report). These increases were expected to boost consumption, and hence, economic growth.

**Wage developments show that there is generally a growth of real gross and net wages with the exception of the period 2010-2013.** The drift in 2009 was due to the gross-wage reform which also reduced the rates of social security contributions. In 2019, gross average wage was 34.3% higher than the 2005-level (in real terms), whereas the respective increase of the average net wage was 53.3%.

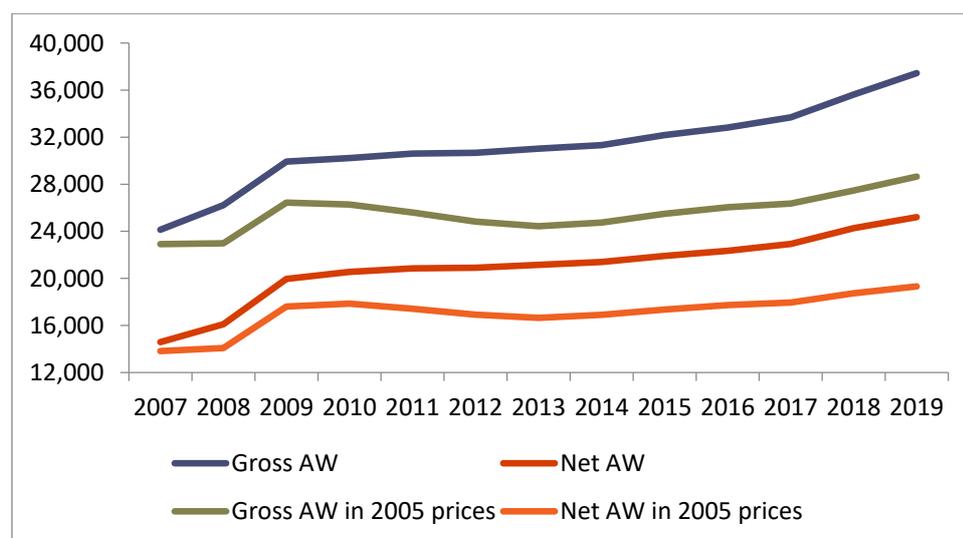
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<sup>12</sup> LFS data from Eurostat database, available at: <https://ec.europa.eu/eurostat/data/database>.

<sup>13</sup> See

[https://ec.europa.eu/eurostat/data/database?p\\_p\\_id=NavTreeportletprod\\_WAR\\_NavTreeportletprod\\_INSTANCE\\_nPqeVbPXRmWQ&p\\_p\\_lifecycle=0&p\\_p\\_state=normal&p\\_p\\_mode=view&p\\_p\\_col\\_id=column-2&p\\_p\\_col\\_pos=1&p\\_p\\_col\\_count=2](https://ec.europa.eu/eurostat/data/database?p_p_id=NavTreeportletprod_WAR_NavTreeportletprod_INSTANCE_nPqeVbPXRmWQ&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-2&p_p_col_pos=1&p_p_col_count=2).

Figure 5. Wage developments, 2007-2019



Source: Author's calculations based on data from the State Statistical Office

**The statutory minimum wage (MW) was increased substantially in 2017 and initial assessment shows that this uprating brought positive effects on low wages and wage inequality without negative employment effects.** The newly elected government in 2017 pursued a more comprehensive change of the MW, which included a 19% increase of the MW level to MKD 12 000 in net terms (EUR 200) and levelling up the MW in the three economic sectors which previously had lower MW to the national level.<sup>14</sup> The stated policy objective has been to increase overall wage levels, especially those of the low-paid workers, and to reduce poverty and inequality. To help firms cope with the increased labour costs, the government provided temporary subsidies for a 12-months period. The study of Petreski and Mojsoska-Blazhevski (2019) examines in detail the initial effects of the uprating of the MW on wage developments, employment, wage inequality, etc. The study finds fairly favourable changes in the overall wage distribution and inequality. In particular, hourly average wage increased by 6.4% between 2017 and 2018, although this was not uniform along the wage distribution: it was more intense for the wages at the lower part of the wage distribution up to the level of median. The authors find evidence of “equalisation” of wages in the lower end of the wage distribution and increased bunching of wages around the new MW. Turning to employment, the study did not find a negative relationship between employment and MW increase, but small downward adjustment of hours of work. The study though recommends that policymakers should closely monitor the future developments as the study assesses only the short-run effects, and suggests bigger use of statistical data on economic and wage trends and productivity in making decisions about the MW. Following the discretionary increase in 2017, the MW was indexed using a formula that included 1/3 of the average wage growth, 1/3 of the inflation rate and 1/3 of the real GDP growth in the previous year, before being raised again by the government to MKD 14 500 (EUR 236) in December 2019, i.e. by around 16% compared to the level prior to this increase. In order to support this increase, and wage growth in general, the government introduced a measure for

<sup>14</sup>Textiles, apparel, leather and shoe industry.

financing the additional social insurance contributions of workers whose wages would be raised between EUR 10 and 100. The government's plan was to raise the MW level to MKD 16 000 (EUR 260) by 2020. Most recent information (end of February 2020) shows that about 22 000 companies benefit from this financial support, involving around 119 000 workers.<sup>15</sup>

**The MW level is comparable to the MW in some EU Member States (expressed in PPS), although seems relatively high as assessed by the Kaitz ratio.** Eurostat data on MW show that prior to the MW increase the MW in gross terms in North Macedonia was EUR 240 (in first half of 2017), but when expressed in PPS the level rises to EUR 509.<sup>16</sup> This level is relatively high within the region (with the exception of Montenegro with a gross MW in PPS of EUR 524), and is comparable to the MW in PPS in Bulgaria (EUR 486), Latvia (EUR 525) and Romania (EUR 524). There are not yet data for North Macedonia's MW on the Eurostat database after the MW increase. With the uprating of the MW, the so-called Kaitz ratio (ratio of MW to the median wage) increased from 67% in 2017 to 80% in 2018, suggesting a significant improvement of the relative position of MW earners to the "median" worker. ILO (2016) reports same Kaitz ratios, using median wage, and based on EU-SILC data. The Kaitz ratios are the lowest in Estonia and Czech Republic (at 37% and 38%), while they increase to over 60% in Hungary, Portugal and France. Still, the Kaitz ratio in most EU Member States is between 45% and 60%, and the weighted average Kaitz ratio for the EU is 50%. This implies that the MW level in North Macedonia is set at a relatively high level compared to other Member States, and any further ad-hoc increase of the MW beyond productivity developments should be avoided.

**Wage inequality is not the source of high-income inequality.** Despite the public discussion (mainly spurred by the government) that there is a large wage inequality, the study of Petreski and Mojsoska-Blazhevski (2019) shows that wage distribution is much more compressed than the average wage distribution in the EU (hence implying lower wage inequality).

**The incidence of low-wage declined considerably with the increase of the MW.** The MW triggered a reduction of the low-wage incidence. Prior to the increase of the MW, there were 71 079 employees (14.7% of total wage employment) with wages below two thirds of the median wage which declined to 22 908 workers, i.e. 4.3% of the total wage employees (Petreski and Mojsoska-Blazhevski, 2019). The MW increase along with the reform in the social assistance system from 2019 should bring further reduction of the poverty rates.

### **2.2.3 Information about employment conditions and protection in case of dismissals**

**The Labour Law provides relatively good protection of workers in case of dismissals, however, implementation of the legislation in many cases lags behind.** According to the Labour Law, an

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<sup>15</sup> Press release by the Ministry of Labour and Social Policy: [http://www.mtsp.gov.mk/pocetna-ns\\_article-merkata-za-subvencioniranje-pridonesi-ja-koristat-22-iljadi-kompanii-pokaceni-se-platite-na-119-ilja.nsp](http://www.mtsp.gov.mk/pocetna-ns_article-merkata-za-subvencioniranje-pridonesi-ja-koristat-22-iljadi-kompanii-pokaceni-se-platite-na-119-ilja.nsp)

<sup>16</sup> See <https://ec.europa.eu/eurostat/web/labour-market/earnings/main-tables>.

employment contract should be signed in a written format (Article 15).<sup>17</sup>The employer has to provide a copy of the signed contract to the employee, on the same date when the contract is signed. The employer is obliged to inform the worker about the job to be performed, working conditions, as well as the worker's rights on the job prior to signing the work contract (Article 25). While there is no explicit mention that this information has to be provided in written format, all the necessary information about the rights and obligations of the worker should be specified in the contract. This information includes (Article 28): job title, short job description, information about any job-related risks, working time, basic salary of the worker, holidays and annual leave, allowances to which the worker is entitled, etc.

**In general, the legislation for termination of work contracts (the Labour Law) provides some security for workers but still some flexibility for employers.** However, there may be gaps between the legislation (and statutory rights and protection) and the implementation. The worker and employer may terminate the employment contract within the specified statutory or contractual notice period. When a contract is terminated, the parties are obliged to respect the minimum duration of the notice period. In case of individual dismissal, the notice period is one month, but it extends to two months in case of dismissal of over 150 workers or 5% of the total number of workers for the particular employer (Article 88). For seasonal workers, the notice period is 7 working days. In case of a collective dismissal, the employer needs to notify worker's representatives and undertake consultations with them at least 30 days before starting the dismissal with a goal of reaching an agreement. These consultations may include ways and means of avoiding collective redundancies or reducing the number of workers dismissed, possibilities to redeploy or retrain workers, etc. The employer needs to notify to the employment mediation agency after the consultations.

**The Labour Law provides a detailed elaboration on justified and non-justified reasons for termination of a work contract.** Article 72 states that the employer is obliged to indicate the grounds for termination, as stipulated by the Law or collective agreement, as well as to substantiate the reasons justifying termination. Moreover, in case the employer intends to dismiss a worker on the grounds of misconduct, s/he must issue a prior warning in writing of the possibility of such a dismissal in the event of further violations (Article 73). The employer is also obliged to provide to the worker information on potential legal remedies available to him/her, and to inform him/her of the rights to unemployment insurance. The employer can terminate the employment contract only if there is a justified reason based on the workers' conduct (personal reason of the employee) or operational needs of the employer (business reason). Article 76 establishes three categories of justified reasons for dismissal:

- "personal reason" - defined as the employee's inability to carry out employment obligations due to his/hers conduct, lack of knowledge or capabilities;

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<sup>17</sup>Labour Law (Official Gazette No. 62/2005; 106/2008; 161/2008; 114/2009; 130/2009; 149/2009; 50/2010; 52/2010; 124/2010; 47/2011; 11/2012; 39/2012; 13/2013; 25/2013; 170/2013; 187/2013; 113/2014; 20/2015; 33/2015; 72/2015; 129/2015; 27/2016, 120/2018; 110/2019). Consolidated version of the Law (without latest changes) is available at: [http://www.mtsp.gov.mk/content/pdf/trud\\_2017/pravilnici/16,11-akonPaбOдHocи.pdf](http://www.mtsp.gov.mk/content/pdf/trud_2017/pravilnici/16,11-akonPaбOдHocи.pdf) (in Macedonian).

- “fault reason” – defined as the employee’s violation of contractual or other obligations arising from the employment relationship;
- “business reason” – economic, organisational, structural or similar reasons.

**Workers are entitled to severance pay only in cases of dismissal for business reasons.** The amount of the severance pay is related to work duration – it ranges from one average wage of the worker (for service of 1-5 years) to six wages (for service of above 25 years) (Article 97). Article 77 provides a list of “unfounded” grounds for termination, that include the following: membership of a trade union; filing a complaint or participating in proceedings against the employer for violation of contractual and other obligations arising from the labour relation before an arbitration, judicial or administrative authority; approved absence due to illness or injury, pregnancy, birth and parenthood and care of a family member; using approved absence of work and annual leave; performing military service or military exercises; other cases of suspension of the employment contract defined by the Law. On the other hand, Article 81 provides a non-exhaustive list of acts constituting a violation of work regulations and discipline justifying dismissal with notice whereas Article 82 provides for a non-exhaustive list of acts justifying dismissal without notice. The justified grounds for termination without notice include: unjustified absence from work for 3 consecutive days or 5 days within one year, misuse of sick leave, failure to comply with the workforce regulations on health, safety and environmental protection, use of alcohol and drugs, robbery at the workforce or negligence causing damages to the employer, disclosure of business, official or government secrets (Article 82).

**The Labour Law provides special protection for pregnant women and union workers.** In particular, Article 101 states that the employer shall not dismiss a woman during her pregnancy or while she is on maternity leave, or during leave of absence for childcare. This prohibition also applies to fathers on parental or adoption leave. In addition, Article 200 provides for a protection against dismissal for trade union representatives. A trade union representative can only be dismissed with the prior approval of the trade union. In cases where the trade union refuses to give approval, such approval can be given by the court.

**The Ministry of Labour and Social Policy is in the process of preparation of a new Labour Law.**

## **2.2.4 Social dialogue and involvement of workers**

**The process of wage setting in the economy is decentralised, through collective bargaining.** In practice, collective bargaining seems to be subordinated to the legislation and parties are not encouraged to freely negotiate and come to new, authentic solutions (European Union/ILO, 2015). In the last couple of years, the importance of collective bargaining has substantially weakened relative to the labour legislation, specifically with regards to the Labour Law and MW Law. Collective bargaining is organised on three levels: national level, branch level (for a specific branch or industry) and enterprise level. Both private and public sector wage setting is governed by a specific collective agreement at national level, called General Collective Agreement (GCA), one for the economy (private sector) and one for the public sector. However, the decentralised wage setting in the private sector does not provide sufficient protection for workers given the

prevalence of small and micro firms and low coverage.<sup>18</sup> The GCA for the private sector was most recently re-negotiated and signed in May 2014. Afterwards it has been extended by an automatic extension of the validity of the agreement rather than by re-negotiation.<sup>19</sup> In a similar vein, the GCA for the public sector has expired in 2008 and has not been re-negotiated since then, but the automatic extension applies here as well. Collective agreements were not re-negotiated even after the increase of the MW (and changes to the Law on MW) although the Law states that collective agreements have to be aligned with the changes within a period of six months.

**There is a lack of systematic information on collective bargaining.** The branch-level collective agreements have to be registered with the Ministry of Labour and Social Policy and are published in the Official Gazette. However, there is no database with updated and comprehensive information on the number (and the content) of the agreements. Collective agreements on the level of employer are not registered in the system and the procedure is not regulated, i.e. it is left to the discretion of the signatory parties. There is also no information available on membership numbers of the trade unions, neither on the coverage of the workers with collective agreements.

**Collective bargaining in the economy remains weak and collective agreements tend to re-state the provisions of the labour legislation, rather than further developing the rights and obligations of employees and employers.** The EC (2018) notes that while there are adequate legal provisions to enable the functioning of social dialogue, the engagement and the impact of social partners in policy formulation and design remains low. The capacity of the trade unions and employers' organisations is still weak. The application of the bipartite social dialogue remains poor both among employers and employees. Collective agreements are either lacking or not complied with. Moreover, bargaining has been frequently constrained by the indifference of the other party, as well as by the unrealistic demands of and lack of trust in the negotiating partner(s) (European Union/ILO, 2015).

## 2.2.5 Work-life balance

**Women face difficulty in balancing work and life/family.** Given the traditional structure of households in North Macedonia, the work/life balance is mainly an issue for women. This difficulty is related to several factors such as: traditional division of labour within households; non-availability of formal child and elderly care institutions; low access to part-time and flexible employment, etc. As a result of the predominantly traditional character of society and family structures, there is a strong division of gender roles within the families and the caring responsibility automatically falls on women. Hence, women spend much larger amount of time on family duties than men, with no sharing of responsibilities. Time use surveys prove this point. In addition, women who participate in the labour market spend an almost equal amount of time on household duties as non-active women, showing a form of "modern" discrimination against

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<sup>18</sup>Collective agreements only apply to the signatory parties, i.e. the non-unionised employees are not included in collective bargaining; trade unions solely represent employees in bargaining.

<sup>19</sup>Automatic extension applies if the agreement has not been re-negotiated over the course of two years.

women (Mojsoska-Blazevski et al., 2017). The availability and affordability of childcare and elderly care is analysed later in this report. We already examined the antidiscrimination framework and policy, arguing that there has been good progress in establishing this regulation, although with relatively weak implementation. However, the overall situation of women in the labour market (and society) is also influenced by some other policies and institutions, such as maternity (and paternity) leave provisions, access to pre-school childcare facilities, flexibility of working arrangements and so on, but also more generally by the social norms, culture and traditions.

**Women’s rights in the labour market are generally protected with regard to maternity leave, however the legislation regarding paternity leave is not well developed.** According to the Labour Law (Articles 161-171), female workers in North Macedonia are entitled to nine months of paid maternity leave<sup>20</sup> (up to 15 months in cases of multiple births) which is quite generous as compared to the EU practices. The compulsory maternity leave starts 28 days before birth (which can be extended to 45 days prior to birth) and is entirely financed by the Health Insurance Fund. The economy thus meets the ILO standards of 14- and 18-week maternity leave laid down in the ILO Convention No.183 and Recommendation No.191, respectively. In 2014, changes were made to the legislation entitling mothers to three additional months of unpaid leave during which the government covers the health insurance. In 2015, a possibility was introduced for an additional unpaid leave of 3 months in total until a child reaches the age of 3. The benefit level that mothers receive while on maternity leave is 100% of their base salary prior to the leave. The legislation (Labour Law, Article 166) provides financial stimulus for mothers to get back to their work before the end of maternity leave period, an option used by few women. Although this legislation is in place, many females are left without the mandated protection due to their informal employment. Fathers have a right to paid leave of up to 7 days for the birth of a child (though, this Article is more general as it also includes leave for other personal and family matters). Fathers are also entitled to use paternity leave in case mothers do not use their maternity leave, but the use of paternity leave is very marginal, at about 0.1-0.2% of the total number of maternity leaves. There are no incentives for fathers to take leave. Public discussions are ongoing concerning the need for promoting equality between women and men regarding parental leave.<sup>21</sup>

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<sup>20</sup> The precise legislative terminology of maternity leave is “leave for pregnancy, birth and parenthood” and is paid to the worker directly by the Health Insurance Fund.

<sup>21</sup> Macedonian legislation does not specifically regulate or protect the right to paternity leave, and no incentives exist to encourage men to take leave for childcare. Implicitly, the legislation protects the right of fathers to take a very short period of paid leave due to fatherhood (2–7 days, which is currently being further regulated through collective (bargaining) agreements). In 2014, the authorities introduced unpaid paternity leave of up to three months until the child reaches the age of 3. However, although it was intended to serve as potential leave to be used by any parent, the Labour Law delegates this right to “female workers,” whereas the Law on Mandatory Social Contributions uses the general term “worker.” Although the right to maternity leave can be used by either of the parents, there is a negligible take-up rate of parental leave by fathers. Data from the Health Insurance Fund show that in 2017 there were in total only 79 fathers who used this benefit instead of the mothers (about 0.76% of the total number of people who took parental leave).

## **2.2.6 Healthy, safe and well-adapted work environment and data protection**

**There is room for improvement in the area of health and safety at work in terms of legislative framework, implementation, institutional capacity, etc.** Health and safety at work is regulated by a dedicated Law on Safety and Health at Work (Official Gazette No. 92/2007, with most recent change in No. 30/2016), bylaws, as well as the ratified ILO Conventions in the area of occupational safety and health. The Labour Law also incorporates provisions related to health and safety at work. While the legislation put in place is relatively good, there are several weaknesses in the system leading to a relatively low level of worker protection. The first one is the lack of a dedicated public body to oversee and enforce the implementation of occupational health and safety legislation. Although the Ministry of Labour and Social Policy is generally in charge of health and safety at work legislation, there is no specific organisational unit within the Ministry assigned with the specific task of developing and overseeing the implementation of the legislation. Second, as the 2018 Progress report (European Commission, 2018) states, there is a general lack of awareness among employers and employees about issues concerning health and safety, although there is some improvement in this regard. Third, there is weak enforcement of legal provisions related to health and safety at work due to a lack of administrative capacities (European Commission, 2018). The implementation of legislation related to health and safety at work is the responsibility of the Department for Protection at Work within the State Labour Inspectorate (SLI). This department is in charge of monitoring the implementation of legislation related to health and safety at work; issuing prior notices for non-compliance and criminal practices; administering a register of all reported accidents at work; issuing approval for compliance with the legislative requirements, etc. In 2017 there were 31 inspectors for health and safety, who carried out 11 770 audits.<sup>22</sup> Inspectors made 3 577 decisions for health and safety at work which is 79% of the total number of records (reports from audits). They organised 116 educational training sessions for companies that do not comply with the regulation (for 3.2% of the total audit reports). The inspectors issued 18 decisions for sanctions totalling to around EUR 1 350 (MKD 83 000). Fourth, there is no systematic data collection of work accidents and injuries, including fatal ones. Two institutions publish data on work accidents, the Institute for Public Health (which is a public institution) and the Macedonian Occupational Safety and Health Organisation-MOSHA (which is a collaborating CIS/ILO centre in North Macedonia).<sup>23</sup>

**North Macedonia does not have an established system of reporting and data collection related to injuries and accidents at work.** According to the Law on Safety and Health at Work, an employer is obliged to report immediately or at most within 48 hours to the labour inspection every injury, collective injury or fatality that result in an inability to work of more than 3 days (Article 36). In addition, employers must report each workplace injury to the Health Insurance Fund (the report needs to be filled in also by a medical person), and the Fund would then report to the public health centres (local offices of the Institute for Public Health-IPH). The reporting is

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<sup>22</sup>Annual Report of State Labour Inspectorate for 2017.

<sup>23</sup>See <http://www.new.mzzpr.org.mk>.

done using a special form which is based on the Law on Health Statistics (Official Gazette No. 20/2009). Based on these reports, the IPH prepares statistics on workplace accidents. However, such a system does not ensure systematic and comprehensive collection of data, hence national data seem to be much better than across the EU. For instance, the IPH report (2017) shows that in 2016 there were only 894 workplace injuries, which is about 0.1% of the total number of employees (which is large decline from 2015, when a total of 1.222 injuries were reported). For a comparison, in the EU, on average, 2.9% of the employed persons in 2013 reported an accident at work.<sup>24</sup> Similarly, the IPH shows that in 2016 the incidence of workplace accidents in North Macedonia was 123.5 per 100 000 employed persons, whereas in the EU-28 on average the figure was 1 513 non-fatal accidents per 100 000 persons employed in 2015.<sup>25</sup> While data for North Macedonia show quite low workplace injuries, this advantage may be actually driven by lower reporting rather than lower occurrence (similar as the situation in Romania and Bulgaria which show least accidents among Member States). Most of the accidents (about 40% in 2016) are in industry and mining. Males are much more likely to suffer accidents at work (two thirds of all accidents involve male workers). In its report, IPH (2017) recommends the establishment of an integrated system of monitoring and reporting on workplace accidents and professional diseases. However, there is no exact methodology behind data collection and data are not methodologically compatible to EU data. According to the annual report of MOSHA (2018), there were 124 workplace accidents in 2018, out of which 33 had fatal character. The incidence of fatal accidents was 4.3 per 100 000 employed persons (taking into account the total number of employed persons in the economy in 2018Q4 of 759 054). The incidence of non-fatal accidents was 16.3 per 100000 employed persons. Most non-fatal accidents occurred in construction, followed by public administration, manufacturing and transportation and storage. About one third of the fatal accidents were in the private households.

**The institutional capacity related to health and safety at work needs to be strengthened.** The institutional structure includes the National Council for Safety and Health at Work, an expert advisory body established by the government. The Council consists of 15 members including representatives of employees and employers, government representatives, as well as professionals and academic institutions working in the area of health and safety and labour medicine. The Occupational Health and Safety Strategy was updated for the period from 2017 to 2020. The previous Strategy (2015-2019) was only partially implemented.

**Legislation provides adequate protection of personal data. Article 44 of the Labour Law regulates the area of personal data of employees.** According to this Article, the personal data of workers may be collected, processed, used and delivered to third parties if that is necessary for exercising the rights and obligations of the employment relationship or related employment. Data can be delivered to third parties only by the employer himself or an authorised employee. The personal data of workers for which there is no longer a legal base must be removed immediately and not be used afterwards. This same data protection applies to job candidates. The Law also provides a general provision for protecting and respecting the personality and dignity of

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<sup>24</sup> LFS ad hoc module, available at: <https://ec.europa.eu/eurostat/data/database>.

<sup>25</sup> See [https://ec.europa.eu/eurostat/statistics-explained/index.php/Accidents\\_at\\_work\\_statistics#Incidence\\_rates](https://ec.europa.eu/eurostat/statistics-explained/index.php/Accidents_at_work_statistics#Incidence_rates).

employees, as well as for taking care and protecting their privacy (Article 43). There is no specific ban on the employer to monitor employee communications though. While there is no direct reference to control over the use of social media by a worker in or outside of the workplace, employers can ban the access to social media during work hours, at least on the PCs at the workplace.

## 2.3 Social protection and inclusion

### 2.3.1 Childcare and support to children

**Few children attend preschool education.** National data show that around 13% of children aged 0-2 years (data published by the State Statistical Office) were enrolled in formal childcare in 2018. In addition, 38.8% of the children aged 3-5 years were attending formal childcare. Based on Eurostat data, 8.8% of children aged less than 3 years in North Macedonia in 2018 were in formal childcare, much less than the EU-28 average of 35.1%. Public kindergartens are a major provider of pre-school services, with a very low private sector share of 3.3% in total enrolments in 2019. Low enrolment in preschool is explained by a combination of supply and demand factors. On the supply side, there is a limited availability of kindergartens (especially in rural areas) which leads to overcrowding, very high child-staff ratios and waiting lists (World Bank, 2015). In 2019, the actual overall average child/staff ratio was 7.4 whereas the legislation sets the child/staff ratio at 3.9 (for groups of children aged 0-2 years) and to 8 (for children aged 3-6 years).<sup>26</sup> The non-availability of formal childcare is higher for young children aged 0-2 years. Although availability is the major challenge there is also a (smaller) issue with affordability and quality. In terms of affordability, there are special programmes of full or partial financing by the government for children from poor and vulnerable groups. The regular cost per month is EUR 25. A comparative World Bank (2015) study shows that the quality of public childcare facilities in North Macedonia is relatively high. The World Bank concludes that the main area for improvement is human resources even though North Macedonia is considered the best in the Western Balkan region as regards this indicator. Based on this finding, the World Bank proposes to establish education and accreditation programmes to prepare caregivers and care-entrepreneurs. Indeed, as part of a joint effort with UNICEF the government has started developing new curricula for training of nurses and teaching staff in kindergartens. Demand for childcare is affected by the options for families to use informal childcare (by family members, relatives), intra-household decisions regarding care responsibilities within the household which is largely dependent on the employment status of the mother, as well as by parents' perceptions about the quality of formal childcare provision (the demand is higher for parents who perceive kindergartens to be of higher quality).

**The government plans to expand the capacity of formal childcare through a World Bank loan, with a special focus on children from disadvantaged backgrounds.** The government will

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<sup>26</sup> This is calculated based on the staff requirements for the groups, in the Law for Child Protection. The actual ratio is calculated based on data on kindergartens published by the SSO. In some kindergartens there are up to 40 children in one group.

undertake several measures in the forthcoming period to improve access and quality of pre-school education. The number of public kindergartens will be increased – new facilities will be built and/or other public buildings will be adapted through a loan from the World Bank (amounting to EUR 29.3 million/USD 33.4 million) as part of the so-called “[North] Macedonia Social Services Improvement Project”, for the period 2018-2024. The main goal of the Project is to expand coverage and improve the quality of social services, including preschool services, for vulnerable groups.<sup>27</sup> The project has two main components:

- Promoting social inclusion through improved access to social benefits and services (EUR 10.8 million/USD 12.7 million), which is explained in more detail below.
- Expanding the access to and improving the quality of preschool services (EUR 16.0 million/USD 18.6 million). This component will focus on improving access to quality early childhood services, in particular, for children from socially disadvantaged backgrounds (that is, poor children, children with disabilities, and Roma children). The planned activities for children aged 3-6 years will focus on increasing access to quality preschools and supporting their transition to primary education. For children aged 0-2 years the focus will be on empowering parents to support the children’s holistic development through increased knowledge about the importance of the early years and about the availability of services in the local community (i.e. awareness raising campaigns).

**The government has announced that with the World Bank loan, the capacity of pre-school system will be increased by 7 500 places for children aged 3-6 years, reaching a 50% enrolment rate for children in this age bracket.** Available information published on the website of the Ministry of Labour and Social Policy show that four municipalities started to build kindergartens with the above mentioned government support, with total capacity of app. 500 children.<sup>28</sup> Within the social protection system, children from poor families are currently supported by child allowance and, so far, by conditional cash transfers (CCT) for enrolment and attendance in secondary school. The child allowance is an entitlement stemming from the Law on Child Protection as part of the overall social assistance system. The aim of this programme is to lift children aged up to 18 years of age (and their families) out of poverty, however its effects are very small due to the low coverage of the programme (only 2% of all households with children, based on administrative data). The CCT programme was introduced in the school year 2010/2011, supported by the World Bank. The programme has shown good results<sup>29</sup> and this has motivated the government to broaden and incorporate the programme into the regular social assistance system, as a new entitlement called “educational allowance”.

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<sup>27</sup>Official WB documents are available at: <http://projects.worldbank.org/P162246?lang=en>.

<sup>28</sup>Information from the press releases on the web page of the Ministry of Labour and Social Policy: <http://www.mtsp.gov.mk>.

<sup>29</sup>The project report by Armand and Carneiro (2016) showed that the CCT exerts a strong impact on the school enrolment of children in secondary school but does not impact school attendance (Armand and Carneiro, 2016). Secondary school enrolment at the start of the programme was already at 60%, and the programme increased it by 10 p.p.

**The authorities implemented a major reform of the social assistance system in 2019, including the child allowance and educational allowance.** Amendments were proposed to the Law on Child Protection with the aim of strengthening the support to children from disadvantaged socio-economic backgrounds. The government goal is to reduce poverty of children aged less than 18 years. In 2018, the at-risk-of-poverty (AROP) rate of children aged up to 18 years was 29.3%, whereas 45.9% of young children were at-risk-of-poverty or social exclusion (AROPE). The reform of the child allowance intends to expand significantly the number of children who benefit from the allowance, from 3 200 children (in 2018) to 73 500 children in 2019 (in case of full take-up of the benefit). This is done by changing the eligibility criteria. In particular, previously, a child/household was eligible for this allowance if one of the parents was employed or received unemployment insurance benefit (it was still means-tested). With the new changes, the eligibility for the child allowance is extended to all the beneficiaries of social assistance, depending on the financial situation of the household and the number and age of children in the household. The allowance is available for households with income up to EUR 98 (MKD 6 000) for the first member and then using an equivalence scale for the additional household members.<sup>30</sup>The allowance is indexed to the CPI. As of March 2020, about 33 000 children use this new allowance.

**The government also transformed and expanded the CCT programme into a more general and generous educational allowance/benefit.** The same rules apply for the household's financial situation as for the child allowance. It is paid for each child that regularly attends either primary school (in monthly amount of EUR 11.4/MKD 700) or secondary school (EUR 16.3/MKD 1 000 per month which is the same level as the previous CCT). The calculations show that about 64 316 children are potential recipients of the educational allowance, which is a large increase from the 3 800 previous beneficiaries of the CCT.<sup>31</sup> Eligibility depends on regular attendance in school (children can have at most 15% absences from regular classes). The allowance is paid to the mother, as was the case in the CCT system. The allowance is indexed to the CPI.

**With these reforms, the government plans to significantly increase its child protection role and ensure that all children have equal chances to reach their full potential in life.** The programmes are expected to expand and extend to many more children/families. Still, there are several drawbacks in the announced reforms. First, the calculated costs of the reforms appear to be rather low (at least compared to what researchers have calculated in some previous studies). Second, the effectiveness of these changes will largely depend on the proper implementation of the programmes including the persons working in the field (e.g. teachers in kindergartens and social workers). Third, the effectiveness of the programmes will be largely influenced by the actual take-up of those eligible (take-up of previous programmes was shown to be very low).

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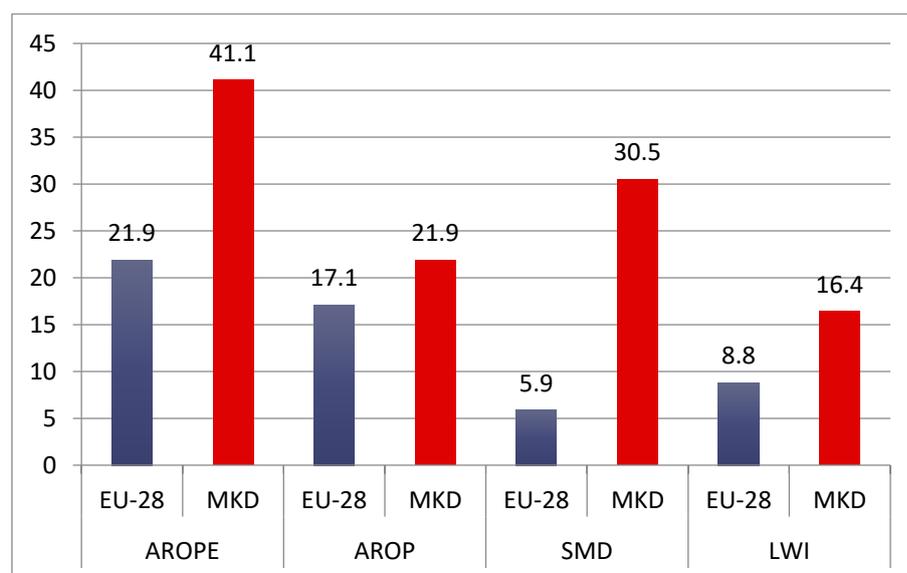
<sup>30</sup>0.5 for the second member, 0.4 for the third and fourth member, and so on. For single parents, the equivalence scale increases by 0.5.

<sup>31</sup>Press statement of the government/Ministry of Labour and Social Policy. Available at [http://www.mtsp.gov.mk/pocetna-ns\\_article-so-temelni-socijalni-reformi-rabotime-na-namaluvanje-na-siromashtijata.nspix](http://www.mtsp.gov.mk/pocetna-ns_article-so-temelni-socijalni-reformi-rabotime-na-namaluvanje-na-siromashtijata.nspix).

## 2.3.2 Social protection

The relatively high poverty rate in the economy points towards the need to expand the coverage and to increase the effectiveness of the social assistance system. North Macedonia has a comprehensive system of social security which comprises: i) contributory benefits (such as pension and disability insurance), ii) passive and active labour-market programmes, and iii) social assistance programmes for protecting income and consumption of the poor. The economy is characterised by high poverty as measured by the AROPE. As Figure 6 shows, in 2018 41.1% of the population in North Macedonia was at-risk-of-poverty and social exclusion; much higher than the respective share in EU Member States. The AROP which measures income poverty was 21.9% in 2018, showing that it is mainly material deprivation that drives AROPE. Indeed, 30.5% of the population faced severe material deprivation (SMD) defined as a forced inability to afford at least four of nine items considered by most people to be desirable or even necessary to lead an adequate life. The incidence of low work intensity (LWI) is quite high (16.4%) which is expected given the high overall unemployment in the economy.<sup>32</sup> There are no gender differences in the above measures of poverty and social exclusion.

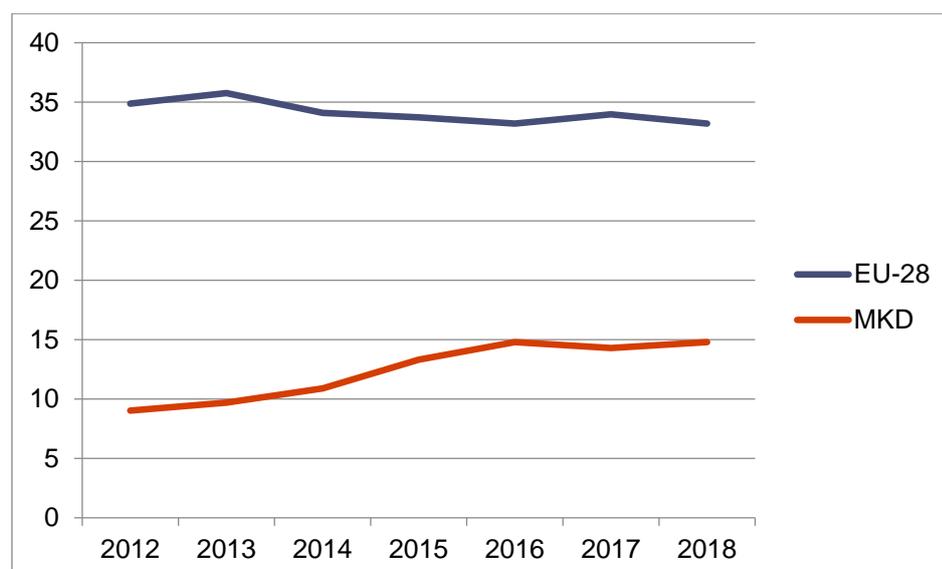
Figure 6. Poverty and social exclusion, 2018



Source: Eurostat database, European Pillar of Social Rights (Scoreboard)

<sup>32</sup>People living in households with very low work intensity are people aged 0-59 living in households where the adults work less than 20% of their total work potential during the past year.

Figure 7. Impact of social transfers (excluding pensions) on poverty reduction, in %



Source: Eurostat database, European Pillar of Social Rights

**Pensions have an important role in reducing poverty.** In 2018, pensions reduced AROP by 14.8 percentage points (p.p.), from 40.8% to 25.7%.<sup>33</sup> By contrast, the impact of other social transfers is very low, reducing AROP only by 3.8 p.p., or by 14.8% (see Figure 7). In comparison to the EU, the impact of social transfers on poverty is low. However, there is a clear trend of increased importance of social transfers in lifting people out of poverty in North Macedonia.

**The Progress report (European Commission, 2018) detects main areas of improvement in the area of social policy.** The report acknowledges that some progress was made on social inclusion and protection, including some new services to disadvantaged citizens (such as the piloting of a new personal assistance scheme for people with disabilities). Still, the Commission notes that despite the introduction of indexation of the basic cash benefit support for socially disadvantaged families with the CPI, the amount of the benefit is still too low to make a difference. The report makes the assessment that the capacity of the government institutions responsible for implementation of social policy remains insufficient and stresses the need for urgent and sustained action regarding deinstitutionalisation and continuous development of alternative community-based services.

**There is increasing pressure for reform of the social assistance system.** The pressure for reform of the social protection system also comes from academia. For instance, Petreski and Mojsoska-Blazhevski (2017) argue that there are generally three main arguments for more profound reforms of the social assistance system in the economy: i) the low effectiveness of social transfers in reducing poverty; ii) the low spending on social assistance programmes, and iii) the labour market disincentives arising from the social assistance given the low general level of wages and

<sup>33</sup>State Statistical Office press release on Laeken indicators. Available at: <http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=115>.

large grey economy. They also supported a consolidation and integration of the different types of social programmes into a guaranteed minimum income (GMI).<sup>34</sup>

**In 2018, the government started a large reform of the social and child protection system, and its implementation began in mid-2019.** The primary aim of the reform is to reduce poverty, but also to improve access to social system, increase effectiveness of social transfers and achieve better outcomes with the same resources.<sup>35</sup> A detailed background analysis of the reform is provided by Ruzin et al. (2018). The reform involves both financial rights (i.e. allowances) and social services. It includes the following elements:

- Consolidation of categorical benefits into generic types of income support measures (the current system has over 15 types of social assistance programmes);
- Introduction of a means-tested GMI which is linked to the statutory minimum wage (as a replacement to the current main type of assistance, called social financial assistance or SFA);
- Introduction of an educational allowance;
- Introduction of a new social pension scheme;
- Easing the administrative procedure for access to financial assistance (actually harmonising the administrative requirements for different types of assistance);
- Intensified activation support for work-able beneficiaries of social assistance programmes and closer cooperation between Social Work Centres (SWCs) and local employment offices in activation of social assistance beneficiaries.
- Introduction of a so-called “family social worker” and change of the current work approach of social workers from programme-based to case-based.

With the new system, the following types of programmes are available:

- GMI;
- Disability benefit and benefit for care of other persons;
- Educational allowance;
- Heating benefit;
- Permanent financial assistance (for individuals who are not work-abled; it exists currently but some changes have been made).

Besides this, the amount of one-off financial support for new-borns will be increased significantly and health protection becomes an entitlement of all social assistance beneficiaries.

**The reduction of poverty as a result of the reform is estimated to amount to 8%.** This will reduce the poverty rate to 18.7% in 2019 (Gerovska, 2018). The key performance indicators for the

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<sup>34</sup>In total, there are 16 separate benefit schemes that are defined by laws as “entitlements” or “rights” and two social programmes. Of those, 11 are social and 5 are child protection benefits.

<sup>35</sup>SILC data show that apart from pensions, other social transfers have a minor role in reducing at-risk of poverty.

government regarding the success of reform are to reduce the poverty rate to 16% in 2021, and to integrate at least 20% of the GMI beneficiaries into the labour market. Initially, the costs for social assistance will be much higher than currently until the exhaustion of the parental allowance for the third child. Indeed, an important change concerns the removal of the current programme of parental allowance for the third child. This programme proved to be very costly and ineffective in increasing fertility, which was its primary aim (Gerovska, 2018). Of the current costs for social assistance (about 1% of GDP), this programme alone amounts to 0.37% of GDP. The current beneficiaries of the programme and those who are potential users in the near future (i.e. currently pregnant women) would resume to receive the benefit until it's exhausted (the duration of the benefit is eight years).

- *Guaranteed minimum income (GMI)* - Amount of the GMI is set at EUR 65 (MKD 4 000) for the individuals that hold the right to the assistance, and a variable part based on the number of household members (equivalence scale of 0.5 for the second member, 0.4 for the third and fourth one and 0.2 for the fifth member, up to five members; and 0.1 for every child). The equivalence scale is increased by 0.5 for a single mother and for persons who are not work-able due to mental or physical disability. There is no declining benefit schedule with time (that is a change from the previous system) which may discourage job search efforts of the beneficiaries, although there are some other mechanisms in place to support activation and job search efforts. The beneficiary and the other unemployed family members are obliged to register with the ESA, and to sign an individual employment plan. According to the budget proposal for 2019 published by the Ministry of Finance, the number of households receiving social assistance (the new GMI, replacing the SFA) will increase from the current 24 000 to 35 000.<sup>36</sup> While no official data are published yet, according to the press releases at the end 2019, there were about 27 000 beneficiaries.
- *The heating benefit* is a new benefit which aims to cover the household's heating costs for the winter season, i.e. between October and March. The current Law also provides such benefit - however, it is defined as a programme whereas in the new Law it is a *right*. The benefit is the exclusive right of the recipient of the GMI. The benefit will be in amount of EUR 16 (MKD 1 000) and will be indexed to the CPI.

**Improvement of social services is key to successful social inclusion.** SWCs have a crucial role in supporting inclusion of social assistance beneficiaries (along with the employment offices). The overall social reform also includes changes in the organisation of work of the SWCs. The success of the reform will inevitably depend on the provision of adequate training of social workers. As the report by the EC (2018) states "social workers are predominantly tasked with administrative requirements, with insufficient time and attention provided for field level support to those in need of social services" (p.73). The proposed amendments to the Law on Social Protection introduce a new typology of social services, such as services for information and referral;

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<sup>36</sup> See [https://www.finance.gov.mk/files/u3/Prelog %20budzet %202019 %2004.pdf](https://www.finance.gov.mk/files/u3/Prelog%20budzet%202019%2004.pdf).

professional support and assistance; social prevention and counselling; services in the household/home; community services; and services out of the household.

**The social reform will be accompanied by an improved information system of financial support and social services.** The government plans to develop a new, integrated management information system that will combine financial benefits and social services. This will be implemented as part of the new project and through a loan from the World Bank (the so-called “Macedonia Social Services Improvement Project”). Within Component 2 of the project (Promoting social inclusion through improved access to social benefits and services), the focus is on strengthening the overall social protection delivery system for improved access to services for existing social assistance recipients and, specifically, for vulnerable groups. On the supply side, the project will support the creation and expansion of preventive and non-residential social service which is expected to improve the outreach of social programmes to poor people (and increase take-up). Within this component, the two existing information systems (databases on financial benefits and social services) will be merged which would enable improved identification of actual individual/family needs, more poor or vulnerable individuals and families receiving support as well as better case management.

### **2.3.3 Unemployment benefits**

**The economy has a well-established legal framework for unemployment benefits in place, however, there is a need to strengthen activation efforts.** The legal basis for unemployment benefits is the Law on Employment and Insurance in Case of Unemployment (Official Gazette No. 144/2008, with the most recent change published in Official Gazette No. 51/2011). Unemployment insurance is financed by an unemployment insurance contribution of 1.2% from the gross wage<sup>37</sup> which is supplemented by budget transfers and is operated by the ESA. The legislation requires that the registered unemployed persons actively search for a job and cannot decline offers from the ESA for an appropriate job or participation in an active measure or service. According to the Law, active job search is defined as at least one of the following activities: regular re-registration with the ESA, attending interviews with employers arranged by the ESA, accepting a suitable job offer in terms of educational attainment and knowledge, accepting participation in ALMPs, etc. In practice, however, re-registration is usually the main and sole ‘activity’ in the job search requirement given the low labour demand in the economy, relatively limited scope of ALMPs and high workload of ESA officers (on average, an ESA officer serves about 700 unemployed persons). Although the legislation requires that persons not meeting the activity requirements be removed from the register, in reality such cases are usually perceived as an artificial, politically motivated way of reducing registered unemployment. Few years ago, the authorities divided the ESA register of unemployed persons into two categories: “active jobseekers” and “other unemployed persons”. This division is based on individual reporting by the unemployed at the registration and can be changed at any time by the person herself/himself. As of December 2019 (latest available data), there were 189 211 registered unemployed persons, of

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<sup>37</sup>The contribution rate was reduced in 2009 to 1.6 %.

which 87 463 (46.2%) were active jobseekers. Active jobseekers are obliged to re-register more frequently than passive ones and have access to ALMPs, which is not the case for the latter category. Throughout the transition, the unemployment benefit has been changed several times in terms of reducing its generosity (mainly its duration, but also the benefit level). The replacement rate of the unemployment benefit is 50% of the average worker's wage in the last 24 months prior to losing the job. If an unemployed person receives the benefit for a longer period of time, then the replacement rate is 40%. The calculated level of unemployment benefit is indexed to the cost of living from the previous year, if the benefit duration exceeds 12 months. The maximum limit of the benefit is 80% of the average net wage in the economy. The average level of benefit in October 2018 was approximately EUR 127 (MKD 7 840) which is 65% of the statutory minimum wage in the economy and 32% of the average net wage. The benefit is means-tested. The system does not allow for earned income to be supplemented by benefit when taking up low-paid or part-time work, although it assumes a temporary withdrawal of the benefit if the recipient is engaged in public work measures.

**Very few unemployed people in the economy are entitled to unemployment benefit mainly as a result of the long-term character of the unemployment.** In December 2019, only 7.3% of the registered unemployed individuals were receiving unemployment benefit. Hence, unemployment benefit plays only a marginal role as a safety net during a period of job search. Such low proportions reflect the labour market situation in the economy in which the majority of unemployed do not have any prior work experience or are long-term unemployed who had an unsuccessful job search and exhausted their eligibility. The entitlement conditions for unemployment benefit restrict benefits to people who have a sufficient contribution record from work: at least nine months of continuous work or 12 months with breaks in the last 18 months. Some categories of workers such as first-time jobseekers and self-employed are not covered by the benefits, whereas seasonal workers are entitled to the benefits if they meet additional criteria (number of hours worked during a week). The duration of the benefit payment has been reduced a few times during the transition from a maximum of 18 months in the past to a maximum of 12 months for those with 25+ years of contributing period (i.e. work experience). However, there is also a possibility for indefinite duration (until retirement) for those who have at least 15 years of work experience (and contributions) and five years remaining to retirement. The major category within the unemployed receiving income support is redundant workers (more than two thirds of the recipients). Only a small proportion (around 21%) of the entitled unemployed receive the 'regular' unemployment benefit, while for the majority of unemployed workers the scheme provides an early retirement allowance until they reach retirement age and become entitled to old-age pension. It is for this particular group of unemployed workers that the benefit may discourage job search or take-up of formal jobs.

### **2.3.4 Minimum income**

**The main income support programme for households with low or no income is social financial assistance (SFA).** The SFA is the main social safety programme, acting as a last resort support to poor individuals/households. It targets households whose members are able to work but are

unable to provide materially for themselves. The amount of the benefit is related to family size (up to 5 members), and a maximum of approximately EUR 115 (MKD 7 020) (in 2017) per month can be granted. It is means-tested. The eligibility for SFA is conditional on active job search, although the legislation has been changed several times, requiring the recipients of the SFA to register as unemployed persons with ESA which is considered as proof of their job search efforts, or without such requirement for registration (but still incorporating the criteria of active job search).

**One of the problems with the programme is that it is immediately withdrawn if the family earns more than the SFA level, from any source (employment, remittances, etc.) which may discourage take-up of formal employment.** This and some other characteristics of the system raised concerns about its potentially negative impact on labour supply and welfare dependency, and preference over informal employment among the recipients. Although, there are some incentives in the social system to speed up the transition from SFA to work, such as: a) reduction in the benefit amount over time (the benefit drops to 50% of the eligible amount after three years of receipt) and b) the legal pledge for keeping the entitlement to SFA while the beneficiary is engaged in an ALMP (which was introduced only recently). However, there is no evidence that these incentives affect the labour market behaviour and outcomes of the SFA beneficiaries. While there are no precise calculations of the effectiveness of the SFA in preventing poverty, the data on low effectiveness of the combined social transfers on poverty reduction also indicate low effectiveness of the SFA. This can be expected as the level is too low relative to the relative poverty threshold (see Figure 7).

**The social assistance system has been changed starting from 2019, i.e. replaced by a Guaranteed Minimum Income (GMI).** According to the statements made by government officials, the GMI may increase the amount of the social assistance of a household by 300% relative to the current level of the SFA. The increased level coupled with the intended increase in the coverage by 45% can be expected to substantially reduce the incidence of poverty and improve the effectiveness of social transfers in poverty reduction.

**Although the government announced that it will strengthen the activation component of the social assistance system, the main challenge is to increase the take-up of ALMPs.** Currently, there are specific ALMPs that target the SFA beneficiaries, but the scope of these programmes is very small (as shown in section 2.1.4, very few unemployed persons in general are covered by ALMPs). To address this constraint, the government plans to introduce an obligation for GMI recipients to participate in employment services of the ESA in the first three years, and only afterwards to participate in some ALMPs on a compulsory basis. Whereas this seems as a realistic plan, it is unlikely that the services alone can largely improve the employment prospects for this category of workers. Moreover, the educational structure of the SFA beneficiaries is very low which is a large impediment to their labour market integration.<sup>38</sup>

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<sup>38</sup>The scope of the ESA services is much bigger than of the active measures. There are no plans for designing specific active measures for the recipients of GMI as such measure failed in the past with the SFA beneficiaries.

### 2.3.5 Old age income and pensions

**The public debate around the pension system is mainly focused on the issue of sustainability, given its rising deficit which is then covered by the general budget.** In particular, budget transfers increased from EUR 342 million (MKD 21 billion) in 2013 to EUR 457 million (MKD 28 billion) in 2019.<sup>39</sup> Between 2000 and 2016, the budget transfers to cover the loss of the Pension and Disability Insurance Fund (PDIF) increased from 18% to 43% of the total revenues of the PDIF (Petreski and Gacov, 2018). The rising deficit of the PDIF is related to the low employment rate in the economy, frequent *ad-hoc* increases of pensions, reduction in the ratio of insured persons (contributors) to pensioners, etc. Hence, there is an increasing demand mainly from the IMF and the World Bank for increasing the statutory retirement age.

**The replacement rate of pensions is relatively high, whereas the economy faces a declining ratio of contributors to pensions.** In 2018, the replacement ratio in North Macedonia was 68% compared to 58% in the EU-28.<sup>40</sup> The replacement rate increased from 55% in 2012 (data for the economy go back only to 2012). According to the Law on Pension and Disability Insurance, the level of old-age pension is set at 0.75% of the pension base for each year of service for males, and 0.86% for females. The pension base is determined by taking into account the average wage of a worker for each year of the contribution period/service. The minimum pension cannot be lower than 35%-41% of the average wage in the economy (the limit depends on the number of years of contributory period, it is for instance 35% for a contributory period of 25 years for men and 20 years for women, and then increases).

**There are two eligibility criteria for an old-age pension: age of a person (64 years for men and 62 for women) and contribution period (at least 15 years of contribution).** The effective age of the pensioners was 62 for men and 61 for women in 2017 (Petreski and Gacov, 2018). Since the start of the transition (1991), the ratio of employed persons (contributors) to pensioners decreased from 3 to 1.8 in 2018 (the minimum ratio of 1.3 was achieved in 2002).<sup>41</sup> Similarly, the number of pensioners per 1 000 employed persons increased from 338 in 1991 to 546 in 2018 (was much higher in 2000s). The average pension in December 2019 was EUR 237 (MKD 14 602) which is similar to the level of minimum wage, i.e. 54.4% of the average net wage in December 2019.

**Pensions play a very important role in the economy in reducing the AROPE.** Still, they are frequently subject to *ad-hoc* increases apart from the legally prescribed indexation, which has led to the large increase in the replacement ratio. Hence, it may be argued that pensions are serving more a political role than protecting the living standards of older citizens. In addition, in the past, the government was implementing an active labour market programme called “[North] Macedonia employs” which provided subsidised employment through non-payment of social contributions (it was initiated as a separate project, not as part of the regular ALMPs). The

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<sup>39</sup>Based on the 2020 Budget, these transfers are planned at MKD 30.5 billion (EUR 496 million).

<sup>40</sup>Eurostat database, Social Pillar of Social Rights.

<sup>41</sup>Data are published by the Pension and Disability Insurance Fund, as monthly and yearly data, at: <http://www.piom.com.mk/statistika/>

programme has led to around 20 000 new employments in 2015-2016, which are exempted from paying social contributions for a period of 3-5 years.

**Starting from 2019, the government has been introducing some changes to the pension system in order to cease the rising deficits of the PDIF.** In particular, the government announced an increase of the pension contribution, benefit re-indexation, and measures to improve equity across participants in the two pension pillars. These reforms should stabilise the deficit of the PDIF. The contribution level increased from 18% of the gross wage in 2018 to 18.4% in 2019 and 18.8% in 2020.<sup>42</sup> In terms of indexation, pensions are indexed twice a year to the CPI (inflation rate) (January and July). The authorities, in spite of their promise to suspend any other pension increases, decided to make an *ad hoc* increase of pensions by MKD 700 (about EUR 11) from January 2020. While the IMF (2018) welcomes these changes, they also propose further measures such as tightening the criteria for early retirement and rising statutory retirement age as a basis for long-term sustainability of the pension system.

**Another change to the pension system is the government's announcement of introducing a so-called social pension starting from 2019 (a form of universal basic pension).** This pension targets old people aged 65+ who had at least 1 day of contributory period but do not fulfil the criteria for regular old-age pensions, i.e. do not have sufficient contribution period. The aim of this policy is to prevent poverty among the elderly by securing some minimum income for them. The level of social pension is set at 40% of the average pension level, which is a low level to lift them out of poverty but may certainly help old people to enjoy a more decent old-age. According to government announcements about 6 000 persons will be entitled to the social pension in 2019.<sup>43</sup> Recently, the Ministry announced that there are about 5 000 beneficiaries of this type of pension/support.<sup>44</sup>

### 2.3.6 Health care

**Public spending on health is low and declines continuously.** Current health expenditures in North Macedonia in 2017 was 6.1% of GDP, with a declining trend since 2003 when it was at 9.0%.<sup>45,46</sup> Moreover, health spending also declined as a share of government spending to 5.1% in 2013 (World Bank, 2018a). Hence, health spending per capita (in PPP) in 2015 was lower than in most comparator economies except Albania at EUR 752/USD 857 (current prices) (World Bank,

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<sup>42</sup>In a previous reform of personal income tax and social contributions (i.e. payroll taxes), the pension contribution rate was reduced from 21.2 % to 19 % in 2009 and 18 % in 2010. The aim of the reform (called gross wage reform) was to reduce the tax wedge, especially for low-wage workers, and consequently to boost employment.

<sup>43</sup>Based on the 2019 budget proposal presentation by the Ministry of Finance.

<sup>44</sup> [http://www.mtsp.gov.mk/pocetna-ns\\_article-shkrijelj-napravivme-presvrt-vovedovme-socijalna-penzija-shto-ja-zemaat-nad-5-000-lica-a-detski-doda.nsp](http://www.mtsp.gov.mk/pocetna-ns_article-shkrijelj-napravivme-presvrt-vovedovme-socijalna-penzija-shto-ja-zemaat-nad-5-000-lica-a-detski-doda.nsp).

<sup>45</sup>Data on health are mainly based on the World Health Organization Global Health Expenditure database, available at: <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=MK>.

<sup>46</sup>Current health expenditures per capita were increasing until 2008, and since then are relatively stable.

2018b).<sup>47</sup>The public health system is financed by health insurance contributions which represented 7.3% of the gross wage in 2018, increased to 7.4% in 2019 and 7.5% in 2020. Data from the WHO Global Health Expenditure database show that in 2017, 31.9% of the current health expenditure in North Macedonia was financed by private, out-of-pocket expenditure. This share has decreased from 35% in 2014.

**Macedonians are as healthy as people in other economies in the region, but not as healthy as people in EU Member States (World Bank, 2018a).** In recent decades, the burden of diseases has shifted to non-communicable diseases (NCDs), and their risk factors are increasing. In 2016, NCDs accounted for 87% of all disability-adjusted life years (DALYs)—the number of years lost due to ill-health, disability, or early death. In 2015, the mortality rate from cardiovascular diseases, cancer, and chronic respiratory diseases in North Macedonia was 22% (for those aged 30–70) which was much higher than the EU average of 13% (World Bank, 2018b). Rates for diabetes and cancer (especially lung cancer for men) have increased considerably in recent years. The prevention services (i.e. primary health care) and the expenditures on those services are lagging behind the needs. NCDs also have large economic costs. The World Bank (2018b) estimated that the economy is losing 19 900 productive years annually due to early retirement, disability and premature deaths. The extremely high air pollution in recent years is also a burning issue, with large health-related issues and costs, but also economic ones.

**Few people report unmet need for medical care.** In 2018, only 2.3% of population self-reported an unmet need for medical care relative to the EU average of 2.0%. Females are slightly more likely to report higher unmet need for medical care (2.6% in 2018 relative to 2.0% of males). The healthy life expectancy (HALE) at age 60 (years) in North Macedonia in 2016 was 14 years for males and 16 years for females.<sup>48</sup>

### **2.3.7 Inclusion of people with disabilities**

**The major type of support service to children with disabilities is the residential institutional care.** According to the Progress report of the EC (2018) children with disabilities in North Macedonia often lack appropriate social protection. Moreover, the services offered to these children are very limited, i.e. they mainly consist of residential institutional care (so-called special institutions). The new government has taken urgent action to improve the living conditions in the Special Institution for Disabled People in Demir Kapija. These and other institutions of this type have extremely bad conditions (European Commission, 2018).<sup>49</sup> Hence, the Ministry of Labour and Social Policy issued a moratorium on any new admissions to this Special Institution, until the conditions are improved. Moreover, the government has pledged to end placing children under 3 years of age in government institutions by 2020.

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<sup>47</sup>Data from World Bank database. Available at: <https://data.worldbank.org/indicator/SH.XPD.CHEX.PP.CD?locations=MK-AL-ME-RS>.

<sup>48</sup>WHO Global Health Observatory data repository.

<sup>49</sup>There are three such institutions accommodating persons with intellectual or physical disability. In 2017 there were 350 persons living in these institutions, from all age groups.

**The government is planning to speed up the process of deinstitutionalisation and introduction of pluralism in the provision of care for people with disabilities, mainly in favour of community-based social care.** So far, a new form of community care was introduced, so-called “organised living with support”. As Table 1 shows, very few young people with disabilities are using some form of formal social service and care.<sup>50</sup> There is much use of daily accommodation (especially for children with intellectual disability), placement in foster families, as well as organised living with support. However, the number of young people with disabilities who make use of the formal support is too low. Indeed, at the end of 2016 there were in total 7 346 children with disabilities who were registered with the social services in the economy (in the Social Work Centres).<sup>51</sup>

Table 1. Placement of young people with disabilities in care institutions, 2018

	Persons with intellectual disabilities	Persons with physical disabilities
Total placement, out of which:	150	57
Placement in foster families	33	24
Placement in social welfare institutions	11	7
Placement in small group home	1	-
Organised living with support	18	-
Placement in centres for victims of domestic violence	-	-
Right to daily accommodation in day care centres	87	26

Source: State Statistical Office, 2019

**The National Strategy for Deinstitutionalisation 2018-2027 provides plans for deinstitutionalisation and transition from institutional (residential) to community-based care.** The community-based care will be ensured through: i) direct personal support, ii) ensuring inclusive environment, and iii) indirect interventions for improving the solidarity in the community and the position of vulnerable citizens in need of support. According to the Strategy, the focus will be placed on personalised support and care, flexible to adapt to the needs of the beneficiaries. The following types of support and care will be developed (in general, as well as for children with disabilities):

<sup>50</sup>We can assume that there is much informal support and care, either from family members and/or from informal private providers.

<sup>51</sup>National Strategy for Deinstitutionalisation 2018-2027.

- Coordinated care and personal packages of services for the beneficiaries with intensive and complex needs, delivered by different care providers;
- Personal assistants and family assistants for disabled children and adults, for persons with intensive and relatively complex needs;
- In-house assistance and care, for beneficiaries with relatively simple needs;
- Services for simple and less intensive support and care (advising, mobile services, meeting some social needs, etc.).

The success of these reforms and transformations will crucially depend on the capacity of government institutions, political will and support from all constituents, financial means, etc. The legislative bases for these reforms (and the other reforms in the sphere of social protection) have been set in the new Law on Social Protection that came into force in mid-2019.

**One of the potential constraints in the process is that municipalities have not managed so far to develop their social functions.** While decentralisation has given this right and obligation to municipalities (to provide social services to their citizens), they still lack institutional, financial and human resources to organise and provide such services. Municipalities have not managed to develop efficient systems for social support and care in order to meet the needs of socially vulnerable groups in their local community. One of the constraints for municipalities in performing this role is also lack of systematic data and information on the vulnerability and social risks of their citizens.

**In terms of the labour market integration of people with disabilities, there is still limited access for people with disabilities (European Commission, 2018).** Disabled persons are a special target group of the ALMPs, and active measures for this particular group of unemployed are financed by the Special Fund for Disabled Persons (functioning within the Employment Service Agency-ESA). According to the Operational plan for 2020, 320 disabled persons registered in the ESA would benefit from subsidised employment. The measure, i.e. the support to employers employing a disabled person, includes the following elements:

- 20 average net wages in the economy or approximately EUR 8 200 (or 40 for blind persons and physically disabled persons using a wheelchair);
- about EUR 1 600 for adaptation of the workplace;
- financial support of up to 200 average net wages in the economy or approximately EUR 82 000 for equipment (the amount depends on the number of disabled persons to be employed);
- work preparedness training for the disabled persons to be employed.

To be eligible, the employer must employ the disabled person for an indefinite time and employ the worker in the job for at least three years.

**There is a positive trend of rising public awareness and activities for inclusion of people with disabilities.** As a more general observation, there is an increasing awareness and public support to work engagement and support of people with mental or physical disability. In particular, there are

examples of social enterprises which provide jobs for these categories of persons, as well as increasing number of companies hiring persons with disabilities (such as coffee bars, etc.).

### **2.3.8 Long-term care**

**There is limited availability of elderly care services.** The issue of long-term care services has to be viewed along with the demographic structure and developments in the economy. The share of population aged 65+ increased from 11.4% in 2008 to 13.7% in 2018. In this same period, the old-age dependency ratio increased from 16.2% to 19.5%.<sup>52</sup> In 2018, there were in total 30 institutions for elderly care (residential eldercare centres), accommodating 1 371 persons (SSO, 2019). Data presented in the National Strategy for Deinstitutionalisation 2018-2027 show that there are 30 residential care institutions for elderly (of which 5 are publicly owned) and about 1 176 users of the centres. Since 2011, the number of eldercare institutions has increased mainly due to the opening of private centres. The average ratio of elders per staff is 2.54, though with large variability (for instance, average ratio for private providers is 1.94, whereas it goes up to 5.15 in one public centre, in Bitola).<sup>53</sup> 40% of the overall expenditures of the public residential institutions are financed by the government budget, whereas the remaining 60% are collected through user fees. In general, the institutionalisation rate for all social services (the number of beneficiaries per capita) is 1.1 per 1 000 citizens which is half the rate of the EU-28, and lower than in the neighbouring economies.<sup>54</sup>

**The quality and affordability of the available services for elderly care is very low.** The World Bank (2015) shows that the main challenges of the eldercare supply include limited size, i.e. availability, the existing forms/types of care, affordability and quality. In the focus group discussions held within the study (World Bank, 2015), participants stated that there are very few residential care centres for the elderly in urban centres and that the existing centres are not easily geographically accessible. They also mentioned that most available centres have waiting lists. Another problem stated by the participants in the focus groups was the lack of other types of eldercare than residential care (World Bank, 2015). In particular, the main form of care for elderly in the economy are residential homes, whereas there are very few day-care centres, recreational facilities, or other forms such as formal home-based eldercare (for instance nurses serving elderly people with demanding care and/or medical needs). There are about 8 day-care centres for the elderly across the economy.<sup>55</sup>

**The government plans to open new day-care centres and social clubs for the elderly.** The World Bank (2015) shows that the type of eldercare that is available (i.e. the residential care) is incompatible to the culture and social norms in the economy, with family usually resistant to

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<sup>52</sup> Eurostat database: [https://ec.europa.eu/eurostat/data/database?node\\_code=tps00198](https://ec.europa.eu/eurostat/data/database?node_code=tps00198)

<sup>53</sup> National Strategy for Deinstitutionalisation. Available at: [http://www.mtsp.gov.mk/content/pdf/strategii/Strategii%202018/Strategija\\_deinstitucionalizacija\\_Timjanik\\_2018-2027.pdf](http://www.mtsp.gov.mk/content/pdf/strategii/Strategii%202018/Strategija_deinstitucionalizacija_Timjanik_2018-2027.pdf).

<sup>54</sup> Data presented in the National Strategy for Deinstitutionalisation 2018-2027.

<sup>55</sup> National Strategy for Deinstitutionalisation, 2018-2027.

placing older family members in residential care. The third issue is affordability, as the old-age pensions are generally not enough to cover for these costs. According to the World Bank (2015), the cost of the basic residential services ranges between EUR 420 and 500, with an average of EUR 446 which is above the average wage in the economy (EUR 436 in December 2019) and well above the average pension (EUR 237 in December 2019).<sup>56</sup> The issue of low quality residential eldercare is brought up in the main national documents as well as the World Bank (2015) study.

**The initiatives for deinstitutionalisation and pluralism in elderly care services are still in their initial phase.** The main limitation so far has been the lack of regulatory mechanisms that would support various stakeholders to engage in provision of community-based services. Hence, the main focus of the government in the forthcoming period is the process of deinstitutionalisation. This process was started in 2008, with the first national Strategy for Deinstitutionalisation 2008-2018. The process of its implementation was not smooth, there were many obstacles on the way (including low commitment of all parties), leading to only partial achievement of the intended effects. The new government adopted the National Strategy for Deinstitutionalisation 2018-2027 along with an action plan for its implementation. It is based on the Common European Guidelines on the Transition from Institutional to Community-Based Care from 2012 and was prepared with EU support. The vision of the Strategy is to establish a system of social services delivery founded on the human-rights approach that promotes the rights, inclusion and dignity of users. The main elements of the new system are: personalisation, social inclusion, support to independent life, “normal” life shared with regular people, etc. But along with the deinstitutionalisation and pluralism, one of the challenges that need to be addressed in the coming period is the need for strengthening and improving the mechanisms for control and monitoring of the quality of services in the care institutions (in all care institutions including the eldercare residential homes).

### **2.3.9 Housing and assistance for the homeless**

**In 2009 the government started a large project of building 1 754 apartments in 32 buildings for people at social risk.** The Project was partly financed by the budget (50%) and 50% by the Council of Europe Development Bank. The institution responsible for completing this Project is the public company for construction and management of housing and business premises of public interest for the economy. Currently 14 buildings have been completed in which 678 households are already residing. Two buildings are currently under construction with a capacity of 111 apartments. The construction has not yet started for the remaining planned apartments (although the initial plans were to complete the Project by 2018). Still, the Project is of large importance as it is a first one that provides large housing support to socially vulnerable households. There are no other large projects or initiatives in the economy.

**There are also other initiatives for helping the homeless with some basic services.** For instance, Red Cross has established one help desk/point near Skopje which is open Mondays and Fridays and where homeless people can get some medical checks, hygiene services, one hot meal, as well

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<sup>56</sup> The World Bank (2015) data show that public residential eldercare is more expensive than private eldercare, in terms of the basic price (without the upgrades for special rooms, etc.).

as talk to a social counsellor. There is also one shelter near Skopje for homeless people which has been recently expanded to accommodate homeless Roma families.

**The Law on Social Protection prescribes a right to housing benefit for recipients of permanent financial support (who are not work-able persons) and for young people once they leave residential care (from the age of 18 to 26).** The benefit is paid by the municipalities. There are no official data on how many persons make use of this right. The new Law on Social Protection extends the right to recipients of the GMI (which is a broader and different category than the current recipients of permanent social assistance).

### **2.3.10 Access to essential services**

**There is relatively good access for individuals and households to water and sanitation.** Data from the Multi Indicator Cluster Survey (MICS) 2011 (latest available) show that 99.6% of the population has access to improved drinking water sources (UNICEF, 2011).<sup>57</sup> The situation is similar for Roma and for the poorest quintile of the population, among which 99% and 98.6% have access to an improved source of drinking water, respectively. In addition, 93% of the population and 91% of the Roma population use improved sanitation. The access is much lower for the poorest households in Roma settlements of which approximately one third do not have access to improved water sources and/or sanitation, compared to 92.6% of the overall population with such access.

**The government provides some support to poor citizens for heating.** In terms of the access to energy and heating, there is a specific measure (i.e. programme) in the economy which provides financial support to poor families (recipients of social assistance) for covering the heating costs. With the changes in the social assistance system and the introduction of the GMI, this social programme has become a right for every household that receives GMI (as explained above).

**Public transport is not available in many municipalities.** The capital city of Skopje has the most organised public transport system although it only involves buses. There are special payment plans for young persons in education and for pensioners. About a third of the population in North Macedonia reported that they use public transportation daily (regularly) (UN Women, 2019). In general, the access and affordability of the public transport system seems not to be a problem for most of the respondents, with the exception of some municipalities/towns where the non-use of public transport is mainly due to non-availability (more than 60% of the adults stated that they do not use public transport due to non-availability).<sup>58</sup> In other municipalities, even in the rural ones with no public transportation, most respondents stated that they do not use public transport because they have a private car.

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<sup>57</sup>We have to use this data given that there was no Census in the country since 2002. Still, this data should be treated with caution as they refer to 2011 and the situation should have been improved in meantime.

<sup>58</sup>This is the case given that public transport is considered as inferior, so it is not the first choice for commuting for an individual (cars are preferred).

**There is a relatively high level of financial inclusion although there is room to increase it, and the use of Internet and digital payments are still low.** Data from the Global Financial Inclusion (Global Findex) show that there is relatively high financial inclusion in North Macedonia compared to the region or the level of development.<sup>59</sup> In particular, in 2017 77% of the population in the economy (15+) had a transactional account with a bank. This is a comparatively high level for the middle-income economies and the region, though much lower than the Euro area's average of 95% (but for instance higher than in Bulgaria, 73%). One of the factors that contribute to this high level of "banked" population is the legislation which requires that, for instance, even the social assistance is transferred through bank accounts. Still, some categories of population are less likely to have a financial account: females (73% vs 80% of males), young people (15-24) (45%), those with primary education only (59%), poorest individuals (67%), and rural population (73%). The debit card ownership is relatively high at 53%, compared to the region, although much lower than the Euro area's average of 87%. Again, youth, poor, females and rural individuals are less likely to own a debit card. Though, only 17% of the adult population have a credit card (45% in the Euro area). 13% of adults have borrowed some time from a financial institution, relative to a 17% average for the Euro area. However, the use of the Internet and digital payments is still low. For instance, only 20% of adult population in 2017 used the Internet to pay bills or buy something online, compared to 69% in the Euro area. Similarly, only 12% of adults used a mobile phone or the Internet to access a financial institution account in the past year, and 49% of adults made some digital payment last year relative to 90% of the adults in the Euro area.

**This low use of Internet for banking can be related to the low level of digitalisation of the population.** In particular, Eurostat data show that 32% of the population in 2019 held only a basic level or above basic level of digital skills relative to 58% of the population in the EU28. There is a declining trend in this indicator since 2015 when 37% of population in the economy had digital skills. There was a very small difference between males and females on having basic or above basic digital skills in 2019, but it is still in favour of females (32% vs. 31%). Compared to the EU average the digital skills gap is high for both genders, though somewhat higher for males.

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<sup>59</sup> See [https://globalfindex.worldbank.org/#data\\_sec\\_focus](https://globalfindex.worldbank.org/#data_sec_focus).

## 3 Conclusion

**Poverty is a persistent problem in North Macedonia, despite the recent decrease.** High unemployment and inactivity in the economy, inadequate social protection systems and low coverage and quality of social services are some of the main determinants of the high poverty level. The economy needs to create a social protection system that provides sufficient safeguards against poverty, promotes equality and supports inclusion of vulnerable citizens in all aspects of the economic and social sphere including education, employment, healthcare and public services. So far, the system of social protection has been only moderately effective in helping poor and vulnerable citizens exit poverty and integrate into the society. Spending on social protection, employment support to the unemployed, and on education and health are relatively low compared to the EU average.

**In 2019, the government started to implement substantial changes to the social protection system, in particular in the areas of childcare and early childhood development, social assistance support to poor families, elderly care, care of persons with disabilities, as well as social services.** In the area of early childhood development, the government's focus is on expanding the capacity of preschool facilities, improving the training and qualifications of teachers and raising awareness of early childhood learning. A major reform in the social assistance system concerns introduction of the guaranteed minimum income (GMI). The GMI replaced the current social financial assistance (SFA), expanded the coverage of the programme to more households and will streamline several types of existing financial assistance programmes into one. The government is also expanding the support of children from poor families through two programmes and by changing the eligibility rules. There is a commitment on the government's side to hasten the process of deinstitutionalisation and introduction of pluralism in social services for people with disabilities. These changes are expected to lead to a substantial reduction in poverty and inequality and to improve the life prospects of poor citizens and especially of children from disadvantaged socio-economic backgrounds. In addition, the government had substantially increased the level of statutory minimum wage in 2017 and 2019.

**In the short-term, the government should aim at improving the implementation of the legislation in the area of anti-discrimination, improving the support programmes to vulnerable citizens (mainly Roma, but also youth).** Social workers should be given adequate resources and training so as to ensure more effective and efficient delivery of services. There have already been several large reforms as of beginning of 2019. Besides legislation (which is already in place), increased attention should be paid to effective implementation and enforcement. A new labour regulation is under preparation, but at this stage there is little information available on the planned changes.

**In the medium-term, the focus of the government should be on strengthening institutional capacities and monitoring practices, and expansion of programmes that produce the intended outcomes.** Deinstitutionalisation, introduction of pluralism in provision of services for people with disabilities, but also in elderly care, as well as ensuring better quality of these services, pose great challenges. The activation role of social services and employment offices needs to be

strengthened and the cooperation between these institutions improved so as to lift poor people out of poverty. Support policies for Roma need to be developed as an integrated package of services, from housing to educational and employment programmes. Children should be given equal chances and access to quality education in order to achieve their full potential in life. Authorities should be cautious of further increasing the minimum wage, especially above productivity growth. Further efforts should be made to strengthen the statistical system and to align it with Eurostat requirements. This especially holds in the area of government spending and health and safety at work. Finally, it is a great challenge to produce significant reductions in poverty within limited budget resources and without some major savings in the public finances.

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